Banking Regulation & Policy Department Bangladesh Bank Head Office <u>Dhaka</u>

BRPD Circular No. 11

27 October, 2013 Date: ------12 Kartik, 1420

Chairman, Board of Directors/CEO All banks incorporated in Bangladesh.

Dear Sir:

Formation & Responsibilities of Board of Directors of a Bank Company.

Board of Directors of a bank should be comprised with competent and professionally skilled persons with a view to formulating policy-guidelines and supervising business activities o0f the bank efficiently as well as ensuring good governance in the bank management. The responsibilities of the board of directors of a bank-company are more important than those of other companies; because in case of a bank-company it is essential to earn and maintain confidence of the depositors as its business is mainly run with the depositors' money. The following directors, their duties & responsibilities and other related activities:

1. Formation of Board of Directors:

The newly amended Section 15 of the Bank Company Act, 1991 (Amended upto 2013) includes provisions for prior approval of Bangladesh Bank before the appointment of new bank directors, as well as dismissal, termination or removal of any director from the post; director's fit & proper criteria; maximum number of directors; appointment of independent directors; appointment of maximum 2(two) members from a family as director; etc.

1.1. Appointment of New directors:

Under section 15(4) of the Bank Company Act, 1991 (amended upto 2013), every banking company, other than specialized banks, at the time of taking prior approval from Bangladesh Bank for appointing/reappointing directors should furnish the following documents along with the application:

- a) Personal information of the nominated person (Appendix-ka);
- **b**) Nominated person's declaration(Appendix-kha);
- c) 'Declaration for confidentiality' by the nominated person(Appendix-ga);

- **d**) In case of Independent director, the approval letter from Security and Exchange commission;
- e) In case of Independent director, a declaration of the directors concern as Appendix-gha (he will also submit declaration under Appendix-ka, kha & ga);
- f) CIB report of the nominated person;
- g) Updated list of the directors.

1.2. Vacation of office of Director:

- a) The office of director shall be vacated according to the instructions specified in section 108(1) of the Companies Act, 1994. Besides, when a bank director becomes defaulter and does not repay the loan within two months after getting a notice under the section 17 of the Bank Company Act, 1991; provides false statement at the time of appointment; or fails to fulfil the minimum eligibility criteria, the office of the director will be vacated.
- b) If the office of a director is vacated by a notice under the section 17 of BCA, the person will not be eligible to become a director of the bank or any other bank or any financial institution for one year from the date of repayment of the total amount due to the bank. It is mentionable here that the dues can be adjusted with the shares held by the director in that bank. When a director receives a notice under section 17 of BCA, 1991, he/she can't transfer his/her shares of that bank until he/she repays all the liabilities of the noticed bank or financial institution.
- c) Besides, Bangladesh Bank can remove a director or chairman of a bank, except state owned banks, for conducting any kind of activities that is detrimental to the interest of the banks depositors or against the public interest under Section 46 and can supersede the board of a banking company under Section 47 of BCA, 1991.

1.3. Removal of Directors from office:

According to section 108(2) of the Companies Act, 1994, with the prior approval of Bangladesh Bank, a bank director other than specialized banks can be removed from his office for the reason specified in its Articles of Association. For this purpose, the reason and grounds of the dismissal/removal and copy of the decision of the board and list of directors should be submitted to Bangladesh Bank. In this case, the removal will be effective from the date of Bangladesh Bank's approval.

1.4. <u>Appointment of Alternate Director:</u>

Subject to compliance of section 101 of the Companies Act, 1994, an alternate director can be appointed to act for a director during his absence for a continuous period of not less than three months from Bangladesh. In this context, the following instructions should be followed:

a) Bank has to collect and properly maintain the documentary evidences relating to departure and arrival of the original director. If there is any exception, the chief executive officer should immediately inform it to Bangladesh Bank.

