

Implementing the Mandatory Code of Corporate Governance for Licensed Commercial Banks in Sri Lanka

Jayod Danthanarayana ^{1 2}

Abstract

Corporate governance standards have evolved over the past three decades in response to numerous corporate scandals. Many fragilities in financial institutions observed across the world could be traced back to failures in corporate governance practices. In Sri Lanka, several domestic financial institutions barely demonstrated resilience to severe corporate governance malpractices during 2007–08. As such, the Central Bank of Sri Lanka (Central Bank) introduced a mandatory corporate governance code for Licensed Commercial Banks (LCBs) in December 2007, to enhance overall stability in the banking sector. The objective of the study is to examine the level of compliance demonstrated by LCBs with the provisions of the Central Bank's mandatory code of corporate governance during the first year of its implementation. This study sheds light on the readiness, preparedness and willingness of banks in implementing these directions in the first year of adoption and attempts to enrich the literature on corporate governance practices of domestic LCBs. The study has been confined to domestic LCBs and is based on secondary data gathered through their annual reports. These reports were analysed using a checklist which was developed based on five assessment criteria identified in the conceptual model of the study. This model further conceptualises the principal-agent relationship between key stakeholders of an LCB and its directors. A score has been assigned to each principle and a composite score has been devised to assess the overall level of compliance. The findings reveal that domestic LCBs on average reported a commendable level of compliance in the first year of implementation. The study also reveals the challenges that prevailed during the first year of implementing the mandatory code of corporate governance.

Key words: Corporate Governance, Principal-Agent Problem, Licensed Commercial Banks

¹ The author currently serves as a Deputy Director of the Macropprudential Surveillance Department of the Central Bank of Sri Lanka. Corresponding email: jayod@cbsl.lk

² The author wishes to thank Senior Professor Samanthi Senaratne of University of Sri Jayawardenepura, Sri Lanka and two anonymous reviewers for the valuable guidance and support. The views presented in this paper are those of the author and do not necessarily indicate the views of the Central Bank of Sri Lanka.

1 Introduction

The concept of governance has its own roots in the early era of human civilisation. With the formation of the society, mankind required a governing body to assure conformity with social values, norms, and beliefs while abstaining from undesirable conduct. Governance is a concept that synchronises human expectations, delegation of power, and verification of performance (Olsen, 2015). Governance may take place in any system or organisation of any size ranging from a single member to entire community. Corporate governance in a broad sense is viewed as ethical responsibility and moral duty (Arjoon, 2005) by the agent to its principals. Generally, corporate governance refers to the structures and processes for the direction and control of companies. Its scope extends to the relationships among the management, board of directors, controlling shareholders, minority shareholders, and other stakeholders. The shareholders delegate decision making rights to the board/managers to act in the principal's best interests. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions and may lead to adverse selection (Marks, 2000). Corporate governance practices attempt to align the personal incentives of the board/management with those of shareholders (Davies, 2000). A board endorses the organisation's strategy, develops directional policy, appoints, supervises and remunerates the senior executives and ensures accountability of the organisation to its owners and authorities. Key elements of good corporate governance principles include honesty, trust, integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organisation (Biswas, 2023). In this context, it is important to assess how directors and management develop a model of governance that aligns with the values of the corporate participants and then evaluate the model periodically for its effectiveness. Further, corporate governance is not a one-time exercise but rather an ongoing process (IFC and US Department of Commerce, 2004).

Organisations adopt corporate governance practices due to numerous benefits. Corporate governance stimulates the performance and operational efficiencies of companies (Heenetigala, 2011). Improvements in a company's governance practices enhance accountability, thereby minimising the risk of fraud or self-dealing by its officers. Accountable behaviour, combined with effective risk management and internal controls, can bring potential problems to the forefront before a full-blown scandal (Bubilek, 2017). Effective corporate governance practices can enhance the access to capital markets and facilitate mobilising of funds (Morales, Mahendra and Widyastuti, 2012). Well-governed firms are perceived as investor friendly, providing greater confidence in their ability to generate returns while upholding shareholder rights. Further, investors are willing to pay a premium for the shares of well governed companies. Effective corporate governance lowers the cost of capital and raises the value of the company (Zhu, 2014). When a company exercises satisfactory internal controls and when shareholder rights are adequately protected, its cost of equity and debt capital may naturally decrease. Further, effective implementation of corporate governance improves the corporate reputation and goodwill which would reflect positively on share prices of the company (Siddiqui *et al.*, 2023).

Good corporate governance is essential for the health and sustainability of an organisation, irrespective of size, sector, and legal form. Effective corporate governance in sectors such as financial intermediaries, pension funds, and insurance companies is crucial for the wellbeing of society and the stability of the broader economy. Amongst these institutions, Licensed Commercial Banks (LCBs) play a pivotal role in Sri Lanka. It accounted for 48.6% of financial assets in the domestic financial system in 2007 amounting Rs.2.1 Tn of assets (CBSL (2007a)) (54.6% and Rs. 18.1 Tn in December 2023 (CBSL, 2023)). An LCB pursues economic activities which affects the public welfare to an unusual degree as it touches almost every phase of a country's economic life (CBSL, 2007b). Hence, banks are exposed to a wide array of stakeholder groups in an economy. Failure of LCBs would affect the transmission of monetary policy, financial intermediation, gross national investments and payment system of the country, which are essential for smooth performance of an economy. Thus, failure of a bank could endanger the stability and confidence in the financial system and economic wellbeing of the public. A banking crisis would impose an enormous cost to the economy in terms of loss in output and fiscal cost of restructuring failed financial institutions. Moreover, poor corporate governance may lead to loss of market confidence in the bank's ability to

manage its assets, which may in turn trigger a liquidity crisis (Basel Committee on Bank Supervision, 2006). In view of foregoing, attributes of corporate governance principles for banks are more important to the society and economy at large.

In light of the above, it is clear that a sound banking system is essential for promoting healthy and sustainable economic development. Therefore, strengthening corporate governance for LCBs would undoubtedly shield the public against mismanagement, bank failures and loss of confidence in the banking system. The board of directors holds the primary responsibility for ensuring sound corporate governance within an organisation.

1.1 Research Issue

In Sri Lanka, when the Central Bank was established in 1950, the financial sector was still in its infancy, consisting of only a few commercial banks, most of which operated as branches of foreign institutions (Karunasena, 1996). During the early years of post-independence, the Central Bank and Government introduced measures to promote the development of the financial system (Karunasena, 1996). The financial system dispersed within the country during 1950 -1976 with the opening of bank branches particularly in rural areas, and the sector expanded notably in terms of total assets and bank accounts (CBSL, 1990a). With the economic reforms and deregulations introduced in 1977, the financial system further expanded in volume, complexity and sophistication (Seelanatha, 2009; CBSL, 1990a). Nevertheless, a number of issues emerged within the financial system during the period from 1977 to 1988 due to deterioration in conditions of some banks and finance companies. These challenges reflected contemporary critical issues of the time such as poor quality of management, excessive risk taking and debt recovery difficulties (CBSL, 1990a). Several finance companies failed during 1986 - 88, prompting the Central Bank to intervene to restore confidence in the system (Premaratne, 2011; Siriwardana, 2014; CBSL, 1990b; and CBSL, 1991). Many finance companies were family-run businesses, with practices more akin to moneylenders, and only a few were willing to comply with Central Bank regulations (CBSL, 1990a). In this backdrop, the Banking Act No. 30 of 1988 and Finance Companies Act No. 78 of 1988 were introduced. Numerous regulatory measures were taken under these Acts to limit the finance business to viable finance companies (CBSL, 1991; CBSL, 1992). In the early 2000s, the license of a small licensed specialised bank was cancelled due to unsound, improper and imprudent practices and mismanagement, resulting in a significantly high Non-Performing Loan (NPL) ratio, which impeded its ability to engage in the financial intermediations (CBSL, 2002). In late 2008, a systemically important bank experienced a financial distress leading to a deposit run, triggered by the contagion effect from the collapse of one of its subsidiaries, an unregulated financial institution (Premaratne, 2011). The Central Bank restored market confidence in the bank by, among other measures, appointing a state-owned systemically important bank to manage its operations (CBSL, 2008a). Moreover, the financial sector experienced distress during 2008-09 due to a loss of public confidence in shadow banks, some of which were either unregulated or less regulated (Premaratne, 2011). Although the distress was confined to a few institutions, lapses by directors and management that led to poor governance were identified as common reasons for the issues (Premaratne, 2011). Despite the insignificant and negligible market share of these distressed entities, the publicity surrounding them caused a significant uproar in both the financial market and the broader economy (Siriwardana, 2014). By 2013, a few of these distressed entities were undergoing restructuring when the Central Bank implemented a Consolidation Plan for the Financial Sector in 2013/14 (Siriwardana, 2014). The initiative aimed to “build a strong, dynamic, and internationally competitive financial sector with cross-border linkages and a significant overseas presence” (CBSL, 2013). Importantly, one of the key synergies envisioned in the consolidation plans was to instil good governance in regulated financial institutions (Siriwardana, 2014). Further, a Consolidation Masterplan for Licensed Finance Companies (LFC) /Specialised Lasing Companies (SLC) sector was launched in 2020 by the Central Bank, with the view of downsizing the number of LFCs/SLCs operating in Sri Lanka and establish resilient and well performing LFCs in the medium term.

These financial scandals had repeatedly reminded Sri Lanka of the acute shortcoming in corporate governance practices and urged the need for regulation. These scandals had partially contributed negatively on capital

markets, investor confidence, foreign direct investments and societal expectations at large. Therefore, effective implementation of sound corporate governance principles for the banking sector would be a necessity for health and soundness of the financial system (BIS, 2015). Amongst regulated financial institutes, Licensed Banks are regarded as the apex of the financial system (CBSL, n.d.; ADB, 2023; and Kurincheedaran, 2015). As such, corporate governance for LCBs is a significant proposition to be dealt with.

