



# CORPORATE GOVERNANCE

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## REFLECTIONS

Subsequent to the Asian crisis, which shook the global financial system, the rallying cry was sounded in the late 1990's for a process to be established by which better governance of businesses and governments could be implemented. This call to arms was received by a number of Finance Ministers and Central Bank Governors' of systemically significant economies, who met in Washington D.C. in April, 1998. The group, examined issues related to the stability of the international financial system and the effective functioning of the global capital markets. In their discussions,

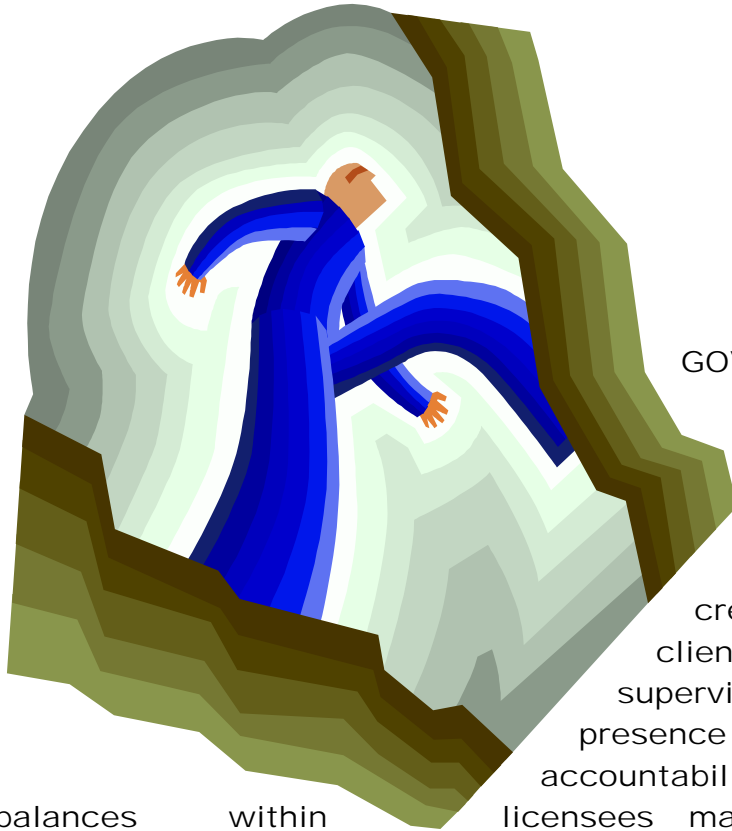
Ministers and Governors stressed the importance of strengthening the international financial system through action in three key areas; enhancing transparency and accountability; strengthening domestic financial systems; and managing international financial crises.

The working group reviewing ways to strengthen the domestic financial system identified several areas for examination - corporate governance, risk management (including liquidity management) and safety net arrangements - where standards for sound practices need to be enhanced or developed.

Around the same time, the Organization for Economic Co-operation and Development [OECD] was developing its own standard for corporate governance to assist its members and institutions residing within their borders. The OECD's 'Principles of corporate governance' paper was released in October 1998 and sought to set guidelines to assist governments "in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance, corporations and other parties that have a role in the process of developing good corporate governance." The introduction of these Principles on the heels of the 1998 strategic meeting in Washington

tended to cause the financial world to sit up on its heels and consider whether the fallouts that had occurred in the global financial system might have been avoided or at least mitigated with better corporate governance. A post mortem of the crises tended to pinpoint lack or non-existence of good corporate governance principles in the dealings of governments, large corporations, financial institutions and other stakeholders. That is, large numbers of financial and non-financial entities failed to develop and pursue prudent business strategies, to establish and apply effective internal control systems and procedures, and to monitor and manage the various financial and commercial risks to which they were exposed and lastly but most important was the lack of reliable accounting information.

The Basle Committee on Banking Supervision got into the fray in September, 1999 with its issuance of 'Enhancing Corporate Governance for Banking Organisations.' The Committee's paper on governance sought to reinforce the OECD Principles and give specific guidance to banks and their supervisors. This paper draws from the work of the Committee and the OECD and the Bahamian experience.



## CORPORATE GOVERNANCE MIX

Good corporate governance benefits everybody including creditors / depositors, other client, the banks and the supervisors. Put bluntly, the presence of appropriate levels of accountability and checks and balances within licensees makes the work of the supervisors lighter. Sound corporate governance contributes to a working collaborative relationship between bank management and bank supervisors.

Banks are a vital component of our economies. They provide financing for commercial enterprises, basic financial services to a wide cross-section of the general populace and facilitate the payment systems. In addition, some licensees are expected to make credit and liquidity available in difficult market conditions. The importance of banks to national economies is underscored by the fact that banking is virtually universally a regulated industry and that banks have access to government safety nets. It is therefore of utmost importance that these institutions are subject to strong corporate governance principles.

Banks must therefore be governed prudently by their board of directors and senior management when considering –

- Setting corporate objectives (including generating economic returns to owners);
- Running the day-to-day operations of the business;

- Considering the interest of recognised stakeholders;
- Aligning corporate activities and behaviors with the public expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and
- Protecting the interests of depositors.

