Corporate Governance

Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Governance refers specifically to the set of rules, controls, policies, and resolutions put in place to dictate corporate behavior. Proxy advisors and shareholders are important stakeholders who indirectly affect governance, but these are not examples of governance itself. The board of directors is pivotal in governance, and it can have major ramifications for equity valuation.

A company's corporate governance is important to investors since it shows a company's direction and business integrity. Good corporate governance helps companies build trust with investors and the community. As a result, corporate governance helps promote financial viability by creating a long-term investment opportunity for market participants.

Communicating a firm's corporate governance is a key component of community and investor relations. On Apple Inc.'s investor relations site, for example, the firm outlines its corporate leadership—its executive team, its board of directors—and its corporate governance, including its committee charters and governance documents, such as bylaws, stock ownership guidelines and articles of incorporation.

Most companies strive to have a high level of corporate governance. For many shareholders, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior, and sound corporate governance practices. Good corporate governance creates a transparent set of rules and controls in which shareholders, directors, and officers have aligned incentives.

Principles of Corporate Governance

1. Lay solid foundations for management and oversight.

The Board is responsible for:

- Oversight of the Bank, including its control and accountability systems
- Appointing and removing the managing Director, deputy managing Director, executive Directors and senior management
- Formulation of policy
- Input into and final approval of management's development of corporate strategy and performance objectives
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance
- Monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available
- Approving and monitoring financial and other reporting
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures
- Approving credit facilities in excess of a defined amount
- Updating and maintaining organizational rules and policies to keep in step with changes in the banking industry

This framework for management and oversight is designed to:

- Enable the Board to provide strategic guidance for the Bank and effective oversight of management
- Clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both the Bank and its shareholders

- Ensure a balance of authority so that no single individual has unfettered powers

2. Structure the Board to add value

The Group must ensure that there is a balance of independence, diversity of skills, knowledge, experience, perspective and gender among the Directors. It should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. The Board is structured in such a way that it:

- Has a proper understanding of, and competence to deal with, the current and emerging issues of the business
- Can effectively review and challenge the performance of management and exercise independent judgment

3. Promote ethical and responsible decision-making

The Board ensures that the Bank promotes ethical and responsible decision-making and complies with all relevant policy, laws, regulations and codes of best business practice using the Group's ethics and operating principles. The ethics and operating principles address the following matters: conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection of and use of the Group's assets, compliance with laws and regulations and encouraging the reporting of unlawful/unethical behavior.

4. Safeguard integrity in financial reporting

The Board has a structure in place to independently verify and safeguard the integrity of the holding company's financial reporting, including the internal audit department headed by the chief internal auditor and the establishment, as required by law, of the audit committee, to which the chief internal auditor reports.

The existence of an independent audit committee is recognized internationally as an important feature of good corporate governance and is required by the Financial Institutions Act.

The Group's internal audit is also governed by a charter, which sets out the roles and responsibilities of internal audit, the professional standards by which it is to be governed, the staff's authorities and organization and emphasizes the independence of internal audit in the Bank's organizational structure. Each audit committee is also guided and governed by its own terms of reference.

5. Make timely and balanced disclosure

The Board shall promote timely and balanced disclosure of all material matters concerning the Bank. To achieve the Bank has put in place structures designed to ensure compliance with the relevant legislation and to ensure accountability at a senior management level for that compliance, such that:

- All investors have equal and timely access to material information concerning the Bank – including its financial situation, performance, ownership and governance
- Bank announcements are factual and presented in a clear and balanced way. 'Balance' requires disclosure of both positive and negative information

6. Respect the rights of shareholders

The Board respects the rights of shareholders and facilitates the effective exercise of those rights. To this end, the Board has a responsibility, for ensuring that a satisfactory dialogue with shareholders takes place. In furtherance of this responsibility the Board empowers the shareholders by:

- Communicating effectively with them
- Giving them ready access to balanced and understandable information about the Bank
- Making it easy for them to participate in general meetings

7. Recognize and manage risk

The Board has a responsibility to review the adequacy and effectiveness of the bank's risk management strategies and review and approve the Bank's risk management framework. To achieve this, the Group has developed an enterprise risk management policy and a risk appetite statement that governs the manner in which risk is managed in the Group. In addition, there is a

Group chief risk officer as well as the enterprise risk committee (ERC). The Group chief risk officer and the ERC make recommendations and the Board approves and implements:

- The Bank's risk appetite framework, tolerance, limits and mandates, taking into account the Bank's capital adequacy and the external risk environment
- Strategic or material transactions, focussing on risk and implications for the risk appetite and tolerance of the bank
- Oversight and maintenance of a supportive risk culture throughout the Bank
- Risk assessment, including risk assessment processes, identifying and managing risk and monitoring and understanding the risk profile of the Bank
- Risk monitoring and reporting, including adequacy and effectiveness of the technology infrastructure
- Risk management function

8. Encourage enhanced performance

The Board is committed to encouraging enhanced Board and management effectiveness through periodic performance evaluations and reviews. The Board also ensures that Directors and key executives are equipped with the knowledge and information they need to discharge their responsibilities effectively.

Management is required to supply the Board with information in a form, time frame and quality that will enable the Board to discharge its duties and responsibilities. When needed, the Board has access to the advice of both in-house counsel, the Bank's external counsel and other independent professional advice, if necessary.

9. Remunerate fairly and responsibly

The Board shall ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. To achieve this, the Bank has adopted remuneration policies that attract and maintain talented and motivated employees so as to encourage enhanced performance of the Bank. It is important that there is a clear relationship between performance and remuneration. The Bank has designed its remuneration policy in such a way that it:

- Motivates management to pursue the long-term growth and success of the Bank within an appropriate control framework
- Demonstrates a clear relationship between key executive performance and remuneration

10. Recognize the legitimate interests of stakeholders

The Bank is subject to a number of legal requirements that affect the way business is conducted. These include contractual requirements, banking practice, compliance, consumer protection, respect for privacy, employment law, occupational health and safety, equal employment opportunity and environmental controls.

In addition to its obligation to its stakeholders, the Bank has other obligations to non-shareholders such as employees, customers and the community as a whole.

The Board has a responsibility to set the tone and standards with respect to the corporate social responsibility of the Bank and to oversee adherence to these. The Group's ethics and operating principles, which state the value and policies of the Bank assists the Board in this task and acts as a guide for employees and management in conducting business and general behavior.

Benefits of Corporate Governance

1. Good corporate governance ensures corporate success and economic growth.
2. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
3. It lowers the capital cost.
4. There is a positive impact on the share price.
5. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
6. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.

7. It helps in brand formation and development.

8. It ensures organization in managed in a manner that fits the best interests of all.