In December 2007, the Central Bank introduced the first ever management framework for corporate governance of Licensed Banks, the Banking Act Direction No 11 of 2007, in order to enhance overall stability in the banking sector (CBSL, 2007b). This was an initial yet bold decision in order to protect depositors and stockholders while empowering bank directors and officers to manage the affairs of the bank more effectively and diligently. Compliance with this direction was mandated to commence from 1 January 2008 (first time adoption) and all LCBs were required to comply with these provisions in full by or before January 1, 2009.

LCBs are bound to abide by the aforesaid directions. However, individual LCBs have adopted varied corporate governance disclosure practices due to differences in leadership, levels of commitment, organisational culture, and attitudes. It is envisaged by this report to examine the level of compliance of domestic LCBs with the provisions of the Central Bank's mandatory code of corporate governance **in the first year of its implementation** and to identify salient characteristics of their governance practices. The study essentially shed light on the readiness, preparedness and willingness of banks in implementing the corporate governance directions of the Central Bank **in the first year of its implementation** and attempts to enrich the literature on corporate governance practices of banks during the formative stages of its implementation. There have been several subsequent circulars revising specific sections of the original corporate governance code. Given the limited research on corporate governance practices in the banking sector, this study aims to make a significant contribution to the corporate governance literature in Sri Lanka.

Domestic LCBs had demonstrated its adherence to the disclosure requirements on the codes on corporate governance issued by the Colombo Stock Exchange (CSE), the Central Bank, the Institute of Chartered Accountants (ICASL) and Securities and Exchange Commission (SEC) of Sri Lanka. Nevertheless, the scope of this study was limited to corporate governance principles stipulated by the Central Bank in 2007 **and subsequent amendments during 2008**. The Banking Act Directions of the Central Bank applicable to the study are;

1. Banking Act Direction No.11 of 2007: Corporate Governance for LCBs in Sri Lanka (CBSL, 2007b)
2. Banking Act Direction No. 5 of 2008: *Amendments to* Directions on Corporate Governance for LCBs in Sri Lanka (CBSL, 2008b)
3. Banking Act Direction No. 7 of 2008: *Amendments to* Directions on Corporate Governance for LCBs in Sri Lanka (CBSL, 2008c)

The Banking Act Direction No. 11 of 2007 was issued on 26 December 2007 requiring banks to commence compliance with the mandatory code from 01 January 2008. A transitional arrangement had been availed for banks to fully comply with the direction by or before 01 January 2009, except where extended compliance dates had been provided. The annual reports for the year ending 31 December 2008 were the first available annual report since the implementation of the aforesaid directions, which were used to examine the level of compliance *in the first year of implementation* of the mandatory code of Corporate Governance of the Central Bank³.

³ The Central Bank issued a new comprehensive Corporate Governance Direction for Licensed Banks in October 2024, which will take effect in January 2025.
https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Directions_No_5_of_2024.pdf The new Direction aims to further strengthen the corporate governance practices of banks. The first annual report publications under the new corporate governance code will only be available for the financial year ending in December 2025.

2 Literature Review

2.1 Theoretical Perspectives of Corporate Governance

Corporate governance is a set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered or controlled. It includes the relationships among many stakeholders and the goals for which the corporation is governed (Shourvarzi and Beinabaj, 2011). Schmidt (2003) defined corporate governance as a range of mechanisms and arrangements that shape the way in which key decisions are made in (large) corporations. Larcker *et al.* (2004) denoted corporate governance as a set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control. This separation of ownership and control can be viewed as an agency relationship. The governance of an organisation is entrusted to boards of directors and key management personnel by the shareholders – the principals in this relationship. As such, an important theme of corporate governance is to balance the interests (Schoenmaker and Shramade, 2023) and ensure accountability through mechanisms that try to reduce or eliminate the principal-agent problem (Gersen and Stephenson, 2014).

Literature in relation to the agency relationship identifies it as a contract under which one or more persons (the principal(s)) engage another person, the agent, to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen and Meckling, 1976). The article argues that if both parties are utility maximisers, there is a good reason to believe that the agent will not always act in the best interests of the principal. This therefore leads to a principal-agent problem. The principal can limit principal-agent problem by establishing appropriate incentive contracting for the agent (Ormazabal *et al.*, 2023) which entails an agency cost. The agency costs are designed to limit the aberrant activities of the agent (Jensen and Meckling, 1976). The agency cost referred to therein comprises the cost of monitoring, bonding and residual loss. The level of agency costs depends, among other things, on statutory and common law and on human ingenuity in devising contracts. Nevertheless, a well-functioning firm is one that minimises its agency cost (Deegan, 2006). Thus, key management personnel and shareholders should attempt to minimise agency cost by eliminating the principal-agent problem.

2.2 Evolution of Corporate Governance Guidelines and Best Practices

Multiple reports have had a marked influence on the development of corporate governance in the world. The Cadbury Report by Sir Adrian Cadbury was issued in 1992, in relation to financial aspects of corporate governance. The Greenbury Report which was published in 1995 was a pre-eminent and comprehensive governance code that focussed on the executive and director remuneration (O’Connell and Ward, 2020). The Hampel Committee was set up in 1995 to review the implementation of the Cadbury Report. That committee was responsible for the “Corporate Governance Combined Code,” which was published in 1998 and incorporated the recommendations of the Cadbury and Greenbury reports. The Turnbull Guidance on internal controls (1999) was subsequently incorporated into The Combined Code (2003). The Higgs Report on the role of non- executive directors and the Smith Report on the role of audit committees, both published in 2003, aimed at improving and strengthening the Combined Code. The UK Corporate Governance Code, which replaced the Combined Code was first introduced in 2010 by the Financial Reporting Council (FRC). The UK Corporate Governance Code was revised in 2012, 2014, 2016 and 2018, requiring new disclosure provisions, assigning additional responsibilities for directors while emphasising the value of good corporate governance to sustainable growth. A revised version of the UK Corporate Governance Code was issued in January 2024, strengthening areas related to audit, risk, and internal control.

Similarly, the Treadway Commission in 1987 and Enterprise Risk Management – Integrated Framework of the Committee of Sponsoring Organisations (COSO) (2001), Sarbanes Oxley Act (2002) made a commendable contribution in developing the principles of corporate governance in the US. The Dodd-Frank Wall Street Reform and Consumer Protection Act 2010 was passed in the US to protect the US taxpayer by ending bailouts,

to protect consumers from abusive practices in financial services, and to promote financial stability by improving accountability and transparency in the financial system.

2.3 Corporate Governance Practices of Financial Sector

The Basel Committee on Banking Supervision (BCBS) issued its first guidance, “Enhancing Corporate Governance for Banking Organizations” in September 1999 which was superseded in February 2006 considering the increased national and international interest amidst several corporate governance scandals. The Basel guidance was drawn from the principles of corporate governance published by the Organization for Economic Co-operation and Development (OECD), recognising the need for effective corporate governance practices at banks to maintain public confidence in financial intermediation. Drawing on the lessons from global financial crisis, BCBS set out the best practices for good corporate governance in October 2010 as it published “Principles for Enhancing Corporate Governance” to address fundamental governance deficiencies with guidance. The committee also acknowledged the need for evaluating corporate governance policies, practices and the implementations at banks by the supervisory authorities. The guidance from the BCBS is intended to serve as a reference point for bank supervisors and banks to establish sound corporate governance practices. The BCBS revised its guide in 2015 to promote robust and transparent decision making in the banks.

Following the run-on Northern Rock and drawing on the lessons from Global Financial Crisis, Sir David Walker (2009) recommended extending the remit of the Financial Reporting Council (FRC) of the UK to include oversight of institutional investors, ensuring they also adhere to best governance practices. Upon a comprehensive consultation process, FRC published the first “UK Stewardship Code” in 2010. The UK Stewardship Code, a voluntary code which was revised in 2012 and 2020, sets high standards for those investing money on behalf of the UK savers and pensioners, and those that support them. The code applies to asset managers, asset owners and service providers. Further, the Capital Requirements Directive (CRD IV) of the European Union requires banks in member states to adhere with the corporate governance rules.

In the aftermath of global financial crisis, corporate governance of banks and financial institutions was given a greater emphasis compared to the general corporate governance standards of non-banks corporations (Klaus, 2021). The governance of banks has been firmly established in bank supervisory law and regulation. Supervisory institutions in many other jurisdictions have followed the lead set by the BCBS, with their own guidelines and principles for good governance. In Sri Lanka, prevalent law on corporate governance practices of licensed banks is satisfactory and is in line with the international best practices despite a few lapses in implementation (Edirisinghe, 2015).

2.4 Empirical Studies on Corporate Governance of Banks

Empirical studies have explored the relationship between the best corporate governance practices and bank performance. Sivaraja *et al.* (2018) specify that there exists a positive relationship between the overall corporate governance index and bank efficiency in Sri Lanka using a sample of 18 licensed banks. However, while conventional wisdom may expect banks with good corporate governance to perform better, empirical evidence remains mixed, according to Rosa *et al.* (2008). At the same time, bank executives, driven by shareholder incentives, may prioritise risky strategies, as shareholders are insulated from the losses borne by bondholders, depositors, and taxpayers (Bebchuk & Spamann, 2010). This underscores the importance of effective regulation to prevent common shareholders from benefiting from socially excessive risks, thereby reinforcing the necessity for robust prudential oversight and governance. Chahine and Safieddine (2007) illustrate the role played by Lebanese banks in fostering corporate governance practices amongst their corporate clients in the backdrop of weak external monitoring in capital markets. This study reveals the importance of good governance by corporate borrowers for the stability and performance of the banking sector. Meanwhile, greater scrutiny by banks encourage corporate borrowers to practise better risk oversight and operating activities.