- **b**) The copy of the decision of the board regarding appointment of alternate director, with original director's probable returning date from abroad should be sent to Bangladesh Bank within 7 days of taking the decision and the director's arrival date must be intimated to Bangladesh Bank immediately after his return.
- c) Any loan defaulter or any person who is not eligible to become a director as per any rules & regulation will not be appointed as an alternate director.
- **d**) As appointment of alternate director is a temporary measure; therefore, he/she will not be included in any kind of committee constituted by the board.
- e) While in the office, an alternate director or his/her affiliated organization will not get any kind of loan facilities from his bank. In case of previous loan, enhancement of limit or extension of time period or any kind of exemption or interest waiver will not be allowed. Moreover, all restrictions applicable to directors according to rules & regulations will also be applicable to the alternate director.

2. <u>Depositor Director:</u>

As the previous provisions regarding appointment of Depositor Directors of the Bank Company Act, 1991 has been amended; appointment of director from depositors is no longer required. But, after complying regulation under sec 15(9) of the Bank Company Act, 1991 (amended upto 2013) bank can consider the tenure of existing depositor director or may appoint them as independent director.

3. Information regarding Directors:

Banks are advised to take the following steps regarding director information:

- a) Every bank should keep an updated list of bank directors,
- **b**) Banks should send a directors' list to other banks or financial institutions immediately after the appointment or release of director.
- c) Banks should display a list of directors in the website and update it on a regular basis.

4. <u>Responsibilities of the Board of Directors:</u>

To ensure good governance in the bank management it is essential to have specific demarcation of responsibilities and authorities among controlling bodies over bank affairs. In the Bank Company Act, 1991 (amended upto 2013) the newly included Section 15(kha) & (ga) give responsibility to the board of directors for establishing policies for the bank company, for risk management, internal controls, internal audit and compliance and for ensuring their implementation.

4.1. <u>Responsibilities and Authorities of the Board of Directors:</u>

a) <u>Work-planning and strategic management:</u>

- i. The board shall determine the objectives and goals and to this end shall chalk out strategies and work-plans on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objectives and goals and in the issues relating to structural change and reformation for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor, at quarterly rests, the development of implementation of the work-plans.
- ii. The board shall have its analytical review incorporated in the Annual Report as regards to the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/ recommendations on future plans and strategies. It shall set the Key Performance Indicators (KPIs) for the CEO & officers immediate two tiers below the CEO, and have it evaluated from time to time.

b) Credit and risk management:

- **i.** The policies, strategies, procedures etc. in respect of appraisal of loan/investment proposal, sanction, disbursement, recovery, reschedule and write-off thereof shall be made with the board's approval under the purview of the existing laws, rules and regulations. The board shall specifically distribute the power of sanction of loan/investment and such distribution should desirably be made among the CEO and his subordinate executives as much as possible. No director, however, shall interfere, direct or indirect, into the process of loan approval.
- **ii.** The board shall frame policies for risk management and get them complied with and shall monitor the compliance at quarterly rests and review the concerned report of the risk management team and shall compile in the minutes of the board meeting. The board shall monitor the compliance of the guidelines of Bangladesh Bank regarding key risk management.

c) <u>Internal control management:</u>

The board shall be vigilant on the internal control system of the bank in order to attain and maintain satisfactory qualitative standard of its loan/investment portfolio. The board will establish such an internal control system so that the internal audit process can be conducted independently from the management. It shall review the reports submitted by its audit committee at quarterly rests regarding compliance of recommendations made in internal and external audit reports and the Bangladesh Bank inspection reports.

d) <u>Human resources management and development:</u>

- i. Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resources development etc. and service rules shall be framed and approved by the board. The chairman or the directors shall in no way involve themselves or interfere into or influence over any administrative affairs including recruitment, promotion, transfer and disciplinary measures as executed under the set service rules. No member of the board of directors shall be included in the selection committees for recruitment and promotion to different levels. Recruitment, promotion, transfer & punishment of the officers immediate two tiers below the CEO shall, however, rest upon the board. Such recruitment and promotion shall have to be carried out complying with the service rules i.e., policies for recruitment and promotion.
- **ii.** The board shall focus its special attention to the development of skills of bank's staff in different fields of its business activities including prudent appraisal of loan/investment proposals, and to the adoption of modern electronic and information technologies and the introduction of effective Management Information System (MIS). The board shall get these programmes incorporated in its annual work plan.
- **iii.** The board will compose Code of Ethics for every tier and they will follow it properly. The board will promote healthy c`ode of conducts for developing a compliance culture.

