Research Monograph 60
2022

# Board, Chief Executive Officer and Performance of Banks in Bangladesh

**Mohammad Mohiuddin Siddique**
*Professor, BIBM*

**Md. Alamgir**
*Associate Professor, BIBM*

**Mohammad Tazul Islam, Ph.D.**
*Associate Professor, BIBM*

**Tanweer Mehdee**
*Assistant Professor, BIBM*

**Mohammed Mohi Uddin, Ph.D.**
*Assistant Professor, University of Illinois, Springfield*
*United States of America*

**Iftekhar Ahmed Robin, Ph.D.**
*Deputy General Manager, Bangladesh Bank*

Bangladesh Institute of Bank Management (BIBM)
Section No. 2, Mirpur, Dhaka-1216

RESEARCH MONOGRAPH 60

# Board, Chief Executive Officer and Performance of Banks in Bangladesh


**Mohammad Mohiuddin Siddique**
*Professor, BIBM*

**Md. Alamgir**
*Associate Professor, BIBM*

**Mohammad Tazul Islam, Ph.D.**
*Associate Professor, BIBM*

**Tanweer Mehdee**
*Assistant Professor, BIBM*

**Mohammed Mohi Uddin, Ph.D.**
*Assistant Professor, University of Illinois, Springfield*
*United States of America*

**Iftekhar Ahmed Robin, Ph.D.**
*Deputy General Manager, Bangladesh Bank*



**BANGLADESH INSTITUTE OF BANK MANAGEMENT (BIBM)**
Dhaka, Bangladesh

# Board, Chief Executive Officer and Performance of Banks in Bangladesh


**Research Team**

**Mohammad Mohiuddin Siddique**
**Md. Alamgir**
**Mohammad Tazul Islam, Ph.D.**
**Tanweer Mehdee**
**Mohammed Mohi Uddin, Ph.D.**
**Iftekhar Ahmed Robin, Ph.D.**

**Editors**

**Prof. Barkat-e-Khuda, Ph.D.**
*Dr. Muzaffer Ahmad Chair Professor, BIBM*
**Ashraf Al Mamun, Ph.D.**
*Associate Professor and Director (Research, Development & Consultancy), BIBM*

**Associate Editor**

**Md. Shahid Ullah, Ph.D.**
*Associate Professor, BIBM*

**Support Team**

**Md. Al-Mamun Khan,** *Publications-cum-Public Relations Officer, BIBM*
**Papon Tabassum,** *Research Officer, BIBM*
**Sk. Md. Azizur Rahman,** *Research Assistant, BIBM*
**Md. Awalad Hossain,** *Computer Operator, BIBM*
**Md. Morshadur Rahman,** *Proof Reader, BIBM*

**Design & Illustration** **Sk. Md. Azizur Rahman,** *Research Assistant, BIBM*



**Published in** March, 2022

**Published by** Bangladesh Institute of Bank Management (BIBM)
Plot No. 4, Main Road No. 1 (South), Section No. 2
Mirpur, Dhaka-1216, Bangladesh.
PABX : 88-02-48032091-4, 88-02-48032097-8, 48032104
E-mail : bibmresearch@bibm.org.bd
Web : www.bibm.org.bd





**Printed by.........................................................**

# Foreword

As a part of the ongoing dissemination of BIBM research output, the present research monograph contains the findings of the research project: “Board, Chief Executive Officer and Performance of Banks in Bangladesh”. The study was conducted in 2020-21 and the paper was presented in a seminar held in December 2021.

BIBM publishes all of its research outcome in different titles depending on the nature of the report. The present research monograph contains the finding of the research project: “Board, Chief Executive Officer and Performance of Banks in Bangladesh”. The research team is attempted to examine how the role of board and Chief Executive Officer (CEO) affect performance of banks in Bangladesh, specifically, the research team assess what roles and responsibilities board and CEO play and interplay in board and corporate management of banks; and examines how board and CEO qualifications affect the performance of the banks. It gives me immense satisfaction, on behalf of BIBM, to disseminate this valuable academic resource having significant policy implications to the practitioners of the banks and financial institutions, regulatory agencies, policy makers as well as to the academics and common readers. I hope, this monograph will enrich our understanding the corporate governance in the banking sectors of Bangladesh.

We look forward to get feedback from our esteemed readers on this issue which certainly would help us improving upon our research activities in the years to ahead.