Bezawada (2020) found that active engagement of directors has a positive impact on bank performance and a negative relationship with the net non-performing asset ratio. They use a sample that covered 93 per cent of the banking sector in India during 2009 to 2018. Agnihotri *et al.* (2019) highlight that bank performance is closely related to corporate governance and ethical leadership of banks while small sized boards and a higher ratio of block ownership have a positive influence on banks' efficiency. However, they opine that corporate governance principles such as having independent directors could be counter effective when banks are being run by autocratic leaders and the organisational culture generally avoids confrontations. Lundquist *et al.* (2018), using a sample of 55 Western European banks from 2007-2016, conclude that board related corporate governance mechanisms have an impact on the performance and risk-taking of banks and propose the possibility of achieving a balance between enhancing performance and reducing risk-taking by carefully selecting the optimal board size.

2.5 Key Take-aways from Theoretical Discussion

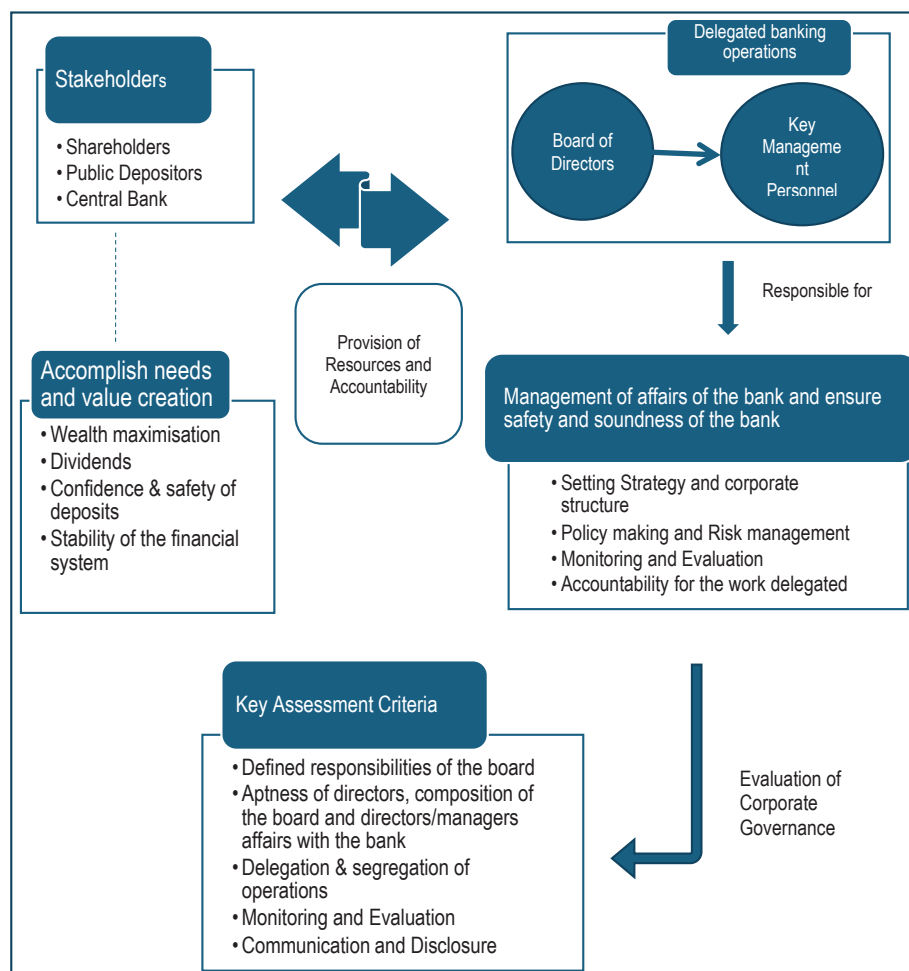
Corporate governance plays a pivotal role in ensuring accountability, balancing stakeholder interests, and enhancing financial stability, particularly in the banking sector. Rooted in agency theory, governance mechanisms aim to minimise agency costs and align managerial decisions with shareholder interests. Over time, regulatory frameworks such as the Cadbury Report, Sarbanes-Oxley Act, and Basel Committee guidelines have shaped governance best practices, reinforcing transparency, risk management, and investor protection. To curb excessive risk-taking and prevent bank failures, regulators have implemented stringent compliance requirements, as inadequate regulation often leads to taxpayer-funded bailouts. Empirical studies suggest that strong governance enhances efficiency, risk oversight, and financial stability, although factors such as leadership structure, ownership concentration, and regulatory environments influence outcomes. As governance frameworks evolve, adapting best practices to regulatory and institutional contexts remains essential for long term financial stability and sustainable economic growth.

3 Methodology

3.1 Conceptual Model of the Study

For the purpose of this study, a conceptual model has been developed to outline the corporate governance of a LCB (*Figure 3.1*). The model summarises stakeholder expectations of the bank and the delegated bank operations to directors / key management personnel and assesses the relationship between the two. A set of key assessment criteria has been proposed in this study to evaluate the corporate governance of an LCB. An LCB, being a financial institution is inevitably exposed to a wide array of variables in an economy. Considering the influential power and resourcefulness of stakeholder groups, three prime stakeholders who could insist on good corporate governance have been identified viz. public depositors, the Central Bank, and shareholders of the LCB.

Figure 3.1: Conceptual Model on Corporate Governance of a Licensed Commercial Bank



Source: Inspired by Backhouse and Wickham (2020) and Jensen and Meckling (1976)

Shareholders and depositors are key stakeholders who provide vital resources to the bank. Shareholders contribute equity, while depositors provide funding. The Central Bank, acting as the regulator, ensures stability within the financial system through oversight and regulation. These stakeholders expect sound corporate governance from the board of directors and key management personnel, to whom they have entrusted the management of the bank's affairs. The stakeholder value creation primarily depends on the quality of corporate governance. The principles of corporate governance serve as a benchmark for assessing the quality and effectiveness of governance in a bank, which, in turn, directly impacts value creation for stakeholders. The key assessment criteria identified here have been further disaggregated in the corporate governance Checklist (Table 3.1), based on the principles outlined in the Central Bank directions.

The Central Bank as the regulator is responsible for preserving the stability of the financial system. It supervises and regulates LCBs at an individual bank level and is entrusted with a mandate to conduct macroprudential policies in Sri Lanka as the Macroprudential Authority. The Central Bank is therefore a prime stakeholder in this

conceptual model, as the regulator would demand appropriate corporate governance at banks. LCBs is a prominent sector in the local financial system, and facilitates financial intermediation between cash surplus units and deficit units. Public depositors represent cash surplus units of an economy and are one of the prime providers of resources for LCBs. The stability of the banking sector depends on the ability to attract public deposits and thereby preserving public confidence. The conceptual model identifies depositors as a prime stakeholder considering their significance to LCBs. Shareholders are the equity-owners of an entity who expect accumulation of wealth and dividend in return. The board of directors shall act in the best interest of shareholders. Further, shareholders are privileged to appoint, reappoint and remove directors. Thus, shareholders are considered as a key stakeholder in this conceptual model.

Directors are assigned with the duty to manage affairs of a bank whilst ensuring safety and soundness on behalf of stakeholders. They are empowered to formulate the strategy and corporate structure, articulation of bank policies and risk management procedures, monitoring and evaluation of banking operations, etc. Stakeholders identified in this model provide resources for LCBs. However, governance is entrusted to the board of directors and key management personnel. The custodians, namely the board and key management personnel, are held responsible and accountable for the duties they perform for LCBs. Stakeholder value creation which encompasses shareholder wealth maximisation, safeguarding the interests of depositors, and implementing sound risk management practices to ensure safety and stability of the financial sector, rests with the board of directors.

To assess the governance of a LCB, a key assessment criterion has been developed within the conceptual model, taking into account the principles outlined in the mandatory corporate governance code of the Central Bank. This encompasses followings (i) Defined responsibilities of the board; (ii) Aptness of directors, composition of the board and directors/managers affairs with the bank; (iii) Delegation and segregation of operations; (iv) Monitoring and evaluation; and (v) Communication and disclosure.

3.2 Checklist Utilised for Analysis

The method of data analysis utilised in this study has been a manual content analysis. A checklist has been outlined for this purpose to summarise the corporate governance principles demonstrated by LCBs in their latest annual reports. This approach closely follows the methodologies prescribed in “*ASEAN Corporate Governance Scorecard: Country Reports and Assessments 2012–2013*” by Asian Development Bank and the “*Corporate Governance Scorecards: Assessing and Promoting the Implementation of Codes of Corporate Governance 2014*” by the International Finance Corporation. These methodologies stipulate a content analysis for the corporate governance disclosures in the published annual reports benchmarking with the mandatory codes of corporate governance of respective jurisdictions. Considering these best practices, the annual reports of domestic LCBs were objectively perused for qualitative disclosures of corporate governance principles as stipulated in the banking act directions. A list of disclosure requirements was compiled as a foundational step for conducting the content analysis. Refer Appendix 1 for a detailed corporate governance checklist. Table 3.1 tabulates the assessment criteria and corporate governance principles classified therein.