Corporate Governance strategies of banks must include –

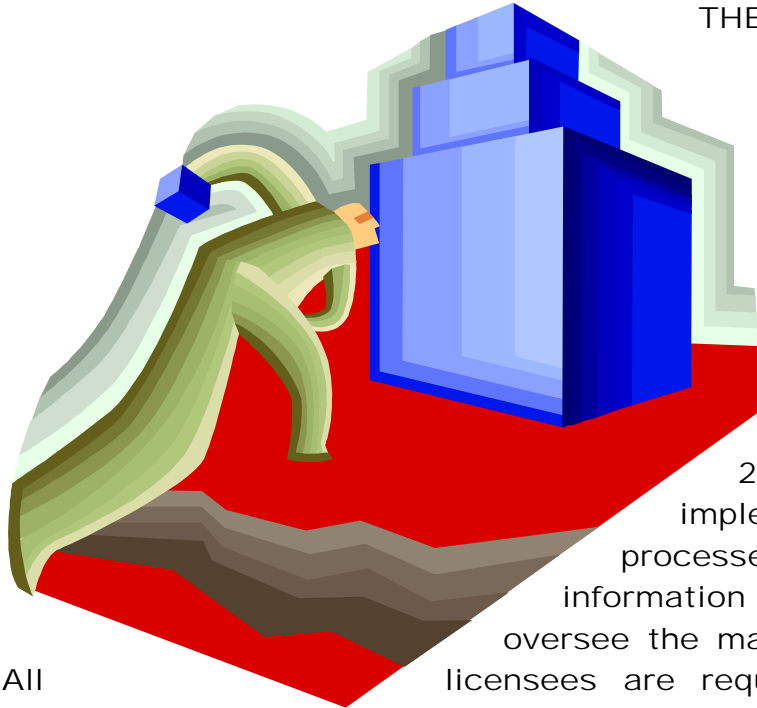
- The corporate values / code of conduct and the procedure used to ensure compliance;
- A detailed corporate strategy which operational results can be measured;
- Development of a channel of communication between the board, senior management and the auditors;
- Relevant internal control systems and procedures including internal and external audit functions, risk management functions independent of product lines and other checks and balances as appropriate;
- Special monitoring systems of related party risk exposures;
- An appropriate compensation package for all levels of employees; and
- Appropriate information flows internally and to the public.

There is no one blue print for corporate governance. The mix will vary from country to country. However, all systems should include the following to ensure appropriate levels of checks and balances are present:

- Oversight by the Board;
- Oversight by individuals not involved in the day-to-day operations (non-executive directors);
- Direct line supervision of different product lines;
- Independent risk management and audit functions;
- Appropriate segregation of duties and functions.

One important element to include in your mix is fit and proper criteria for persons at all levels of the organization not just those serve at the board and senior management levels.

## THE BAHAMIAN MIX



Corporate Governance Guidelines were issued to all banks and trust companies on the 13<sup>th</sup> December, 2001 as a guide to implementing adequate processes, structures and information required to direct and oversee the management of licensees.

All licensees are required to have such in place by December, 2003, when their Boards will have to certify that adequate systems are in place in adherence with the Guidelines.

As per the Guidelines, corporate governance was defined as the processes, structures and information used for directing and overseeing the management of an organization. In general, as aforementioned, corporate governance involves the relationships between an organization's board of directors, management, shareholders and other stakeholders, including its clients and employees. It provides the structure through which the objectives of the organization are determined, the strategies for attaining those objectives are developed and implemented, and the means by which the performance of the organization to achieve those objectives is monitored and controlled.

Corporate governance processes will differ from organization to organization. However, the fundamental elements of good governance always include active concern with, understanding of, and diligent discharge of responsibilities in a prudent manner. The care, diligence, skill, and prudence exhibited by a financial institution's directors and senior management has a critical influence on its viability, safety and soundness; its ability to execute its business strategy and achieve its business objectives; and its ability to engender confidence in and

protect the interests of its depositors, creditors and other stakeholders.

For banks and trust companies, corporate governance relates to the manner in which the business affairs of each individual organization are directed and managed by its board of directors and senior management, and for branches of foreign banks by the senior management of the parent foreign bank. For all of these organizations, it also includes the effective management of compliance with applicable laws, regulations and guidelines. Unlike other companies, these organizations are generally highly leveraged and most of the resources used by them to conduct their businesses belong to others, in particular to their depositors and other clients. Also unlike other companies, the operations of individual financial institutions can have systemic impact on the financial system as a whole. Consequently, the expectations of the Central Bank of The Bahamas (the "Central Bank") for the quality and effectiveness of the corporate governance of all of its licensees are high, since high quality corporate governance in individual organizations promotes the general stability and successful functioning of the overall financial system.

The Guidelines focus on organization-wide corporate governance and risk management. They represent accepted best practices for effectively governing organizations. Good governance is not only essential to the operating effectiveness of an organization, it is good business and can enhance the reputation of that organization. In addition, good corporate governance is often associated with sound and profitable corporate performance. Consequently, it is sound business practice for an organization to be able to demonstrate at any point in time that it is adhering to the principles of an effective corporate governance regime. As such, disclosure of accurate, up-to-date information about the organization to the public, shareholders and investors, where appropriate, should include a summary description of the licensee's corporate governance process and risk management program, in addition to any appropriate financial and other disclosures.



## APPLICABILITY

The Guidelines apply, as appropriate, to all banks, trust companies and foreign banks<sup>1</sup> licensed to operate branches within and from within The Bahamas [the “licensee(s)”]. They set out the minimum standards that the Central Bank expects its licensees to adopt in respect to their corporate governance. The Guidelines and the Central Bank’s expectations are based on the premise that the directors are stewards of the organization, responsible for providing overall direction and oversight, and that senior management is responsible for carrying out the day-to-day operations of the organization and implementing an appropriate governance process and control program designed to produce a sound and profitable organization.

The Guidelines are not intended to be prescriptive, but to provide direction and basic principles from which a corporate governance process can be developed and implemented, based on the unique character of each licensee. However, failure to adhere to the basic principles set out in these Guidelines may call into question whether a licensee continues to satisfy the criteria necessary for the continuation of licensing. Such failure may also raise questions regarding the suitability of the members of the Board of Directors and senior management. However, if the Board of Directors of a licensee (“the Board”) chooses to put in place alternative measures, the Board may demonstrate to the Central Bank that such alternative measures have at least an equivalent effect on ensuring sound corporate governance. Licensees that are part of large international financial groups are granted the flexibility to avail themselves of group-structured governance processes that are generally in keeping with the basic principles articulated in the Guidelines.

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<sup>1</sup> For branches of foreign banks, the responsibilities set forth in these Guidelines for the Board of Directors of an organization should be assumed by the senior management of the parent bank. Those senior parent bank managers should ensure that the principles of good governance and risk management in these Guidelines are appropriately adapted to and addressed in the management of the branches, in a manner suitable to the nature of their individual operations. In many cases, senior parent bank managers and local branch management will utilize the management processes and risk control systems and procedures that have been implemented for the parent bank itself, if they are compatible with the requirements of these Guidelines.

## THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS

In order to ensure effective management of risk and meet its overall corporate governance responsibilities to the licensee's clients and other stakeholders, including the Central Bank, the Board should:

1. Ensure competent management is in charge of the day-to-day operations;
2. Approve objectives, strategies, plans, and operating policies, standards, and procedures;
3. Ensure that the organization's operations are conducted prudently and within the framework of laws, regulations and guidelines, as well as established policies and procedures;
4. Ensure and monitor that the organization conducts its affairs with a high degree of integrity;
5. Review the organization's business and operating performance;
6. Ensure that the organization is "in control" of itself.

## OPERATIONS OF THE BOARD OF DIRECTORS

The full Board is ultimately responsible for the overall conduct of a licensee's business affairs. In that regard, the full Board should meet preferably on a monthly basis, but in any event no less than once every quarter, to address all necessary matters. Generally, the Board of a licensee should comprise both executive and non-executive members, as appropriate to the organization's needs, who are able to act independent of undue influence from internal and external sources.

The full Board may choose to supervise major functional areas through specialized committees of the Board and/or committees comprising directors and appropriate senior management, while still ensuring that the full Board remains fully knowledgeable of the affairs of the licensee and is ultimately responsible for the decisions of each committee. The use of such committees should be dictated by the complexity and type of business activities of the licensee.

[Committees, when used, should be established with clearly-defined objectives, authorities, responsibilities, and tenure and the requirement that they report regularly to the full Board. The Board should ensure that the structure of each committee is suitable to the licensee's size and business activities, the Board's composition, and

each individual director's expertise. Typical specialized committees that might be considered are described in Appendix 2.]

Particular attention should be given to establishing appropriate methodologies for the Board's direct and indirect oversight of the management of significant areas of risk exposure; e.g., management of credit risk, liquidity, capital adequacy, compliance, control systems, audit, etc.

The Board should assign a sufficient number of independent, non-executive directors to committees, if they are used, for particularly sensitive areas where a potential for conflict of interest exists; e.g., the audit committee, the compensation committee, the nominations committee, etc.

The Board should also seek to include –

- oversight through external auditors; and,
- where the size and nature of a licensee's businesses warrant, as determined by the Board, separate and independent risk management and internal audit functions.

These systems enable the Board, utilizing the advice of management, to periodically:

- obtain reasonable assurance that the organization has an ongoing, appropriate, and effective strategic management process;
- obtain reasonable assurance that the organization has an ongoing, appropriate and effective risk management program;
- obtain reasonable assurance that the organization operates within an appropriate and effective control environment;
- reassess the organization's business objectives, strategies and plans; and,
- discuss and approve all significant policies and procedures for the organization.

To facilitate the above, risk management and annual review processes must be in place.

## Risk Management

Depending on the specific types of businesses conducted by individual licensees, such risks<sup>2</sup> may include:

- credit risk
- liquidity risk
- market risk
- interest-rate risk
- fiduciary risk
- reputation risk
- operational risk
- technology risk
- compliance risk
- settlement risk
- legal risk
- other risks (e.g., country risk and transfer risk) that are identified as material to the particular businesses of a licensee.

A thorough analysis of existing and prospective businesses, products and services must be carried out to identify and measure the types and significance of the current and potential risks that must be managed and controlled, both individually and in the aggregate. On basis of same, the Board and management would be enabled to develop and implement appropriate and prudent risk management policies and procedures. Contingency plans should be included to allow for appropriate actions by the Board and / or management, to deal with extraordinary events.

## Annual Review

Continuous monitoring and periodic evaluation of the risk management systems by the Board, either directly or possibly through committees thereof, would be prudent. As any necessary changes can be done in a timely fashion and problems caught before endangering the viability of the institution.

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<sup>2</sup> A brief description of key risks is provided in Appendix 1.

Notwithstanding the above note, the Board, should at least annually, utilizing the advice of management, conduct a complete, thorough review, assessing and documenting whether the corporate governance process that it has implemented successfully achieves its objectives and, consequently, whether it facilitates fulfillment of its own responsibilities. In the course of this annual review, the Board should –

- assess the overall risk profile of the institution vis-à-vis the capital position; the Board in consultation with management should consider the licensee's current and prospective capital adequacy requirements. That is, evaluation of projected capital needs and profitability, implementation of an appropriate earnings retention policy, and recognition of external sources of additional capital must be carried out in order to arrive at a realistic and attainable level of operating capital for the institution;
- assess new significant policies / procedures;
- assess the adequacy of internal controls and procedures;
- assess the adherence of management and staff to code of conduct, systems and procedures;
- assess the responses to problems or concerns by management and staff; and,
- assess the adequacy of information and accounting records' systems.

To promote an environment of self-assessment and review, The Central Bank requires that it certify on an annual basis beginning end of 2003, that its systems, policies and procedures are in compliance with the Guidelines. Further, it is expected that the Board will also report on any problems, deficiencies with appropriate action plans. The external auditors will be required to review the methodologies of the institutions in assessing the bank and / or trust company's corporate governance processes. The external auditors will be required to report on any variances vis-à-vis the Board's report.

## **DUTIES OF DIRECTORS**

All directors of a licensee have a duty to perform their functions with diligence and care and with such degree of competence as can

reasonably be expected from persons with their knowledge and experience.

All directors of a licensee have a duty to ensure that the risks that are of necessity undertaken by the licensee in the conduct of its business are monitored and controlled in a prudent manner.

All directors of a licensee have a duty to require that management provide them with adequate, appropriate and substantive information on the activities and operations of the licensee.

All directors of a licensee have a duty to independently assess and question the policies, processes and procedures of the licensee, with the intent to identify and initiate management action on issues requiring improvement.