**Md. Akhtaruzzaman, Ph.D.**
Director General, BIBM

Acknowledgement

This research project titled “Board, Chief Executive Officer and Performance of Banks in Bangladesh” has been completed with immense support from numerous individuals and organizations.

We express deep gratitude to Dr. Md. Akhtaruzzaman, honorable Directors General of BIBM for his valuable observations and guidance in finalizing the paper. The suggestions and insights of Professor Dr. Barkat-e-Khuda, Dr. Muzaffer Ahmad Chair Professor of BIBM, were significant at different stages of our research work.

We are thankful to the chief guest, panelists and participants of the seminar for their valuable comments that immensely helped us to improve the quality of the paper. Finally, special thanks to Dr. Ashraf Al Mamun, Associate Professor and Director (Research, Development and Consultancy) of BIBM for directing and mentoring in preparing the final version of this report.

**Mohammad Mohiuddin Siddique**
**Md. Alamgir**
**Mohammad Tazul Islam, Ph.D.**
**Tanweer Mehdee**
**Mohammed Mohi Uddin, Ph.D.**
**Iftekhar Ahmed Robin, Ph.D.**

RESEARCH MONOGRAPH 60

# Board, Chief Executive Officer and Performance of Banks in Bangladesh

# Contents

## List of Tables



## List of Figures

# Acronyms

| | |
|---|---|
| AGM | Annual General Meeting |
| BB | Bangladesh Bank |
| BCB | BASEL Committee on Banking Supervision |
| BOD | Board of Directors |
| BSEC | Bangladesh Securities and Exchange Commission |
| CEOs | Chief Executive Officers |
| ID | Independent Directors |
| GM | General Manager |
| ManCom | Management Committee |
| MD | Managing Director |
| MP | Member of Parliament |
| NPLs | Non-Performing Loans |
| ROA | Return on Assets |

## Executive Summary

The role of the board and the CEO in banks is more critical compared to the manufacturing companies because of the corporate governance structure, mechanism, business nature and ownership structure. The Boards of Directors (BODs) play a pivotal role in ensuring long-term vision and mission statement, strategy and policy formulation of an organization, while the Chief Executive Officers (CEOs) are responsible for corporate management. The separation of board (owners' representation) and management is indeed to maximize the value of the organization. The board basically works as an umpire or watchdog of the corporate management. The effectiveness of corporate directors particularly depends on their qualifications, which ultimately affect the roles they perform. There are instances where CEO of banks accepts board dictates in corporate decision making i.e. loan sanctions, employee selection, promotion and work in favor of the board that runs against the owners and management separation principles of corporate governance. Further, the boards of the state-owned banks in Bangladesh are selected, based on the political affiliation. Although board of the private commercial banks are elected by the shareholder, many Chairmen of the board in private banks are either current Member of Parliament (MP) or former politician of the ruling or opposition party or have very close ties with the ruling political party of the country.

The overall objective of the study was to examine how the role of the board and the CEO affect performance of banks in Bangladesh. The specific objectives of the study are to: i) assess what roles and responsibilities board and CEO play and interplay in board and corporate management of banks; and ii) examine how board and CEO qualifications affect the performance of the banks.

Both secondary and primary data were collected; and this study covered a 10-year period, from 2010 to 2020. A mixed method approach (Creswell & Clark, 2011) with a "Triangulation Design" (Morse, 1991) was used in this research. A mixed method with a "Triangulation Design" combines a Qualitative (QUAL) and Quantitative (QUAN) research approach. A total of 21 intensive interviews were conducted with Chairman of the Board, Directors, Managing Directors/CEO of the banks, and GM of BB to examine the roles and responsibilities of the board and the CEO/MD in board and corporate management of banks. Besides, a semi-structured questionnaire was designed to assess how roles and responsibilities board and CEO play and interplay in board and corporate management of banks. A total of sixty (60) questionnaires were sent to the Board Secretariat Department, but only twenty (20) responses were received and analyzed. Based on the literature survey and Board of Directors (BoD) and MD/CEO background analysis,

the study identified total 12 qualifications factors. A qualification index has been constructed for the Board (i.e. Chairman) and the CEO/MD of the banks. The board (i.e. Chairman) and MD/CEO having the particular qualification have marked as '1' otherwise '0'. Further, the study covers 48 banks to examine the impact of board and CEO/MD qualifications on the performance of banks. The research method is summarized in the following table.