Table 3.1: Key Areas Addressed in Corporate Governance Checklist

Assessment criteria	Corporate Governance Principle	Reference to the CBSL Direction on corporate governance
<i>Defined Responsibilities of the Board</i>		
	Safety and Soundness of the bank	3(1)(i)
	Board meetings	3(1)(iii)
	Company Secretary	3(1)(vii)
	Independent professionals advise	3(1)(xi)
	Capital Adequacy Ratio	3(1)(xv)
	Annual Corporate Governance Report	3(1)(xvi)
	Self-assessment Scheme for Directors	3(1)(xvii)
<i>Aptness of directors, composition of the board and affairs of directors</i>		
	<i>Composition of the Board</i>	3(2)
	Aptness of Directors	3(3)
	Conflict of Interest	3(7)
<i>Delegation and segregation of operations</i>		
	The Chairman and CEO	3(5)
<i>Monitoring and evaluation</i>		
	Board Appointed Committees	3(6)(I)
	Guidelines on Audit Committee	3(6)(ii)
	Guidelines on Human Resources and Remuneration Committee	3(6)(ii)
	Guidelines on Nomination Committee	3(6)(iv)
	Guidelines on Integrated Risk Management Committee	3(6)(v)
<i>Communication and Disclosure</i>		
	Communication with Shareholders	3(1), 3(8)
	Preparation of Financial and Regulatory Reports	3(8)(I)
	Minimum Disclosure made in the Annual Report	3(8)(ii)

Source: Corporate Governance for Licensed Commercial Banks in Sri Lanka, Banking Act Direction 11 of 2007, as amended.

3.3 Level of Compliance

The level of compliance with each corporate governance principle as stated in a detailed checklist were identified under five major categories, viz. full compliance, partial compliance, non-compliance, insufficient information, and not applicable. A score has been assigned for each level of compliance. This numerical score aligns with the corporate governance scorecard established by the International Finance Corporation (IFC, 2014), which assigned 1 for full compliance, 0.5 for partial compliance, and 0 for non-compliance or insufficient information. Additionally, the ASEAN corporate governance scorecard incorporates bonus and penalty points to strengthen the assessment of good corporate governance principles (ADB, 2014). This study does not recognise the bonus/penalty points in assessing the level of compliance. Further, it excludes corporate governance principles that are not applicable to state-owned LCBs from the computation of overall scores as the relevant Acts/Ordinances supersede the provisions of corporate governance directions. Subjectivity in the assessment of

corporate governance and the use of judgement where necessary is duly recognised in corporate governance scorecard of the International Finance Corporation. The ASEAN corporate governance scorecard and International Finance Corporation's corporate governance scorecard assigns different weights to each of the core assessment criteria. However, the current study assigns equal weights to each of the core assessment criteria. Following the empirical guidelines, an overall score has been calculated for each domestic LCB for the first year of adopting the mandatory corporate governance principles. A score has also been devised for each corporate governance principle and key assessment criterion through horizontal and vertical analysis, using the arithmetic mean.

Table 3.2: Assigning a Score for each Corporate Governance Principle Stipulated in the Banking Act Directions issued in 2007/08

Level of Compliance for each Corporate Governance Principle	Description	Score Assigned, %
Full Compliance	Full compliance with the corporate governance principles/ assessment criteria stipulated in the direction	100
Partial Compliance	LCBs, which do not comply completely with the corporate governance principle yet disclose the fact in annual report	50
Non-Compliance	Banks which do not adhere with the corporate governance principles or do not disclose any pertaining to that	0
Insufficient Information	LCBs had disclosed insufficient information in annual reports to conclude whether it complied, partially complied or not complied with corporate governance principles.	0
Not Applicable	Specific statutes (i.e., Peoples Bank Act No. 29 of 1961 and Bank of Ceylon Ordinance) overrule the corporate governance directions of CBSL issued in 2007/08. A score has not been assigned and was excluded when computing the overall score for a given LCB.	N/A

3.4 Overall Scale

The overall scale which was devised considering the arithmetic mean has been computed across the check list vertically and horizontally. The vertical analysis has been carried out in order to assess the level of compliance by each LCB with the mandatory code of the Central Bank on corporate governance in the first year of implementation. Meanwhile, the horizontal analysis was conducted to assess the overall compliance of the entire domestic LCB sector with each identified corporate governance principle stipulated in the Central Bank direction. In order to interpret the overall compliance during the first year of adoption as demonstrated by each LCB and for each corporate governance principle, the following scale (*Njomo et al., 2012*) has been utilised.

Table 3.2: Scale utilised in assessing overall level of compliance

Scale	Overall score
High level of compliance	more than 80%
Moderate level of compliance	60% - 79%
Low level of compliance	less than 59%

Source: Inspired by Nomo et al., (2012)

The directions on corporate governance by the Central Bank are mandatory for all LCBs. A satisfactory level could only be achieved when a bank complies fully (i.e., 100% compliance) with the stipulated provisions. However, year 2008 was the first year of compliance with the mandatory code on corporate governance and full compliance with the code was only required by or before January 1, 2009. Thus, it is unlikely for an LCB to report a 100% overall level of compliance in its first year of implementation. When the overall score marked above 80%, it was adjudged as a high level of compliance. Moderate level of compliance was awarded when the

overall score was in between 60% and 79%. When the overall score fell below 59%, a low level of compliance was given.

3.5 The Sample and Data

Sri Lanka was domiciled for 23 LCBs in 2007-2008 when the corporate governance direction was first announced. This comprised 11 domestic and 12 foreign banks. Two state banks, seven listed banks and two unlisted banks⁴ constituted the domestic banks incorporated in Sri Lanka. The study was confined to domestic LCBs. Foreign banks were excluded from the study, as their applicable corporate governance practices must be considered in conjunction with the regulations and laws of both their home countries and the host country. Further, foreign banks steer their operations in Sri Lanka with a management committee, as opposed to a board of directors. The mandatory direction on corporate governance places a greater emphasis on the board of directors compared to the management committee of a foreign LCB, and the Central Bank has little enforcement power over the parent bank in another jurisdiction.

Delimiting the study to domestic LCBs, the research was carried out for all eleven LCBs by referring to annual reports published after December 31, 2008, to assess the level of compliance with the mandatory corporate governance direction during the first year of implementation. The data collected for this study consists of secondary data. In gathering data from annual reports, careful consideration was given to sections such as the corporate governance report, management discussion and analysis, risk management report, annual report of the board of directors on the bank's affairs, board committee reports, audit report, and notes to the financial statements.

4 Analysis and Discussion

The analysis has been carried out to measure the level of compliance in the first year of implementation of the corporate governance direction by domestic LCBs under three dimensions viz. vertical, horizontal, and stratified. The vertical analysis assesses the level of compliance of each domestic LCB while the horizontal analysis examines the level of compliance by all LCBs with each identified corporate governance principle stipulated in the direction. The stratified analysis highlights homogeneous characteristics demonstrated by individual strata viz. state owned LCBs, large listed LCBs, medium-sized listed LCBs, small-sized listed LCBs, and unlisted LCBs.

4.1 Vertical Analysis: The Level of Compliance of each LCBs with the Corporate Governance Direction of the Central Bank

As stipulated in the methodology, an overall composite score has been computed for each LCB depending on their level of compliance with the corporate governance principles. Table 4.1 below provides a summary of findings of the vertical analysis on the level of compliance.

Table 4.1: Summary of Findings of the Analysis on the Level of Compliance⁵

	LLLCB1	LLLCB4	SLCB1	LLLCB2	MLLCB1	MLLCB2	ULCB1	SLCB2	ULCB2	LLLCB3	
<i>Overall Score</i>	93%	90%	90%	89%	89%	81%	81%	74%	67%	65%	42%
<i>Rank</i>	1	2	2	4	4	6	6	8	9	10	11

The corporate governance directions by the Central Bank are mandatory for LCBs. The directions required LCBs to commence the compliance process effective from January 1, 2008, and full compliance by or before January 1, 2009. Thus, the financial year 2008 marked the first year of adoption for the corporate governance direction

⁴ These two unlisted banks were subsequently listed on the Colombo Stock Exchange

⁵ Listed LCBs have been further disaggregated into Large Listed LCBs - LLLCBs; Medium-sized Listed LCBs - MLLCBs and Small-sized Listed LCBs - SLLCBs considering their total asset size. The threshold used for this disaggregation is not disclosed with the view of concealing the identity of each LCB. Abbreviations of other LCBs categories are: SLCB – State LCBs and ULCB – Unlisted LCB.

applicable to LCBs. Overall average score demonstrated by the domestic LCB sector was reported at 78% which indicates a relatively high level of compliance during the first year of adoption. 7 out of 11 banks reported a score of well above 80% which is a commendable achievement. In contrast, three banks complied moderately with the directions while one bank fell below the threshold of moderate level of compliance.

LLLCB1 outperformed peer domestic LCBs during financial year 2008, as it cruised top of the list with an overall score of 93%. This bank demonstrated its commitment to adhere to each assessment criteria in the direction. Besides, LLLCB1 ranked the best bank of the year in Sri Lanka as adjudged by two international magazines for year 2007. Further, the bank was the joint overall winner and the banking sector winner at the annual report competition by a professional accounting body in Sri Lanka. The commitment for operational and reporting excellence would have been a contributing factor for this high level of compliance. LLLCB4 and SLCB1 marked second in ranking with an overall score of 90%. LLLCB4 reported a high level of compliance with each corporate governance principle. SLCB1 being a state-owned bank had demonstrated a praiseworthy level of compliance. The state bank was incorporated and governed by an Ordinance/Act which in certain circumstances overruled mandatory code of the Central Bank on corporate governance. Therefore, in instances where the Ordinance/Act supersedes the provision of the mandatory code of the Central Bank, such corporate governance principles were excluded in computing the overall score for two SLCBs.