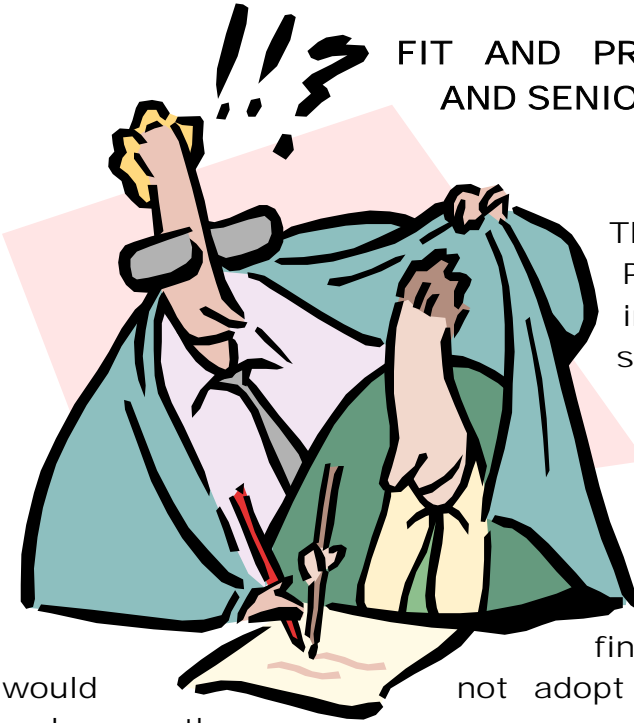
All directors of a licensee should have a basic knowledge and understanding of the conduct of the business of the licensee and the laws, regulations, guidelines, other regulatory requirements, and the customs and practices that govern that business. Although not every director is expected to be fully conversant with every aspect of the business of the licensee, the competence of every director should be commensurate with the nature and scale of the overall business. Directors should work to acquire the knowledge and skills necessary to effectively perform their functions on assigned specialized committees of the Board, if such committees are used.

All directors, in exercising any authorities of a director or discharging any of their duties, as a director should:

- act with honesty, integrity and good faith with the view to the best interests of the licensee and its clients;
- exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;
- exercise independent judgment in their approach to decision-making and problem-solving;
- act on a fully-informed basis;

- understand and devote sufficient time to their responsibilities;
- act only within the scope of their authority; and,
- recognize and guard against conflicts of interest in dealing with the licensee, taking into account the interests of all stakeholders.

## FIT AND PROPERNESS OF DIRECTORS AND SENIOR MANAGEMENT



The Corporate Governance Principles ought to be imbedded in legislation or alternatively supported by legislation when issued as Guidance Notes or Guidelines. As we all know from experience, without the threat of sanctions, the directors / senior management of some institutions within the financial sector services industry

would not adopt such principles that tend to make them more responsible for their actions or non-actions, if they had the choice.

Several provisions in THE BANKS AND TRUST COMPANIES REGULATION ACT, 2000, supports the Bahamian Corporate Governance Guidelines issued on the 13<sup>th</sup> December, 2001.

Section 4 (2) of The Banks and Trust Companies Regulation Act, 2000 laid down fit and proper criterion for shareholders, directors and senior management of licensees. An excerpt from the Act, *ibid* follows -

'(2) Every application made pursuant to subsection (1) shall be in writing and shall contain such information and particulars and shall be accompanied by such references as may be prescribed and the Governor shall consider the following factors -

(a) that the applicant is a fit and proper person or company to carry on banking business or trust business, as the case may be;

(b) the nature and sufficiency of the financial resources of the applicant to provide continuing financial



support for the bank or trust company,  
as the case may be;

(c) the soundness and feasibility of the  
business plan;

d) the business record and experience of  
the applicant;

(e) whether those who will operate the  
bank or trust company will do so  
responsibly and whether such persons  
have the character, competence and  
experience for operating a bank or  
trust company, as the case may be; and

(f) the best interests of the financial  
system in The Bahamas, and, if satisfied,  
may grant a licence to such person or  
company subject to such terms and conditions,  
if any, as the Governor may deem necessary.'

Additionally, THE BANKS AND TRUST COMPANIES  
(LICENCE APPLICATION) (No.1) REGULATIONS, 2001 established  
precise documentation required for assisting the bank supervisor in  
assessing the fit and properness of shareholders, directors and senior  
management. [This regulation can be viewed at the Bahamas  
Government Website]

Aside from the legal requirements to be fulfilled, a 'Confidential  
Statement' form is required to be completed by each director, shareholder  
and senior management prior to being considered and approved. The  
form seeks to identify any conflict of interest that may arise as it  
requires detailed information on any affiliation (minor / major) with  
other corporations such as ownership, directorships, management  
responsibilities or related connections via relationships etc. Further, it  
seeks information –

- on investigations, if any, that may have been conducted on  
affiliated companies, partnerships or past employers etc;

- reflective of the financial soundness;
- reflective of the creditability; and
- on proposed dealings with the respective institution

regarding nominated shareholders, directors and senior management. A sample of the form can be found at Appendix 3.

On the basis of a thorough review of the –

- ◆ Confidential Statement
- ◆ the supporting documentation [inclusive of references {bank and character}, certified net-worth statements, etc.]
- ◆ comprehensive resume inclusive of listing of responsibilities under each position identified [note frequent job changes are investigated as such may be indicative of possible problems]
- ◆ police clearance certificate,
- ◆ copies of the official picture ID
- ◆ note of an interview, where appropriate,

a recommendation in favor or against will be submitted to Governor for his decision. Note is made that local and foreign regulatory databases are also tapped as an additional precaution to ensure that all pertinent details of persons being examined for suitability as shareholders, directors and senior management have been considered. Further, when warranted, private investigators are contracted to carry out independent verification of identities of persons.

The relevant legal provisions supporting the Guidelines are as under –

- As per Section 14 (1) (d) of the Bank and Trust Companies Regulations Act, 2000, the Governor of the Central Bank has the power to remove a director or officer of a licensee as necessary;
- Section 14 (1) (e), empowers the Governor, at the expense of the licensee to appoint a person to advise the licensee on the proper conduct of its affairs and to report to the Governor thereon within three months of the date of his appointment;
- Section 14 (1) (f), empowers the Governor, at the expense of the licensee, appoint a receiver to assume control of the licensee's affairs in the interest of creditors who will have all powers of a receiver under the Companies Act, 1992; and

- Section 14(1) (g), empowers the Governor to require such action to be taken by the licensee as he considers necessary.

The above-listed provisions amongst others give the Inspector of Banks and Trust Companies legally enforceable remedies to deal with incompetent directors and officers as the case may be vis-à-vis the performance of their duties compared with that outlined as per the Corporate Governance Guidelines. Further, the Inspector via on-site inspections carries out thorough examinations of the governance process and should any weaknesses be identified, requires the licensee to correct same in a stipulated timeframe.