| Research Method | Objectives | No. of Banks/Respondents |
|---|---|---|
| Quantitative Analysis (Regression) | Impact of Board/CEO qualification on Banks' Performance | 48 (excluding Foreign Banks) |
| Interview/Discussion | Board-CEO Interplay | 21 Professionals (CEO, Independent Director, BB Observer, Board Secretary) |
| Semi-structured Questionnaire | Role of the Board and CEO and their functions | 20 banks |

The study found that among bank Chairmen, 58.6 percent were businessmen, 25.7 percent were in adiministrative or bureaucratic service, 9.2 percent were academicians and 6.6 percent were banker. Futher, 66.4 percent Chairman and 21.9 percent CEO/MD of the banks were either Chairman or Director of other organizations. In 2020, the maximum age of the bank Chairman was 90 years and the minimum were 39 years, with 12 bank Chairmen being more than 65 years. The Board (i.e. Chairman) mean qualification index (BQui) of the state-owned banks (0.42) was higher than the private banks (0.28). Although the Chairman qualification index of state-owned banks was higher, the mean ROA of the state-owned banks (-0.34) was lower than the private banks (1.00). On the other hand, the mean qualification index of the CEO/MD (CEOQui) in private banks was higher (0.23) than that in state-owned banks (0.21). The regression results show that Board Qualification (BQui) was positively significant with the performance of bank (ROA), while CEO/MD Qualification (CEOQui) had insignificant impact (Model-2) on the performance of the private commercial banks. The interaction between board qualification and CEO/MD qualification (BQuiX CEOQui) was also positively significant with the performance of banks. Although the CEO/MD qualifications have insignificant impact, the mix of board and CEO/MD qualification improves private banks performance significantly. On the other hand, board qualification and MD/CEO qualification have insignificant impact on the performance of state-owned banks in Bangladesh. The interview findings reiterate that boards of the banks intervene directly and indirectly in the operational activities of the MD/CEO of banks in Bangladesh.

# Board, Chief Executive Officer and Performance of Banks in Bangladesh

## 1. Background

### 1.1 Introduction

The Boards of Directors (BODs) play a pivotal role in ensuring long-term vision and mission statement, strategy and policy formulation of an organization, while the Chief Executive Officers (CEOs) are responsible for corporate management. The separation of board (owners' representation) and management is, indeed, to maximize the value of the organization (Refakar and Ravaonorohanta, 2020). The prime roles and responsibilities of the board are to authorize and monitor corporate management activities (Fama and Jensen, 1983). The board basically works as an umpire or watchdog of corporate management. The involvement of the board in corporate management's routine activities would have an adverse effect on the corporate governance norms. Although directors choose CEO for their organizations, their vision and mission must be in line with the company's core business philosophy.

The role of the board and CEO in banks is more critical compared to the manufacturing companies because of differences in corporate governance structure, mechanism, business nature and ownership structure. For example, approximately 98 percent operating capital of banks in Bangladesh comes from the depositors, while only 2 percent comes from the shareholders. Pubali Bank Limited, a private commercial bank in Bangladesh, has BDT. 359418.89 Million as deposit, whereas shareholders' (including board of directors) investment capital is only BDT. 10282.94 Million, which is only 2.86 percent of the total operating capital (deposit) of the bank (Pubali Bank Annual Report, 2019). It shows that board of the bank enjoys more power over the working capital compared to the manufacturing companies which might create conflict of interest. Conflict of interest means board has tiny capital investment in the banks, while they (board) have more power over the operating capital of the banks which often give them more freedom to promote their self-interest by subordinating organizational interest. Further, relaxation of rules and regulations by the regulators might adversely affect governance efficiency, and hence, increase Non-Performing Loans (NPLs). Corporate scandals such as Enron, WorldCom, Samsung, Andhra Bank loan scam in India, Sindh Bank and Summit Bank loan scam in Pakistan and the loan scam of Sonali Bank, BASIC Bank, and Farmers Bank in Bangladesh are a just few notable examples arising from such conflict of interest. Internal governance and external governance factors cannot be isolated for determining the performance of the banks (Klein et al., 2021).