LLLCB2 and MLLCB1 fell marginally short of second place, where they secured fourth place with a score of 89%. LLLCB2 annual report was adjudged runners-up at the annual report competition by a professional accounting body in Sri Lanka. The top five rankers have been scattered around an average compliance score of 90%. Except SLCB1, all other LCBs within the top five are publicly listed banks with over Rs 80 billion worth of assets as at end 2008. In addition, SLLCB1 and MLLCB2 also had demonstrated a high level of compliance with the mandatory code of Central Bank. Both remain at sixth place with 81% rate of compliance. These are followed by ULCB1, SLCB2, and ULCB2, which are assessed at a moderate level of compliance. Notably, these banks disclosed insufficient information or no information regarding certain provisions of the corporate governance code. Similar to SLCB1, the Ordinance/Act that incorporated SLCB2 had overruled the corporate governance directions of the Central Bank. Such instances were excluded in computing the overall score for SLCB2. LLLCB3 was the least complied bank with an overall score of 42%. The bank exhibited extremely poor corporate governance practices during the financial year 2008. These findings precisely mirrored the serious corporate governance malpractices of the previous director board of LLLCB3.

The mean score of the distribution stood at 78% which suggests that LCBs in general are at a relatively high level of compliance with the corporate governance directions of the Central Bank. The standard deviation of the distribution of LCBs was as low as 15% indicating that the level of compliance on average would be between $78\% \pm 15\%$ (i.e., between 63% - 93%). The domestic LCB sector in general has skewed towards a high level of compliance with the mandatory code of the Central Bank on corporate governance. 64% of LCBs reports a high level of compliance, 27% reports a moderate level of compliance while only 9% reports a lower level of compliance.

4.2 Horizontal Analysis: Compliance by the LCB Sector with each Provisions of Mandatory Code on Corporate Governance

This analysis reviews the overall compliance of the LCB sector with each assessment criterion during the first year of implementation. The overall score for each criterion is the arithmetic mean of the scores earned by all domestic LCBs. A score has been computed for each corporate governance principle identified in the study.

4.2.1 Defined Responsibilities of the Board

“Defined responsibilities of the board” is the first key assessment criteria defined in the conceptual model consisting of seven corporate governance principles. During the financial year 2008, all domestic LCBs demonstrated a high level of compliance with these corporate governance principles and the score stood at 86%

on average. Except for two banks namely LLLCB3 and ULCB1, all other local banks demonstrated a score of well above 80%. Nevertheless, governance principles such as existence of a self-assessment scheme for directors and provisions on board meetings reported fairly a moderate level of compliance. Further, principles such as provisions on company secretary and capital adequacy ratio which were addressed in other regulatory provisions such as the Companies Act No. 7 of 2007, Articles of Association and Banking Act, demonstrated a high level of compliance.

4.2.2 Aptness of Directors, Composition of the Board and Affairs of Directors

This key assessment criteria demonstrated a nearly high level of compliance (78%) with the corporate governance directions of the Central Bank, during the financial year 2008. SLCB2 and LLLCB3 reported a lower level of compliance with 44% and 41% respectively. Other LCBs of the sample except for ULCB2 complied with the above 80% score. ULCB2 scored a moderate level of compliance (64%). This key assessment criterion is comprised of three broad elements of corporate governance principles. The analysis revealed that the principle of “aptness of directors” was the least complied principle with a score of 41% while other broad corporate governance principles viz. conflict of interest and composition of the board marked a high level of compliance.

4.2.3 Delegation and Segregation of Operations

This key assessment criteria evaluated corporate governance principles applicable to the chairman and Chief Executive Officer (CEO). On average a moderate level of compliance (70%) was demonstrated by LCBs with respect to governance principles related to this section in the first year of the adherence. All LCBs utilised in this study had segregated roles among chairman & CEO and had defined the role of CEO as the apex executive in-charge of day-to-day operations. Most LCBs had a non-executive chairman on board. Only MLLCB1 had an independent non-executive chairman. However, following the guidelines of the Central Bank corporate governance code, three LCBs namely MLLCB2, ULCB2 and ULCB1 had appointed a senior director on their boards since the chairman was not independent. Notably, a significant number of LCBs failed to indicate in their annual reports that the chairman holds the responsibility for effective communication with shareholders.

4.2.4 Monitoring and Evaluation

This encompasses the corporate governance principles applicable to board-appointed committees, including the Audit Committee, Human Resources and Remuneration Committee, Nomination Committee, and Integrated Risk Management Committee. LCBs exhibited a moderate level of compliance with these principles which stood at 69%. Provisions related to the audit committee and human resources & remuneration committee depicted a high level of compliance while the other committees moderately complied with the provisions of the Central Bank. Generally, LCBs were unsuccessful in disclosing the secretaries of these committees and presenting a report on the performance of each committee. It was also noted that several LCBs formed human resources, nomination and integrated risk management committees subsequent to the 2008 financial year.

4.2.5 Communication and Disclosure

This assessment criteria scored a higher rate of compliance with a score of 88% with the Central Bank’s directions. Communication with shareholders was the least complied with principle of this section with a compliance rate of 56%. State banks and unlisted LCBs paid least attention to build constructive dialogue with their shareholders. Reasons could be that the Government of Sri Lanka is the major shareholder of state owned LCBs while unlisted LCBs have a relatively concentrated shareholder base. Further, state owned LCBs and unlisted LCBs are not subject to the directives of Securities and Exchange Commission (SEC) which demands enhanced disclosure and communication practices. Preparation of financial and regulatory reports recorded a moderate score of 70%. Even though LCBs prepare and publish quarterly financial & regulatory reports, many had not explicitly disclosed the fact in their annual reports. Therefore, it was difficult to conclude whether they published such financial statements in newspapers in all three languages. Finally, it was evident that LCBs had complied completely with the minimum disclosure principle during financial year 2008.

4.3 Stratified Analysis: Homogeneous Characteristics Demonstrated by Strata of LCBs.

The sample of 11 domestic LCBs was clustered for 5 identifiable homogeneous strata viz. state owned LCBs, large listed LCBs, medium-sized listed LCBs, small-sized listed LCBs and unlisted LCBs. The stratified analysis has been carried out in order to examine the level of compliance demonstrated by such identified clusters with the corporate governance directions of the Central Bank. Please Refer Table 4.3.

Table 4.3: Stratified Analyses

Key Assessment Criteria	State owned LCBs	Large Listed LCBs	Medium-Sized Listed LCBs	Small-Sized Listed LCBs	Unlisted LCBs
Defined responsibilities of the bank	93%	94%	91%	86%	77%
Aptness of directors, composition of the board and affairs of directors	66%	88%	86%	91%	77%
Delegation and segregation of operations	70%	81%	75%	50%	67%
Monitoring and evaluation	79%	83%	84%	86%	41%
Communication and disclosure	83%	94%	89%	91%	84%
Overall Score	78%	88%	85%	81%	69%

Large listed LCB stratum dominated domestic LCB sector when complying with the mandatory code of the Central Bank on corporate governance. It reported a high level of compliance (88%) in the financial year 2008. Top 3 LCBs in this cluster was hovering in the range of 89% - 93%. However, the least complied bank, LLLCB3, was an outlier which dampened the overall score of compliance by large listed LCB stratum. Medium sized listed LCBs and small sized listed LCBs remained second and third in ranking with a high level of compliance. Overall, listed banks demonstrated a phenomenal level of compliance with the corporate governance direction during the first year of implementation.

State owned LCBs stratum secured a moderate level of compliance (78%). The stratum falls marginally below the threshold of high level of compliance. However, the overall score was on par with the domestic LCB sector average. Among the two, SLCB1 outperformed SLCB2 with a score of 90%. Weak compliance by SLCB2 with the corporate governance direction has adversely affected the overall score for the stratum. However, the stratum reported a high level of compliance for two assessment criteria while a moderate level of compliance has been reported for the rest. Unlisted LCBs were ranked last with an overall compliance of 69%. It marked a high level of compliance with one assessment criteria. Notably monitoring and evaluation criteria had reported a low level of compliance (41%). This is the least complied assessment criteria by an identified stratum. Three assessment criteria of unlisted LCBs were within a moderate level of compliance.

5 Conclusion of the Study

The objective of the study was to examine the level of compliance of domestic LCBs with the provisions of the Central Bank's mandatory code of corporate governance in the first year of its implementation and to identify salient characteristics. All LCBs utilised for the study had virtually complied with the *minimum disclosure requirement* of corporate governance code of the Central Bank (i.e., 99%) during their first year of adoption. The *overall compliance* with the mandatory code by domestic LCBs marked at 78%, which marginally fell

below the threshold of a high level of compliance⁶, as defined in this study. The standard deviation of the distribution of corporate governance score of LCBs was as low as 15%.

Seven LCBs (i.e., 64% of the sample) comprising six listed LCBs and one state-owned LCB reported a high level of compliance with the mandatory code while three LCBs (i.e., 27% of the sample) encompassing a state owned LCB and two unlisted LCBs reported a moderate level of compliance. One large listed LCB marked a low level of compliance with a 42% overall score. LLLCB1 dominated its peer LCBs with an overall score of 93%. This was followed by LLLCB4 and SLCB1 where both marked a score of 90%. LLLCB2 and MILLCB1 emerged fourth place with a score of 89%. The least compliant bank was LLLCB3 which reported a lower-level compliance (42%) with the corporate governance code. The level of compliance with the mandatory code tends to rely more on the unique characteristics of an individual bank rather than the category or stratum to which it belongs.

Listed LCBs reported the highest score in terms of compliance with corporate governance directions of the Central Bank, which was 81% in year 2008. State owned LCBs marked the second highest score with 78%, which was on par with the overall LCB sector average. Unlisted LCBs recorded a compliance score of 69%, ranking them the lowest among all the assessed strata. Among the top five rankers there were four listed LCBs who marked an average compliance rate of 90%. Except for one, other members in the listed LCB stratum reported a compliance score of above 81% or above. The poor performance reported by LLLCB3 deteriorated the overall score for listed LCBs. A similar behavioural pattern could be observed with state owned LCBs, where SLCB2 reduced overall compliance score reported by the state owned LCB stratum. A general observation on SLBC2 was that it had provided insufficient information pertaining to several key assessment criteria in their annual report.