e) <u>Financial management:</u>

- i. The annual budget and the statutory financial statements shall be finalized with the approval of the board. It shall at quarterly rests review/monitor the positions in respect of bank's income, expenditure, liquidity, non-performing asset, capital base and adequacy, maintenance of loan loss provision and steps taken for recovery of defaulted loans including legal measures.
- **ii.** The board shall frame the policies and procedures for bank's purchase and procurement activities and shall accordingly approve the distribution of power for making such expenditures. The maximum possible delegation of such power of expenditures shall rest on the CEO and his subordinates. The decision on matters relating to infrastructure development and purchase of land, building, vehicles etc. for the purpose of bank's business shall, however, be adopted with the approval of the board.
- **iii.** The board will review whether an Asset-Liability Committee (ALCO) has been formed and it is working according to Bangladesh Bank guidelines.

f) Appointment of Chief Executive Officer (CEO):

In order to strengthen the financial base of the bank and obtain confidence of the depositors, one of the major responsibilities of the board of directors is to appoint an honest, efficient, experienced and suitable CEO or Managing Director. The Board of directors will appoint a suitable CEO with the approval of the Bangladesh Bank.

g) Other responsibilities of the Board:

The board should follow and comply with the responsibilities assigned by Bangladesh Bank.

4.2. Meeting of Board:

Board of directors may meet once or more than once in a month if necessary. But Board of directors shall meet at least once in every three months. Excessive meetings are discouraged.

4.3. <u>Responsibilities of the Chairman of the Board of Directors:</u>

- a) As the chairman of the board of directors or chairman of any committee formed by the board or any director does not personally possess the jurisdiction to apply policy making or executive authority, he/she shall not participate in or interfere into the administrative or operational and routine affairs of the bank.
- **b**) The chairman may conduct on-site inspection of any bank-branch or financing activities under the purview of the oversight responsibilities of the board. He may call for any information relating to bank's operation or ask for investigation into any such affairs; he may submit such information or investigation report to the meeting of the board or the executive committee and if deemed necessary, with the approval of the board, he shall effect necessary action thereon in accordance with the set rules through the CEO. However, any complaint against the CEO shall have to be apprised to Bangladesh Bank through the board along with the statement of the CEO.
- c) The chairman may be offered an office-room, a personal secretary/assistant, one peon/MLSS, one telephone at the office, one mobile phone to use inside the country and a vehicle in the business-interest of the bank subject to the approval of the board.

5. Formation of committees from the Board of Directors:

Each bank company can form 1(one) executive committee, 1(one) audit committee and 1(one) risk management committee with the directors. Board can't form any other permanent, temporary or sub- committee except the above mentioned three committees.

5.1. Executive committee:

Executive committee should be formed with the members of the board to continue the urgent and daily or routine works between the intervals of two board meetings. Executive committee will perform according to their terms of reference determined by the board of directors.

a) Organizational structure:

- i. Members of the committee will be nominated by the board of directors from themselves;
- ii. The executive committee will comprise of maximum 07 (seven) members;
- iii. Members may be appointed for a 03 (three)-year term of office;
- iv. Chairman of the Board of Directors can be the chairman of executive committee;
- v. Company secretary of the bank will be the secretary of the executive committee.

b) **Qualifications of the Members:**

- i. Integrity, dedication, and opportunity to spare time in the functions of committee will have to be considered while nominating a director to the committee;
- ii. Each member should be capable of making valuable and effective contributions in the functioning of the committee;
- iii. To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks.

c) <u>Roles and Responsibilities of the Executive Committee:</u>

- i. The executive committee can decide or can act in those cases as instructed by the Board of directors that are not specifically assigned on full board through the Bank Company Act, 1991 and other laws and regulations.
- ii. The executive committee can take all necessary decision or can approve cases within power delegated by the board of directors.
- iii. All decisions taken in the executive committee should be ratified in the next board meeting.

d) <u>Meetings</u>

i. The executive committee can sit any time as it may deem fit.

- ii. The committee may invite Chief Executive Officer, Head of internal audit or any other Officer to its meetings, if it deems necessary;
- iii. To ensure active participation and contribution by the members, a detailed memorandum should be distributed to committee members well in advance before each meeting;
- iv. All decisions/observations of the committee should be noted in minutes.