Section 9 of the Act, *ibid*, which governs the power and duties of the inspector, also gives him the right to –

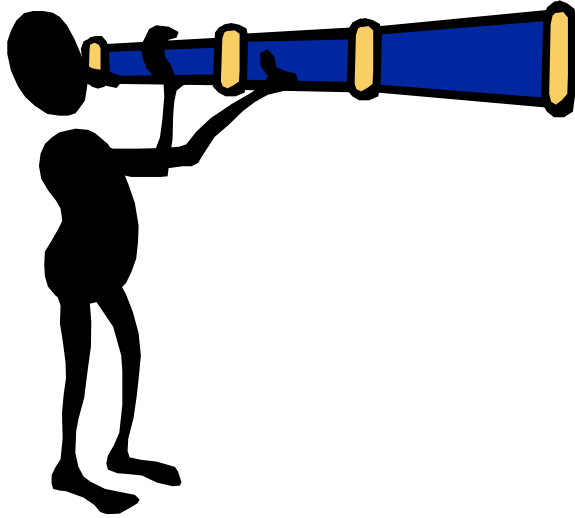
“(4) (d) to require that the auditor of a bank report to the Inspector on the extent of the procedures of the auditor in the examination of the annual financial statements and may require that the auditors enlarge the scope of that examination or direct that any other particular procedure be performed in any particular case;

(e) to require that the auditor make a particular examination relating to the adequacy of the procedures adopted by the bank for the safety of its creditors and shareholders, or any other examination as considered necessary by the Inspector, as the Inspector may reasonably require for the purpose of enabling him to perform his functions under the Act.”

Further, in the performing of his functions as Inspector under the Act, should an auditor of a licensee in the performance of an audit, grossly violates the duties of such auditor as set out in subsection (1) of the Section Ch. 285 8; or makes untrue statements in an audit report of a licensee or fails to report his findings to the Inspector, the Inspector can site him for violations of the Act and request the Attorney General’s Office to start proceedings against him. If found guilty the auditor can be fined a sum not exceeding one hundred thousand dollars

or sentenced to a term of imprisonment not exceeding five years or to both such fine and imprisonment and in the case of a continuing offence to a fine not exceeding two thousand dollars for each day during which the offence continues.

These provisions will tend to keep directors, senior management and auditors on their toes in ensuring that their institutions are complying with the Guidelines.



## A LOOK AHEAD

There is a quiet revolution sweeping the nations today - *Corporate Governance*. Governments and corporations [big and small] are being compelled to take on responsibility and accountability for their operations and projects. Investors [big and small] are demanding such of all those

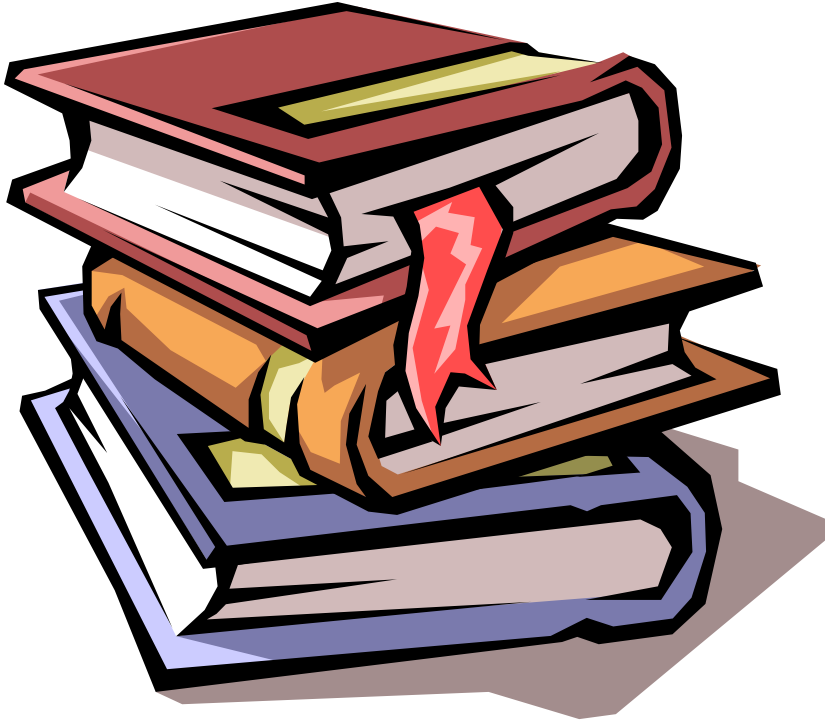
whom wish to attract their funds. Gone are the days of throwing money at projects and hope they bear a fair return. Those governments and entities that reflect good governance in their operations will be rewarded with funding for future projects and programs. Even in countries that do not yet possess a democratic system of governing their affairs, civil society is pressing for information and a voice in decisions about public policy, with more open discussion. In all kinds of political systems, issues of transparency and accountability have moved to the centre of the public agenda.

Most important to understanding the concept of corporate governance, the participants must understand the purpose of corporate governance. They must see that corporate governance exist to meet two indispensable objectives:

- To enhance the performance of corporations [be they banks or industrial concerns] - the primary generators of economic wealth and growth in our societies - by creating and maintaining a business environment that motivates managers and entrepreneurs to maximize operational efficiency, returns on investment and long-term productivity growth.
- To ensure corporate conformance with investors' and society's interests and expectations by safeguarding against the abuse of power, the siphoning-off / wrongful misuse of an entity's assets, the moral

hazard and the significant wastage of corporate-controlled assets that self-serving behavior of some managers and other corporate insiders can be expected to impose on investors and society in their absence.

Corporate Governance Guidelines, laws, regulations or accepted best business practices simply put, serve as a means to monitor overseers' behavior and ensure a measure of corporate accountability while providing protection of investors' and society's interests vis-à-vis corporate insiders.