In reviewing the compliance with each assessment criteria of the conceptual model, it was found that the LCB sector reported a high level of compliance with two assessment criteria viz. communication & disclosures and defined responsibility of the board. Corporate governance principles such as safety & soundness of the bank, company secretary, annual report on corporate governance and capital adequacy ratio had contributed positively on the assessment criteria – “defined responsibility of the bank”. Further, two corporate governance principles namely preparation of financial and regulatory reports and minimum disclosures made in annual corporate governance report underpinned the higher level of compliance reported by the assessment criteria – “communication and disclosure”, which was identified in the conceptual model. Other assessment criteria marked a moderate level of compliance during the financial year under review. Further, monitoring and evaluation was the least complied assessment criterion by domestic LCBs, with a score of 69%. The reasons for this were nonexistence of the required number of board committees during 2008, not convening required number of committee meetings, inadequate number of independent directors and secretaries on each committee and non-availability of a report from each committee published in the annual report.

The corporate governance principles that were also addressed in other regulatory provisions such as compliance with capital adequacy ratio, appointing a secretary to the board, related party transaction disclosure etc, reported a very high level of compliance. These principles contributed positively on the overall level of compliance within the LCBs sector. LLLCB3 demonstrated a fairly poor level of compliance with these principles as well.

When analysing the provisions pertaining to the board, it was observed that boards of LCBs lacked an *independent* non-executive chairman, except one. However, in many instances the chairman was a non-executive director.

⁶ The level of compliance with the mandatory code varied between LCBs. The study indicated that LCBs on average were in the range of 78% $\pm$ 15% of compliance with the provisions of mandatory code. This distribution of the score allowed to demarcate the level of compliance among individual banks. For the purpose of this study the thresholds used to define the level of compliance (Njomo *et al.*, 2012): a high level of compliance – a score of 80% or above; Moderate level of compliance – a score between 60% and 79%; a low level of compliance is a score of 59% or below.

The information provided in the annual report (interest register) was not adequate to determine whether directors exceeded the minimum of 20 directorships. Furthermore, the attendance of a director for at least 2/3 of board meetings was below satisfactory as a few directors had failed to meet the requirement during the financial year 2008. In addition, it was noted that state banks and unlisted LCBs paid least attention to build constructive dialogue with their shareholders. Availability of self-assessment schemes was another area where LCBs least complied with. Moreover, diversity on the board could be further enhanced in terms of gender, profession and age. Corporate governance principles such as self-assessment schemes for directors, aptness of directors, communication with shareholders, and guidelines on nomination committees marked a notably low level of compliance with the mandatory code.

Domestic LCBs had adopted diverse corporate governance disclosure practices which had led to several complications such as non-disclosure of information, ambiguity, inconsistent reporting, etc. The corporate governance disclosures were generally scattered in the annual report despite the mandate to present in a separate corporate governance report within the annual report. Many banks chose not to comment on corporate governance disclosures in their annual reports when they had not complied with. A few LCBs had taken measures in early adopting some of the provisions of corporate governance directions such as compliance with total period of service of a director on board, minimum number of independent non-executive directors, maximum age limit to act as a director of LCB, which would be effective on a future date. Listed LCBs adhered with the codes on corporate governance issued by Colombo Stock Exchange, Institute of Chartered Accountants of Sri Lanka, Securities and Exchange Commission in addition to their compliance with the mandatory code of the Central Bank on corporate governance.

It could be concluded that the boards of directors of domestic LCBs, to whom banking operations were entrusted, demonstrated satisfactory level of compliance with the mandatory corporate governance code in the first year of adoption, even though full compliance was only required by or before January 1, 2009. However, a low level of compliance suggests that there is room for further improvements.

The study highlights the level of compliance, and the challenges domestic banks faced in adopting corporate governance principles during their first year of implementation. Despite many years of corporate governance adoption by domestic banks, there has been limited research conducted on the banking sector. Hence, the study contributes to the corporate governance literature in Sri Lanka, particularly within the banking sector. Banks have demonstrated their commitment to complying with regulatory requirements. However, it was observed that banks need to go beyond merely meeting regulatory requirements and adopt best practices in corporate governance, particularly with regard to principles of transparency and disclosures. Appropriate methods could be developed to incentivise banks to strengthen their corporate governance practices while encouraging them to embrace the principles of good governance beyond mere compliance with the regulatory requirements. The study emphasises the importance of conducting an annual dedicated review of corporate governance practices for banks, either by the regulator or an independent agency, and making the results publicly available. As part of this annual exercise, strengths and weaknesses in corporate governance practices can be identified and communicated with both the regulator and respective banks. Further, continuous dialogue with the board of directors will help to eliminate misconceptions about corporate governance principles, enabling the regulator to guide banks toward the best practices effectively. Additionally, the regulator should closely monitor corporate governance review practices in other jurisdictions to continuously improve its effectiveness and ensure the soundness and safety of the financial sector.

5.1 Recommendation to Future Research

Further studies could be carried out to evaluate the corporate governance practices by LCBs since the implementation of the mandatory code in 2008. A corporate governance index for the domestic LCB sector could be developed to rank corporate governance disclosures and practices of LCBs. This can also be utilised for annual corporate governance competitions as an assessment criterion. Adopting a corporate governance

scorecard similar to those of ASEAN (ADB, 2014) and the IFC (IFC, 2014) would enable Sri Lanka to stay aligned with international best practices. Disclosing the level of compliance with corporate governance principles not only encourages companies to integrate good governance into their business models but also promotes research in related areas, such as corporate governance and financial performance, firm value (Zhu, 2014), and the impact of governance on the quality of annual reports (ADB, 2014 and Cohen et al., 2004). Further studies can be carried out to design corporate governance principles to address aspirations of public depositors, a prime stakeholder in financing the intermediation operations of LCBs. Studies can also be focussed in identifying means of improving shareholder participation and identifying best modes of communication in educating shareholders and public depositors of their rights.

5.2 Limitations

Analysis of annual reports was limited to a single reporting period as the author examines the level of compliance with the mandatory code of corporate governance *in the first year of adoption* for each domestic LCB. The annual reports for the year ending 31 December 2008 had been the first available annual report since the implementation of the Banking Act Direction No 11 of 2007. Full compliance with the provisions stipulated in the direction was required by or before January 1, 2009; hence, the evidence of full compliance can be found in the annual report for the year ending 31 December 2009. Further, the findings of the study cannot be generalised for the entire LCBs sector as foreign LCBs were excluded from the sample. The data utilised for this study were secondary data. Thus, this study is subject to inherent limitations associated with secondary data.

References

- Agnihotri, Anurag, and Sunil Gupta. "Relationship of Corporate Governance and Efficiency of Selected Public and Private Sector Banks in India." *Business Ethics and Leadership*, vol. 3, no.1, 2019.
- Arjoon, Surendra. "Corporate Governance: An Ethical Perspective." *Journal of Business Ethics*, vol. 61, no. 4, 2005, pp. 343-352.
- Asian Development Bank. *ASEAN Corporate Governance Scorecard: Country Reports and Assessments 2013-2014*. Asian Development Bank, 2014, <https://www.adb.org/sites/default/files/publication/42600/asean-corporate-governance-scorecard.pdf>.
- Asian Development Bank. *Financial Sector Stability and Reforms Program (Subprogram 1): Sri Lanka: Report and Recommendation of the President to the Board of Directors*. Asian Development Bank, 2023, <https://www.adb.org/sites/default/files/project-documents/56285/56285-001-rrp-en.pdf>.
- Backhouse, Kim, and Mark Wickham. "Corporate Governance, Boards of Directors and Corporate Social Responsibility: The Australian Context." *Corporate Ownership and Control*, vol. 17, 2020, pp. 60-71, <https://doi.org/10.22495/cocv17i4art5>.
- Bank of Ceylon. *Annual Report 2008*, Bank of Ceylon, 2008, <https://www.boc.lk/financial/annual-reports>.
- Basel Committee on Banking Supervision. *The Management of Liquidity Risk in Financial Groups*. Bank for International Settlements, 2006.
- Basel Committee on Banking supervision. *Enhancing Corporate Governance for Banking Organizations*. Bank for International Settlements, 2006.
- Basel Committee on Banking Supervision. *Principles for Enhancing Corporate Governance*. Bank for International Settlements, 2010.
- Basel Committee on Banking Supervision. *Corporate Governance Principles for Banks*. Bank for International Settlements, 2015.
- Bebchuk, Lucian A., and Holger Spamann. "Regulating Bankers' Pay." *Georgetown Law Journal*, vol. 98, 2010, pp. 247-287.
- Bezawada, Brahmaiah. "Corporate Governance Practices and Bank Performance: Evidence from Indian Banks." *Indian Journal of Finance and Banking*, vol. 4, no. 1, 2020.
- Biswas, Avijit. "Six Essential Elements of Corporate Governance: A Comprehensive Overview." *School of Political Science*, 2023, <https://schoolofpoliticalscience.com/elements-of-corporate-governance/>.
- Bubilek, Olga. "Importance of Internal Audit and Internal Control in an Organization – Case Study." *International Business Research Journal*, vol. 7, no.6, 2017, pp. 23–35, <https://bit.ly/2I8bSMa>.
- Cadbury, Adrian. Report on the Committee on the Financial Aspects of Corporate Governance, London Stock Exchange, 1992.
- European Parliament and Council of the European Union. *Requirements Directive IV, Directive 2013/36/EU of 26 June 2013*. European Commission, 2013, Brussels, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013L0036>.
- Central Bank of Sri Lanka. "Supervision of Banks and Financial Institutions." *40th Anniversary Commemorative Volume*, Central Bank of Sri Lanka, 1990a, www.cbsl.gov.lk/en/publications/other-publications/central-bank-of-sri-lanka-commemorative-volumes/40th-anniversary-commemorative-volume.