5.2. Audit Committee:

The board will approve the objectives, strategies and overall business plans of the bank and the audit committee will assist the board in fulfilling its oversight responsibilities. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the bank's process for monitoring compliance with laws and regulations and its own code of business conduct.

a) Organizational structure:

- **i.** Members of the committee will be nominated by the board of directors from the directors;
- **ii.** The audit committee will comprise of maximum 05 (five) members, with minimum 2 (two) independent director;
- **iii.** Audit committee will comprise with directors who are not executive committee members;
- iv. Members may be appointed for a 03 (three) year term of office;
- v. Company secretary of the bank will be the secretary of the audit committee.

b) **Qualifications of the Member:**

- **i.** Integrity, dedication, and opportunity to spare time in the functions of committee will have to be considered while nominating a director to the committee ;
- **ii.** Each member should be capable of making valuable and effective contributions in the functioning of the committee;
- **iii.** To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks.
- **iv.** Professionally Experienced persons in banking/financial institutions specially having educational qualification in Finance, Banking, Management, Economics, Accounting will get preference in forming the committee.

c) <u>Roles and Responsibilities of the Audit Committee</u>

(i) Internal Control:

- 1. Evaluate whether management is setting the appropriate compliance culture by communicating the importance of internal control and the management of risk and ensuring that all employees have clear understanding of their roles and responsibilities;
- 2. Review management's actions in building computerization of the bank and its applications and bank's Management Information System (MIS);
- 3. Consider whether internal control strategies recommended by internal and external auditors have been implemented by the management;
- 4. Consider reports relating to fraud, forgery, deficiencies in internal control or other similar issues detected by internal and external auditors and inspectors of the regulatory authority and place it before the board after reviewing whether necessary corrective measures have been taken by the management.

(ii) **<u>Financial Reporting:</u>**

- 1. Audit committee will check whether the financial statements reflect the complete and concrete information and determine whether the statements are prepared according to existing rules & regulations and standards enforced in the country and as per relevant prescribed accounting standards set by Bangladesh Bank;
- 2. Discuss with management and the external auditors to review the financial statements before its finalization.

(iii) Internal Audit:

- 1. Audit committee will monitor whether internal audit working independently from the management.
- 2. Review the activities of the internal audit and the organizational structure and ensure that no unjustified restriction or limitation hinders the internal audit process;
- 3. Examine the efficiency and effectiveness of internal audit function;
- 4. Examine whether the findings and recommendations made by the internal auditors are duly considered by the management or not.

(iv) External Audit

- 1. Review the performance of the external auditors and their audit reports;
- 2. Examine whether the findings and recommendations made by the external auditors are duly considered by the management or not.

3. Make recommendations to the board regarding the appointment of the external auditors.

(v) <u>Compliance with existing laws and Regulations:</u>

Review whether the laws and regulations framed by the regulatory authorities (central bank and other bodies) and internal regulations approved by the board are being complied with.

(vi) Other Responsibilities:

- 1. Submit compliance report to the board on quarterly basis on regularization of the omission, fraud and forgeries and other irregularities detected by the internal and external auditors and inspectors of regulatory authorities;
- 2. External and internal auditors will submit their related assessment report, if the committee solicit;
- 3. Perform other oversight functions as desired by the Board of Directors and evaluate the committee's own performance on a regular basis.

d) <u>Meetings:</u>

- 1. The audit committee should hold at least 4 meetings in a year and it can sit any time as it may deems fit;
- 2. The committee may invite Chief Executive Officer, Head of internal audit or any other Officer to its meetings, if it deems necessary;
- 3. To ensure active participation and contribution by the members, a detailed memorandum should be distributed to committee members well in advance before each meeting;
- 4. All decisions/observations of the committee should be noted in minutes.