## REFERENCES

THE BAHAMAS' CORPORATE GOVERNANCE GUIDELINES

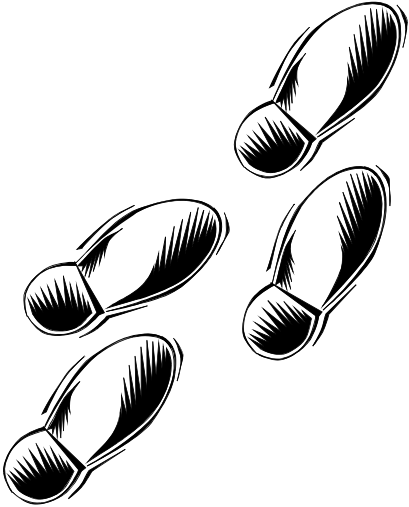
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REGULATIONS, 2001

OECD DEVELOPMENT CENTRE TECHNICAL PAPERS NO. 180 -  
CORPORATE GOVERNANCE AND NATIONAL DEVELOPMENT

ENCHANCING CORPORATE GOVERNANCE FOR BANKING  
ORGANIZATIONS - THE BASEL COMMITTEE ON BANKING  
SUPERVISION

OECD PRINCIPLES OF CORPORATE GOVERNANCE



## Appendix 1

### Key Risks for Banks and Trust Companies

#### Credit Risk

The risk to earnings or capital arising from the potential that a borrower or counter party will fail to perform on an obligation.

#### Liquidity Risk

The risk to earnings or capital arising from the potential that an organization will be unable to meet its obligations as they come due because of an inability to liquidate assets or obtain adequate funding, or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions.

#### Market Risk

The risk to earnings or capital resulting from adverse movements in market rates or prices, assessed based on consideration of the interaction between market volatility and the organization's business strategy.

#### Interest-Rate Risk

The risk to earnings or capital resulting from adverse movements in interest rates.



## **Fiduciary Risk**

The risk to earnings and capital resulting from a breach of duty in advising on, or in holding, administering, managing or investing the assets of a client or other third party.

## **Reputation Risk**

The risk to earnings or capital arising from the potential that negative publicity regarding an organization's business or ethical practices will cause a decline in the customer base, costly litigation or revenue reduction; such risk often arises from the mismanagement of other risks.

## **Operational Risk**

The risk to earnings or capital arising from the potential that inadequate information systems, operational/transactional problems in service and product delivery, breaches in internal controls, fraud, failure to properly adjust to changes in the operating complexities of the markets, or unforeseen externalities / events will result in unexpected losses.

## **Event Risk**

The risk to earnings or capital arising out of events that is unable to be avoided by businesses, such as hurricanes, storms, tidal waves, tornadoes, etc.

## **Settlement Risk**

The risk to earnings or capital arising when the completion or settlement of a financial transaction fails to take place as expected. Settlement risk is often associated with credit risk, liquidity risk, market risk, operational risk and reputation risk.

## **Technology Risk**

The risk to earnings or capital arising from inadequate, obsolete, or mismanaged technology or from a failure or interruption in technology caused by events within or outside the organization.

## **Outsourcing/Third-Part Relationship Risk**

The risk to earnings or capital arising from a decline in service quality, accuracy, security or response time on the part of a third party that provides products and services that the organization would otherwise provide for itself.

## **Compliance Risk**

The risk to earnings or capital arising from violations, or non-compliance with, laws, regulations, guidelines, other regulatory directives, prescribed business practices or ethical standards.

## **Legal Risk**

The risk to earnings or capital arising from the potential that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial condition of the organization.

## **People Risk**

The risk to earnings or capital arising from the inadequacies in the competencies, capabilities or performance of an organization's personnel, failure to provide for management succession or staff back-up, or human error, negligence or misconduct.

## **Strategic Risk**

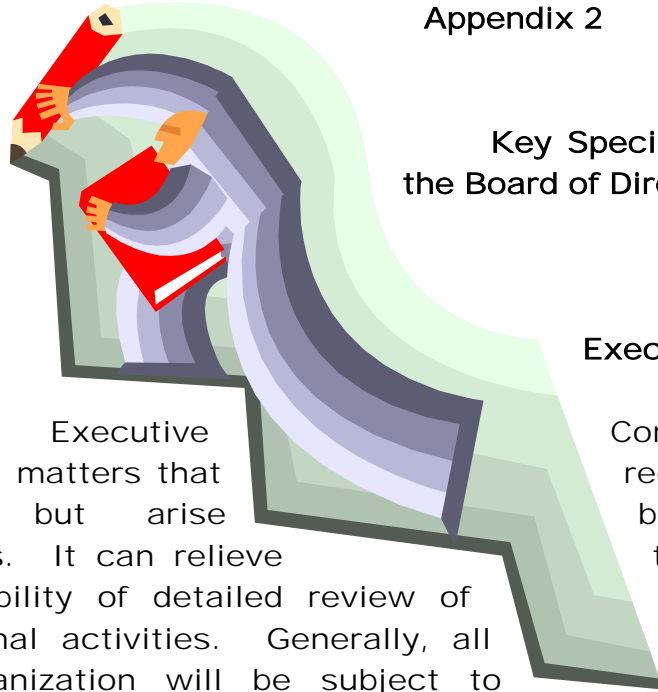
The current and prospective impact on earnings or capital arising from faulty business strategies and decisions, improper implementation of strategies and decisions, or lack of response to industry changes.

## **Country Risk and Transfer Risk**

Country (or Sovereign) Risk is the risk to earnings and capital arising from the effects on business activities of trends and movements in the economic, social, and political conditions in a country. Country Risk is a factor often associated with the evaluation of Credit Risk. Transfer Risk focuses specifically on the availability of foreign exchange to service cross-border obligations.

## Appendix 2

### Key Specialized Committees of the Board of Directors



#### Executive Committee

The Executive Committee usually manages matters that require the Board's review, but arise between full Board meetings. It can relieve the full Board of the responsibility of detailed review of information and operational activities. Generally, all major functions of the organization will be subject to review and approval by the committee, and the work of the other Board committees will be coordinated by it. The committee would usually be composed of only executive members of staff.

#### Risk Management Committee

The Risk Management Committee provides general oversight of senior management's activities in managing the overall range of risks to which the organization is subject. It monitors and reports to the full Board on the process of risk identification, measurement, monitoring and control.