- Central Bank of Sri Lanka. *Annual Report 1990*, Central Bank of Sri Lanka, 1990b, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-1990>.
- Central Bank of Sri Lanka. *Annual Report 1991*, Central Bank of Sri Lanka, 1991, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-1991>.
- Central Bank of Sri Lanka. *Annual Report 1992*, Central Bank of Sri Lanka, 1992, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-1992>.
- Central Bank of Sri Lanka. *Annual Report 2002*, Central Bank of Sri Lanka, 2002, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2002>.
- Central Bank of Sri Lanka. *Annual Report 2007*, Central Bank of Sri Lanka, 2007a, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2007>.
- Central Bank of Sri Lanka. Banking Act Direction No.11 of 2007: Corporate Governance for Licensed Commercial Banks in Sri Lanka, Central Bank of Sri Lanka, 2007b, https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/bsd_LCB_Up_to_30_Nov_2013_compressed_0.pdf.
- Central Bank of Sri Lanka. *Annual Report 2008*, Central Bank of Sri Lanka, 2008a, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2007>.
- Central Bank of Sri Lanka. Banking Act Direction No.5 of 2008: Amendments to Directions on Corporate Governance for Licensed Commercial banks in Sri Lanka, Central Bank of Sri Lanka, 2008b, https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/bsd_LCB_Up_to_30_Nov_2013_compressed_0.pdf.
- Central Bank of Sri Lanka. Banking Act Direction No.7 of 2008: Amendments to Directions on Corporate Governance for Licensed Commercial Banks in Sri Lanka, Central Bank of Sri Lanka, 2008c, https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/bsd_LCB_Up_to_30_Nov_2013_compressed_0.pdf.
- Central Bank of Sri Lanka. *Annual Report 2013*, Central Bank of Sri Lanka, 2013, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2013>.
- Central Bank of Sri Lanka. *Annual Report 2014*, Central Bank of Sri Lanka, 2014, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2014>.
- Central Bank of Sri Lanka. *Annual Economic Review*, Central Bank of Sri Lanka, 2023, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-economic-review/annual-economic-review-2023>.
- Central Bank of Sri Lanka. Banking Sector, Central Bank of Sri Lanka, Central Bank of Sri Lanka, n.d., www.cbsl.gov.lk/en/financial-system/financial-system-stability/banking-sector.
- Chahine, Salim., and Ayman Safieddine. "Corporate Governance and External Monitoring of Banks in Lebanon." *The International Journal of Business in Society*, vol. 8, no. 3, 2007, pp. 258–270.
- Cohen, Jeffrey R., Ganesh Krishnamoorthy, and Arnold Wright. "The Corporate Governance Mosaic and Financial Reporting Quality." *Journal of Accounting Literature*, vol. 23, 2004, pp. 87–152.
- Commercial Bank of Ceylon PLC. *Annual report*, Commercial Bank of Ceylon PLC, 2008, <https://www.combank.lk/financials/annual-report/12/2008>.

- Committee of Sponsoring Organizations of the Treadway Commission. *Enterprise risk management – integrated framework*, Treadway Commission, 2004, Englewood Cliffs, NJ.
- Collier, Paul M., and Sonnie Agyei-Ampomah. “Management Accounting- Risk and Control strategy.” *CIMA Official Study System*, CIMA Publishing, 2005.
- Corporate Governance Committee. *The Combined Code on Corporate Governance*, Financial Reporting Council, 2008, United Kingdom.
- Davies, Paul L. “The Board of Directors: Composition, Structure, Duties and Powers.” *OECD*, 2000, pp. 1-29.
- Deegan, Craig. *Financial Accounting Theory*. McGraw Hill, 2006, Australia.
- DFCC Vardhana Bank Ltd. *Annual Report 2008*. DFCC Varshana Ltd, 2008.
- Dodd-Frank Wall Street Reform and Consumer Protection Act. *Public Law. No. 111-203*, 111th Cong., 2010, [govinfo.gov](http://www.govinfo.gov), <https://www.govinfo.gov/content/pkg/PLAW-111publ203/html/PLAW-111publ203.htm>.
- Edirisisinghe, A. “Corporate Governance of Banks: A Critical Analysis of Sri Lankan Law and Practice.” *Proceedings of 8th International Research Conference, KDU*, 2015, <http://ir.kdu.ac.lk/bitstream/handle/345/1361/law-012.pdf?sequence=1/1000>.
- Elizabeth, Webb. “Trends in Federal Reserve and Basel II A-IRB Bank Governance.” *Journal of Financial Regulation and Compliance*, vol. 15, no. 3, 2007 pp 250-261.
- Siddiqui, Faheem, Yixin Kong, and Kamran Tajeddini. “The Role of Corporate Governance and Reputation in the Disclosure of Corporate Social Responsibility and Firm Performance.” *Heliyon*, vol. 9, no.5, 2023, article e16055, <https://doi.org/10.1016/j.heliyon.2023.e16055>.
- Financial Reporting Council. *The UK Corporate Governance Code*. Financial Reporting Council, 2018, London.
- Financial Reporting Council. *The UK Corporate Governance Code*. Financial Reporting Council, 2024, London.
- Greenbury, Richard. *Directors’ Remuneration: Report of a Study Group chaired by Sir Richard Greenbury*, Gee, 1995.
- Hampel Committee. *Final Report, Committee on Corporate Governance*, London Stock Exchange, 1998.
- Hatton National Bank PLC. *Annual Report 2008*, Hatton National Bank PLC, 2008, https://www.hnb.net/images/ir/annual_reports/pdf/annual_report_2008.pdf.
- Heenetigala, Kumudini. “Corporate Governance Practices and Firm Performance of Listed Companies in Sri Lanka.” *Doctor in Business Administration*, Victoria University, 2011, Melbourne, Australia, https://vuir.vu.edu.au/16050/1/Kumudini_Heenetigala_thesis.pdf.
- Higgs, Derek. *Review of the Role and Effectiveness of Non-Executive Directors*. Department of Trade and Industry, London, 2003.
- Klaus, Hans-Joachim. “Corporate Governance of Banks and Financial Institutions: Economic Theory, Supervisory Practice, Evidence and Policy.” *European Business Organization Law Review*, vol. 22, 2021, pp.13–37.
- International Finance Corporation. *Corporate Governance Scorecards: Assessing and Promoting Corporate Governance*. International Finance Corporation, 2014, <https://www.ifc.org/content/dam/ifc/doc/mgrt/cg-scorecards.pdf>.
- International Finance Corporation and the United States Department of Commerce. *The Russia Corporate Governance Manual: Part IV. Information Disclosure and Transparency*, Washington, DC, 2004. <http://hdl.handle.net/10986/14740>.

- Jensen, Michael C., and William H. Meckling. "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure." *Journal of Financial Economics*, vol. 3, no. 4, 1976, pp. 305-360.
- Karunasena, A.G. "Changing Financial Systems in Open Economies: Sri Lanka's Experience." *Changing Financial Systems in Small Open Economies, Policy Papers No. 1*, Bank for International Settlements, 15 Jan. 1996, www.bis.org/publ/plcy01e.pdf.
- Kirkpatrick, Grant. "The Corporate Governance Lessons from Financial Crisis." *OECD*, 2009, Paris, France.
- Kurincheedaran, Shan. "Sectoral Diversification and Bank Performance: An Empirical Study on Domestic Licensed Commercial Banks in Sri Lanka." *SSRN Electronic Journal*, 2015, <https://doi.org/10.2139/ssrn.2712098>.
- Larcker, David F., Scott A. Richardson, and Irem Tuna. "How Important is Corporate Governance." *Working Paper*, University of Pennsylvania, 2004 Philadelphia, PA.
- Lundquist, Anna B., Anne Hymøller, and Aleksandra Gregoric. "Corporate Governance in Banks." Copenhagen Business School, 2018, [https://research-api.cbs.dk/ws/portalfiles/portal/59756267/550416_MasterThesis Corporate _Governance_in_Banks_FINAL.pdf](https://research-api.cbs.dk/ws/portalfiles/portal/59756267/550416_MasterThesis%20Corporate%20Governance%20in%20Banks_FINAL.pdf).
- Marks, Stephen G. "The Separation of Ownership and Control." *Encyclopaedia of Law and Economics*, 2000, https://scholarship.law.bu.edu/faculty_scholarship/2559.
- Monitoring Committee. Dutch Corporate Governance Code. 2007, Netherlands.
- Morales, Raul A., Erwin Mahendra, and Wiwit Widyastuti. "Corporate Governance and Leverage Trends." *Indonesia: Sustaining Growth During Global Volatility*, edited by Thomas Rumbaugh, International Monetary Fund, 2012, Ch. 6, Washington, D.C.
- National Development Bank PLC. *Annual Report 2008*, National Development Bank PLC , 2008, [https://www.ndbbank.com/cms/ media/1030/2008bb6a21f3b59304c2703182a88fa2bbd890871fe9.pdf](https://www.ndbbank.com/cms/media/1030/2008bb6a21f3b59304c2703182a88fa2bbd890871fe9.pdf).
- Nations Trust Bank PLC. *Annual Report 2008*, Nations Trust Bank PLC , 2008, [https://www.nationstrust.com/images/ pdf/investor-relations/annual-reports/ntb-annual-report-2008.pdf](https://www.nationstrust.com/images/pdf/investor-relations/annual-reports/ntb-annual-report-2008.pdf)
- Njomo, Damaris., Damaris Mukoko, Samuel Njenga, Michael Nyamongo and Jane Magambo. "Socioeconomic Factors Associated with Compliance with Mass Drug Administration for Lymphatic Filariasis Elimination in Kenya: Descriptive Study Results." *Annals of Tropical Medicine and Public Health*, Vol. 5, 2012, pp. 103-110. Crossref, <https://doi.org/10.4103/1755-6783.95962>.
- Organisation for Economic Co-operation and Development. OECD Principles of Corporate Governance. *Organisation for Economic Co-operation and Development*, 2004, Paris, France.
- Olsen, Johan P. "Democratic Order, Autonomy, and Accountability." *Governance: An International Journal of Policy, Administration and Institutions*, vol. 28, no. 4, 2015, pp. 425–440. <https://doi.org/10.1111/gove.12158>.
- Ormazabal, Gaizka, Shira Cohen, Ilan Kadach, and Stefan Reichelstein. "Executive Compensation Tied to ESG Performance: International evidence." *Journal of Accounting Research*, vol. 61, no. 3, 2023, 805–853.
- Pan Asia Bank Corporation PLC. *Annual Report 2008*, Pan Asia Bank Corporation PLC, 2008, [https://www.pabcbank.com/wpcontent/uploads/2022/04/1319024639 Pan_Asia_Bank_AR_2008.pdf](https://www.pabcbank.com/wpcontent/uploads/2022/04/1319024639_Pan_Asia_Bank_AR_2008.pdf).
- Peoples Bank. (2008), *Annual Report 2008*, Peoples Bank, 2008.