5.3. Risk Management Committee:

To play an effective role in mitigating impending risks arising out from strategies and policies formulated by the Board and to carry out the responsibilities efficiently, a risk management committee will be formed. After identifying and assessing several risk factors like credit risks, foreign exchange risks, internal control and compliance risks, money laundering risks, information and communication risks, management risks, interest risks, liquidity risks etc.; the risk management committee will scrutinize whether appropriate risk management measures are being put in place and applied and whether adequate capital and provision is being maintained against the risks identified.

a) **Organizational Structure:**

- 1. Members of the committee will be nominated by the board of directors from themselves;
- 2. The Risk Management Committee will comprise of maximum 05 (five) members;
- 3. Members may be appointed for a 03 (three) year term of office;
- 4. Company secretary of the bank will be the secretary of the Risk Management Committee.

b) **Qualifications of the Member:**

- 1. Integrity, dedication, and opportunity to spare time in the functions of committee will have to be considered while nominating a director to the committee;
- 2. Each member should be capable of making valuable and effective contributions in the functioning of the committee;
- 3. To perform his or her role effectively each committee member should have adequate understanding of the detailed responsibilities of the committee membership as well as the bank's business, operations and its risks.

c) Roles and Responsibilities of the Risk Management Committee:

i) <u>Risk identification & control policy :</u>

Formulation and implementation of appropriate strategies for risk assessment and its control is the responsibility of Risk Management Committee. Risk Management Committee will monitor risk management policies & methods and amend it if necessary. The committee will review the risk management process to ensure effective prevention and control measures.

ii) <u>Construction of organizational structure:</u>

The responsibility of Risk Management Committee is to ensure an adequate organizational structure for managing risk within the bank. The Risk Management Committee will supervise formation of separate management level committees and monitor their activities for the compliance of instructions of lending risk, foreign exchange transaction risk, internal control & compliance risk, money laundering risk, information & communication risk including other risk related guidelines.

iii) Analysis and approval of Risk Management policy:

Risk management policies & guidelines of the bank should be reviewed annually by the committee. The committee will propose amendments if necessary and send it to the Board of

Directors for their approval. Besides, other limits including lending limit should be reviewed at least once annually and should be amended, if necessary.

iv) Storage of data & Reporting system:

Adequate record keeping & reporting system developed by the bank management will be approved by the risk management committee. The committee will ensure proper use of the system. The committee will minute its proposal, suggestions & summary in a specific format & inform the Board of Directors.

v) Monitoring the implementation of overall Risk Management Policy:

Risk Management Committee will monitor proper implementation of overall risk management policies. They will monitor whether proper steps have been taken to mitigate all risks including lending risk, market risk, and management risk.

vi) Other responsibilities:

- 1. Committee's decision and suggestions should be submitted to the Board of Directors quarterly in short form;
- 2. Comply instructions issued time to time by the controlling body;
- 3. Internal & external auditor will submit respective evaluation report whenever required by the committee.

d) <u>Meetings:</u>

- 1. The risk management committee should hold at least 4 meetings in a year and it can sit any time as it may deems fit;
- 2. The committee may invite Chief Executive Officer, Chief Risk Officer and any other Officer to its meetings, if it deems necessary;
- 3. To ensure active participation and contribution by the members, a detailed memorandum should be distributed to committee members well in advance before each meeting;
- 4. All decisions/observations of the committee should be noted in minutes.

6. <u>Training for the Directors:</u>

The directors shall make themselves fully aware of the banking laws and other related rules and regulations for performing his duties properly.

- 7. This Circular has been issued for compliance of section 15, 15kha and 15ga of Banking Companies Act, 1991(amended upto 2013). The Chief Executive Officer will inform about this circular to the directors and other related persons.
- **8.** This Circular is issued with immediate effect. After this circular becomes effective, BRPD Circular Letter no.12, Dated :23 December 2002, BRPD Circular Letter no.12, Dated :10 June 2003, BRPD Circular no.11, Dated :5 November 2007, BRPD Circular Letter no.10, Dated :23 July 2008 & attached Notification No: BRPD(R-1)717/2008-462, dated :22 July 2008, BRPD Circular no.12, Dated :18 August 2008, BRPD Circular no.5, Dated :28 January 2010, BRPD Circular no.6, Dated :4 February 2010, BRPD Circular Letter no.2, Dated : 15 February 2010, BRPD Circular no.14, Dated :22 April 2010 & BRPD Circular Letter no.8, Dated :19 June 2011 will be treated as void.