#### Credit Committee

The Credit Committee ensures that the organization's credit policies are adequate and activities related to extending credit, in all forms and types, are conducted in accordance with established policies and relevant laws, regulations, guidelines, accepted business practices and ethical standards. It also serves a vital role in monitoring credit quality throughout the organization and ensures that the management of the credit process is appropriate and effective. It may also

participate in evaluating certain credit applications and making significant credit decisions.

### **Trust/Fiduciary Committee**

The Trust/Fiduciary Committee ensures that the organization's activities related to advising on, or holding, administering, managing or investing the assets of clients or other third parties, are conducted in accordance with established policies and procedures and relevant laws, regulations, guidelines, accepted business practices and ethical standards. This committee should have the presence of one or more independent<sup>3</sup>, non-executive directors.

### **Asset and Liability Committee**

The Asset and Liability Committee oversees the organization's operations relating to interest-rate risk, market risk and liquidity risk and, in particular, ensures that the organization has adequate funds to meet its obligations. Other functions of the committee are dependent on the organization's lines of business and asset/liability mix. This committee is usually a management committee.

### **Audit Committee**

The Audit Committee provides direct oversight of the organization's internal and external audit functions, supervising the quality and integrity of all external financial reporting, and assisting the Board in providing for independent review of the effectiveness of the reporting processes and internal control systems. The committee may also oversee the activities of the independent risk management function, if any. The majority of the members of this committee would usually be independent, non-executive directors; managers and staff of the organization should not be included as members of this committee.

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<sup>3</sup> Members of committees are considered independent if they have no relationship to the organization that would interfere with the exercise of their autonomy from the organization and its management.

## **Compliance Committee**

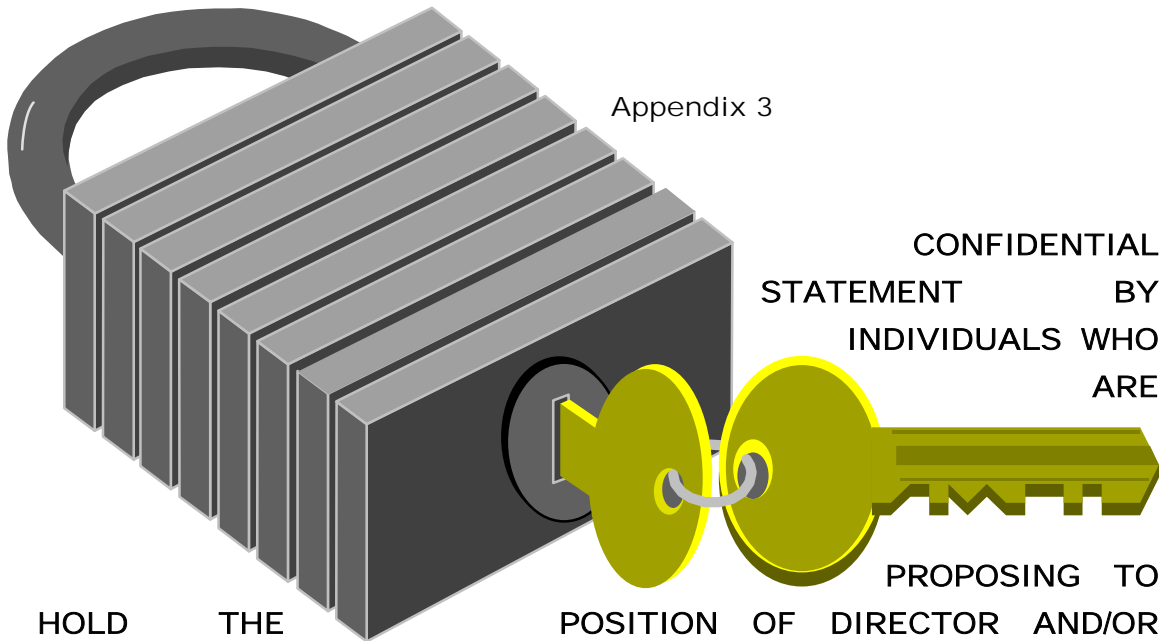
The Compliance Committee oversees senior management's activities, through the Compliance Officer, to ensure that the organization is in compliance with all laws, regulations, guidelines, other regulatory and supervisory requirements, accepted business practices and ethical standards. Members of this committee should include independent, non-executive directors.

## **Compensation Committee**

The Compensation Committee reviews and advises the Board on compensation policies, programs, goals and standards for senior management and reviews the compensation programs established by senior management for other management and staff. This committee should also be responsible for establishing the compensation policy for the Board itself, including appropriate compensation for work on committees of the Board. All, or the majority of the members of this committee would usually be independent, non-executive directors.

## **Nominations Committee**

The Nominations Committee oversees the periodic assessment of the effectiveness of Board members and directs the process of renewing and replacing Board members. The composition of this committee should represent a balance of both executive and non-executive directors.



CONFIDENTIAL  
STATEMENT BY  
INDIVIDUALS WHO  
ARE

HOLD THE POSITION OF DIRECTOR AND/OR  
EXECUTIVE OFFICER OF A BANK OR A TRUST COMPANY LICENSED  
BY THE CENTRAL BANK OF THE BAHAMAS

PROPOSING TO

*If insufficient space is provided, please attach separate sheets.*

1. Name of the institution in connection with which this questionnaire is being completed ("the institution").

.....

2. Your Full Name.

.....

3. Former names by which you may have been known.

.....

4. Please state in which capacity you are completing this questionnaire; i.e., as a prospective director, an executive officer, or a combination of these. Please state your full title, and describe the particular duties and responsibilities attaching to the position(s) that you will hold. If you are completing this form in the capacity of director, indicate whether, in your

position as director, you have or will have any executive responsibility for the management of the institution's business. In addition, please provide a copy of your *curriculum vitae*, unless it has already been provided.

.....

5. Of which bodies corporate (other than the institution) are you a director or an executive officer and since when?

.....

6. Do you have any direct or indirect interest representing 15 per cent or more of the issued capital of any body corporate (other than the institution) that is now licensed, or that has applied for a license, under the Banks and Trust Companies Regulation Act, 2000? If so, give particulars.

.....