- Premaratne, C. "The Long March of the Central Bank: 60 years of Central Banking in Sri Lanka." *60th Anniversary Commemorative Volume*, Central Bank of Sri Lanka, 2011, www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/other/pub/60th_anniversary_the_long_march_of_the_central_bank.pdf.
- Raghavan, I. "Gandhian Trusteeship in Theory and Practice." *Trusteeship: The Gandhian alternative*, edited by J.D. Sethi, Gandhi Peace Foundation, 1986, New Delhi.
- Sampath Bank PLC. *Annual Report 2008*, Sampath Bank PLC, 2008, https://www.sampath.lk/api/uploads/ar2008_e66d33d498.pdf.
- Schmidt, Reinhard. "Corporate Governance in Germany: An Economic Perspective." *Working Paper*, Goethe University, 2003.
- Seylan Bank PLC. *Annual Report*, Seylan Bank PLC, 2008.
- Shourvarzi, M., and M. Beinabaj. "The effects of ownership structure or number of block holders on the ratio price-to-book value (P/BV) and price-to-earnings (P/E) of the companies in Tehran Stock Exchanges (TSE)." *African Journal of Business Management*, vol. 5, no. 27, 2011.
- Seelanatha, L., and G. B. Wickremasinghe. "Financial Reforms in Sri Lanka and Their Influence on the Banking Industry." *Banks and Bank Systems*, vol. 4, no. 4, 2009, LLC Consulting Publishing Company Business Perspectives, www.businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/2966/BS_en_2009_4_Seelanatha.pdf.
- Siriwardana, C.J.P. "Financial Sector Consolidation - Why and How?" *Central Bankers' Speeches*, Bank for International Settlements, 2014, www.bis.org/review/r141103g.htm.
- Sivaraja, S., E. G.R.G. Wickramaratne, S.M.T.I.S. Samarakoon, B.N.H. Senarathne, and M.P.D.S. Wijethilaka. "Corporate Governance Practices and Efficiency of Commercial Banks in Sri Lanka." *Management Studies*, University of Sri Jayewardenepura, 2018, <https://mgt.sjp.ac.lk/acc/wp-content/uploads/2018/12/Research-Artical.pdf>.
- Smith Committee. *Audit Committee Combined Code Guidance*. Financial Reporting Council, 2003, London.
- Turnbull, Nigel. *Turnbull Report*, London Stock Exchange, 1999, London.
- Union Bank Limited. *Annual Report 1999*, Union Bank Limited, 2008.
- United States Congress. Sarbanes-Oxley Act of 2002. 2002, <https://www.govinfo.gov/content/pkg/COMPS1883/pdf/COMPS-1883.pdf>.
- Walker, David. A Review of Corporate Governance in UK Banks and other Financial Industry Entities. *UK Government Web Archive*, 2009, https://webarchive.nationalarchives.gov.uk/ukgwa/+http://www.hm-treasury.gov.uk/d/walker_review_consultation_160709.pdf.
- Wikipedia contributors. "Corporate Governance." *Wikipedia*, 23 May 2024, https://en.wikipedia.org/w/index.php?title=Corporate_governance&oldid=1225304033.
- Zhu, Feng. "Corporate Governance and Cost of Capital: An International Study." *International Review of Finance*, vol. 14, 2014, pp. 393 – 429.

Appendices

A.1 Compliance Assessment Matrix: First Time Adoption of Corporate Governance Directions by Licensed Commercial Banks (Commenced on January 1, 2008, Full Compliance by January 1, 2009)

Section	Key Assessment Criteria	Corporate Governance Principle	Reference Section of the Banking Act Direction 11 of 2007, as amended
1	The Defined Responsibilities of the Board		
		The Safety and Soundness of the Bank	3(1)(i)
		Communication of strategic objectives, business strategy and corporate values	
		Identification of principle risks on the and reveal risk Management Policy Annual report	
		Comment on the adequacy of the Bank's internal control system by the board	
		Identification and designation of Key Management Personnel	
		Board meetings	3(1)(iii)
		Convene minimum of 12 board meetings a year	
		Attendance of a director for at least 2/3 of the board meetings in the period of 12 months	
		The appointment of a company secretary	3(1)(vii)
		Access to independent professional advice	3(1)(xi)
		Compliance with Capital Adequacy Ratio as required by Monetary Board	3(1)(xv)
		Annual Corporate Governance report in the Annual Report of the bank	3(1)(xvi)
		Availability of Self-assessment scheme to be undertaken by each director and maintaining of such assessment record	3(1)(xvii)
2	Aptness of Directors, Composition of the Board and Conduct of Directors		
		The Board's Composition	
		Minimum Directors to be 7 and Maximum to be 13 on the Board	3(2)(i)
		Compliance with the total period of service of a director as per the subsequent amendments of the direction	3(2)(ii)
		No. of executive directors does not exceed 1/3 of the board	3(2)(iii)
		Minimum of 3 independent non-executive directors on the board with effective from January 1, 2010	3(1)(xii), 3(2)(iv)
		Existence of formal, considered and transparent procedures for the appointment of new directors to the board by Nomination Committee	3(2)(ix), 3(6)
		Casual vacancies are subjected to election of shareholders at the first General meeting after the appointment	3(2)(x), 3(6)
		Announcement of a director's resignation or removal and reason for such	3(2)(xi)
		No director or an employee can be appointed, elected or nominated as a director of another bank	3(2)(xii)
		Aptness of Directors	3(3)
		Compliance to the minimum age to act as a director shall not exceed 70 years, subject to subsequent amendments	3(3)(i)
		No person holds office as a director for more than 20 companies inclusive of subsidiaries	3(3)(ii)
		Conflict of Interest	3(7)
		Disclosing related party transactions	
3	Delegation and Segregation of Operations		
		Management Functions Delegated by the Board	
3(4)(i)		Clear understanding of the delegation arrangement by the directors	removed

3(4)(ii)		No function has been delegated to a committee or a person that would hinder ability of the board in discharging its functions	removed
3(4)(iii)		periodic review of the delegation process in place	removed
		The Chairman and Chief Executive Officer	3(5)
		Segregated roles among chairman and CEO	3(5)(l)
		The chairman shall be non-executive and independent director	3(5)(ii)
		The disclosure of any material relationship between chairman, CEO and any other board member	3(5)(iii)
		A statement on the fact that chairman has not engaged in direct supervision of key management personal or any other executive duties	3(5)(ix)
		Chairman held responsible for effective communication with the shareholders	3(5)(x)
		Defined Role of CEO as apex executive in -charge of the day -to day business operations of the bank	3(5)(xi)
4	Monitoring and Evaluation		
		Board Appointed Committees	3(6)(l)
		Existence of at least four board committees	
		Existence of secretary for each committee	
		A report by each committee	
		Audit Committee	3(6)(ii)
		Chairman of the committee is a independent non-executive director who possess accountancy and/ or audit related qualification or experience	
		All members are non-executive directors	
		The disclosure of the activities of the Audit committee, Number of meetings held during the year and details of attendance of each individual director by the board	
		Existence of Human Resource and Remuneration Committee and compliance with the rules	3(6)(ii)
		Defined responsibility for remuneration policy	
		Compliance with rules applicable to Nomination Committee	3(6)(iv)
		Chaired by an Independent Director	
		All new appointments/ reappointment by routed through the committee	
		Compliance with rules applicable to Integrated Risk Management Committee	3(6)(v)
		Consists of at least 3 non-executive directors	
		Convene meetings at least quarterly	
5	Communication and Disclosure		
		Relation with Shareholders	
		Circulation of Annual report and notice of AGM	
		Defined responsibilities of the board & chairman and their commitment to develop constructive dialogue with shareholders at AGM	3(1), 3(8)
		Preparation of Financial and Regulatory Reports	3(8)(l)
		Auditors Report that assures compliance with accounting, regulatory and statutory requirement	
		A statement on the annual report illustrating the facts that financial accounts were published in all three languages in the newspapers	
		Minimum Disclosure made in the Annual Report	3(8)(ii)
		Publish audited financial statements with notes	
		Directors report on the annual report	
		External auditor's certification on the effectiveness of the internal control mechanism referred above internal control mechanism	
		Profile of the board of directors and their aptness on the board	
		Net accommodation granted to each category of related party in the note to related party transaction	3(8),3(6)
		Disclosure of remuneration	
		A note on compliance with the prudential requirement, regulations and laws and internal controls	
		A note on lapses in the bank's risk management, or non-compliance with these directions for disclosure to the public	