Yours faithfully,

format

(Saiful Islam) Deputy General Manager Phone :9530155

Annexure-A

Information regarding Proposed Director

2. Father' s Name	:		
3. Mother's Name	:		
4. Nationality	:		
5.(a) Date of Birth	:	(b) Date of Place	:
6.Address : (a) Permanent Address	(With Telephone No.):	(b) Present Address (With Telep	bhone No.):
7. National ID No.		8. Tax Identification No.	:
9. Marital Status	:	(a) If married, Spouse's Name	:
(b) Spouse's Occupatio	n:	(c) Spouse's Nationality	:

10. Near Relatives (Father-Mother, Brother-Sister, Children and dependents):

Name	Relation	Date of Birth	Name and Address of Other Banks/Financial Institutions, If hold the office of a Director.

11. Educational Qualification: Education:	(a) Institutional Education:	(b) Professional/Technical
	(c) Training/Seminar :	
12. Present Occupation: (a) Na	ume and Address of Institution:	(b) Nature of Business:
(c) Jo	b Title:	(d) Telephone No.:

13. Experience (Minimum 10 years) :

1. Name

Name and Address of Organizations	Date of Engagement	Position Held	Responsibilities

14. <u>Name of institutions where appointed as Director or holds shares 10% or more:</u>

Name and Address of institutions	Status (Director/Shareholder)	Nature of Organization (Public/Private)	Nature of Business	Percentages of Shareholding (%)

15. Date of First Appointment as Director:

16. Date of Last Re-Appointment :

17. Interval (As per section 15Ka Ka (2) of the Bank Company Act. 1991):

18. Whether availing any loan from any Bank or Financial Institution or any other sources? (Y/N) If yes specify their name and amount of outstanding :

Signature: Name : Dated :

Letter of Declaration

 I do hereby declare that I am eligible to become a director of a bank company as per Fit and Proper Test criteria of Section 15(6) and other sections of the Bank Company Act, 1991 (amended upto 2013) as well as BRPD Circular No. 11 dated 27 October 2013. I further declare that-

(i) I have management or business or professional experience for at least 10 (ten) years;

(ii) I have not been and was not convicted by any court in any criminal offence or involved in any fraud/forgery, financial crime or other illegal activities.

(iii) There is no adverse observations/comments against me in verdict of the court of any Civil/Criminal case.

(iv) I have not been convicted in regard to contravention of rules, regulations or discipline of the regulatory authorities of financial sector.

(v) I have not been involved with any Company/firm whose registration/license has been cancelled.

(vi)There are no loans taken by me or my allied concern from any bank or financial institution that have become defaulted.

- (vii) I have not been adjudicated a bankrupt by a court.
- (vii) I am not a director of any bank company or financial institution.

(ix) I have never been removed from any company, specially from any bank or financial institution as Chief Executive, Chairman or Director.

- (x) I am not a defaulter of tax for myself or for sole proprietorship or partnership.
- 2) I also declare, according to the section 93 of the Companies Act, 1994, that if I am appointed as director of ------ Bank Limited, I agree to discharge my duties.

Signature	:
Date	:
Name	:

Witness:

1.		
	Signature	:
	Date	:
	Name	:
2.		
	Signature	:
	Date	:
	Name	:

DECLARATION OF SECRECY

I, undersigned, hereby declare that if I am appointed as director ofBank Ltd, any case or documents presented for my consideration or any kind of information come to my knowledge in the course of my duties I will not disclose it directly or indirectly to any person. Unless for performing my duties or instructed by the rules & regulation of the country or authorised by the bank's board to do so.

Signature	:
Date	:
Name	:

Witness:

1.

2.

Signature Date Name	::
Signature Date	:
Name	:

Annexure-Gha

Declaration of Proposed Independent Director

I, undersigned, hereby declare that I am not connected with the management ofBank Ltd, and don't hold any share of that bank. Moreover, I declare that I am not connected or will not be connected with the bank or with any bank related person in real interest or visible interest at present, past or in future.

Signature	:
Date	:
Name	:

Witness:

1.

2.

Signature Date Name	::
Signature Date	:

:

Name