7. Of which bodies corporate other than the institution and those listed in reply to question 6, above, have you been a director or an executive officer at any time during the past 10 years. Give relevant dates.

.....

8. Do any of the bodies corporate listed in reply to questions 5, 6, and 7, above, maintain a business relationship with the institution? If so, give particulars.

.....

9. Do you hold or have you ever held or applied for a license or equivalent authorization to conduct any business activity in the Commonwealth of The Bahamas or elsewhere? If so, give particulars. If any such application was refused or withdrawn after it was made or if any authorization was revoked, give particulars.



.....

10. Does any body corporate with which you are, or have been, associated as a director or executive officer hold, or has it ever held or applied for, a license or equivalent authorization to conduct any business activity in the Commonwealth of The Bahamas or elsewhere? If so, give particulars. If any such application was refused, or was withdrawn after it was made or if any authorization was revoked, give particulars.

.....

11. Have you at any time been convicted of any offence, excluding –

- i. any minor offence committed when you were under 18 years of age, unless the same offence was committed within the last 10 years; or,
- ii. any minor road traffic offence?

If so, give particulars of the court by which you were convicted, the offence, the penalty imposed and the date of conviction.

.....

12. Have you, in The Bahamas or elsewhere, been censured, disciplined, warned as to future conduct, or made the subject of a court order at the instigation of any regulatory authority or any professional body to which you belong or belonged, or have you ever held a practicing certificate subject to conditions? If so, give particulars.

.....

13. Have you, or has any body corporate, partnership, or unincorporated institution with which you are, or have been, associated as a director or executive officer, been the subject of an investigation, in The Bahamas or elsewhere, by or at the instigation of a government department or agency, professional association, or other regulatory body? If so, give particulars.

.....

14. Have you, in The Bahamas or elsewhere, been dismissed from any office or employment, or been subject to disciplinary proceedings by your employer or been barred from entry to any profession or occupation? If so, give particulars.

.....

15. Have you failed to satisfy any debt adjudged due and payable by you, as a judgment under an order of a court, in The Bahamas or elsewhere, or made any compromise arrangement with your creditors within the past 10 years? If so, give particulars.

.....

16. Have you ever been declared insolvent (either provisionally or finally) by a court, in The Bahamas or elsewhere, or has a bankruptcy petition ever been served on you? If so, give particulars.

.....

17. Have you, in connection with the formation or management of any body corporate, partnership or unincorporated institution, been adjudged by a court, in The Bahamas or elsewhere, civilly liable for any fraud, misfeasance, or other misconduct by you towards such a body or company or towards any members thereof? If so, give particulars.

.....

18. Has any body corporate, partnership, or unincorporated institution with which you were associated as a director or executive officer, in The Bahamas or elsewhere, been wound up, made subject to an administration order, otherwise made any compromise or arrangement with its creditors or ceased trading, while you were associated therewith, or has anything analogous to any of these events occurred under the laws of any other jurisdiction? If so, give particulars.

.....

19. Have you been concerned with the management or conduct of the affairs of any institution that, by reason of any matter relating to a time when you were so concerned, has been censured, warned as to future conduct, disciplined, or made the subject of a court order at the instigation of any regulatory authority, in The Bahamas or elsewhere? If so, give particulars.

.....

20. In carrying out your duties will you be acting on the directions or instructions of any other individual or institution? If so, give particulars.

.....

21. Do you, or does any related party of whom you are aware, currently or prospectively plan to undertake business with this institution? If so, give particulars.

.....

22. How many shares in the institution are or will be registered in your name or the name of a related party? If applicable, give name(s) in which such shares are registered and the number and class of shares.

.....

23. In how many shares in the institution (not being registered in your name or that of a related party) are related parties beneficially interested?

.....

24. Do you, or does any related party, hold or plan to hold any shares in the institution as trustee or nominee? If so, give particulars.

.....

25. Are any of the shares in the institution mentioned in reply to

questions 22, 23, and 24, above, equitably or legally charged or pledged to any party? If so, give particulars.

.....

26. What proportion of the voting power at any general meeting of the institution (or of another body corporate of which it is a subsidiary) are you or any related party entitled to exercise control?

.....

27. If the exercise of the voting power at any general meeting of the institution, or of another body corporate of which it is a subsidiary, is or may be controlled by one or more of your associates or any related party, give the proportion of the voting power so controlled in each case and the identity of each associate.

.....

28. Are you currently, or do you expect to be, other than in a professional capacity, engaged in any litigation in The Bahamas or elsewhere? If so, give particulars.

.....

29. Do you, at all times while acting in your capacity as a director or executive officer of the institution, undertake to:

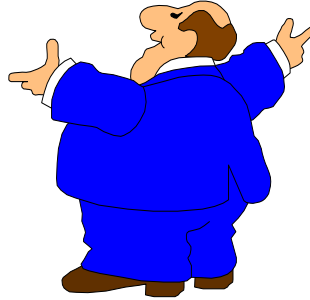
- Act in good faith towards the institution;
- Avoid conflict between your other interests and the interests of the institution; and,
- Place the interests of the institution and its clients above all other interests?

.....

30. Have you acquainted yourself with, and do you understand, the extent of the rights and powers, as well as your responsibilities and duties, as a director of the institution, as contained in the applicable law, regulations, and guidelines? (To be completed only by prospective directors.)

.....

DECLARATION



I,  
....., hereby declare the  
following:

This statement consists of.....pages, each signed by me.  
The content of this declaration is true to the best of my knowledge  
and belief. I am aware that should I knowingly or intentionally  
supply false or misleading information herein, I may be liable to  
prosecution.

I undertake that, as long as I continue to be a director or  
executive officer of the institution, I will notify the Inspector of  
Banks and Trust Companies of any material changes to or  
affecting the completeness or accuracy of the information  
supplied by me as soon as possible, but in no event later than 21  
days from the day that the changes come to my attention.

I know and understand the content of this declaration.

..... SIGNATURE

..... DATE

I certify that the above statement was taken by me and that the deponent has acknowledged that he/she knows and understands the content of this statement. This statement was signed in my presence at:

..... on this .....  
day

of ..... (mm/yy)

.....  
Justice of the Peace/Notary Public