Further, as board (as an agent) represents broad shareholder's (as a principal) interest and wealth maximization of the company, board must be competent enough to exercise their discretion in policy and strategy formulation. The effectiveness of corporate directors particularly depends on their qualifications (Fedaseyeu et al., 2018), which ultimately affect the roles they perform. The recent regulations (2018) of the Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Bank (BB), the Companies Act-1994 and the Bank Companies Act- 1991 specified qualifications, experiences and skills for directors. Similarly, these regulations required 'fit and proper criteria' for the CEO selection of the banks. But, in many cases, the board selects CEOs who are loyal and friendly to the board i.e. the CEOs who faithfully carry out the orders of the board. An example is that of a CEO of a private commercial bank in Bangladesh who changed his name by affidavit as per desire of the Chairman of the board. This example is a deviation of moral code of conduct. There are instances where CEO of banks accepts board dictates in corporate decision making i.e. loan sanctions, employee selection, promotion and work in favor of the board that runs against the owners and management separation principles of corporate governance.

Further, the board of the bank in the state-owned banks in Bangladesh are selected, based on the political affiliation. Although board of the private commercial banks are elected by the shareholder, many Chairmen of the board in private banks are either current Members of Parliament (MP) or former politicians of the ruling or opposition party or have very close ties with the ruling political party of the country. Hence, it is critical to examine empirically whether the board and the CEO's qualification affect the board and corporate management functions and performance of the bank.

### 1.2 Objectives

The overall objective of the study was to examine how the role of board and CEO affect performance of banks in Bangladesh. The specific objectives of the study are to:

i) assess what roles and responsibilities board and CEO play and interplay in board and corporate management of banks; and
ii) examine how board and CEO qualifications affect the performance of the banks.

### 1.3 Section Plan

The study has nine chapters. After explaining background and objectives in Section-1, Section-2 covers literature review and hypothesis development of the study. Research method is discussed in in Section-3 followed by regulatory framework for the bank board and the CEO. Section 5 examines behavioral pattern of the bank directors from Bangladesh perspectives. Section-6 and 7 incorporates interview summary and the questionnaire survey relating to the interplay between the board and the CEO respectively. Regression result are discussed in section-8. The paper finishes with observations, findings and concluding remarks in Section-9.

## 2. Literature Review and Hypothesis Development

The prime roles and responsibilities of the board are to perform oversight and advisory of corporate management activities (Fama & Jensen, 1983; Helland & Sykuta, 2004). The board basically works as an umpire or watchdog of the corporate management. The involvement of the board in the corporate management's routine activities would derail the corporate governance norms. Klein et al. (2021) found that internal and external governance factors cannot be isolated in trying to study overall bank governance. John and Senbet (1998) explained that internal governance mechanism and the board of directors' roles raise various types of conflicts of interest among stakeholders. Adams et al. (2010) explained that the roles of board become the center issue when corporate management is going wrong such as in the case of Worldcom, Enron and Parmalat scandals.

The BASEL Committee on Banking Supervision (BCBs) emphasized on the need to study governance in banks for ensuring strong financial system of a country (Andres & Vallelado, 2008). Banking systems play an essential role in accelerating the economic growth of any country by ensuring mobilization of money and fostering the pursuit of efficient economic activities (Driga & Dura, 2014; Sarker, 2016; Iqbal & Sami, 2017). If a banking sector fails during an economic crisis, then it deepens. For example, the US subprime credit crisis during 2007-2010 led to financial crisis for the entire country (Duca, 2014) which eventually created a worldwide financial crisis and sparked an economic recession. This occurred because modern banking systems are interconnected worldwide. The collapse of the investment bank, Lehman Brothers in the USA, for example, ultimately contributed to banks collapsing in other countries, including in Iceland and the United Kingdom. This banking crisis raised several key questions, including the role of BOD and their conflict of interest within the banking systems that failed to prevent the banking crisis in the first place.

Further, the interventions of the board in the corporate management not only negatively affect the banks' key performance indicators but also raise question of corporate sustainability. The board's key roles include developing vision and mission statement for the bank; putting effort in designing strategy and policy formulation; and monitoring and supervision of the corporate management operations in the banks. According to the prudential guidelines of BB and the Bank Company Act, 1991 (Section 15, Kha and Ga) the roles and responsibilities board of banks includes strategic formulation and working plan; risk management; credit management; internal control and compliance management; HR management and development; and financial management. On the other hand, the roles and responsibilities of MD/CEO include achieving administrative, financial and business targets in line with the business plan; performing operational activities of the banks; adopting the rules and regulations (i.e. The Bank Company Act, 1991; BB circulars and guidelines); reporting to the BB about the violation of the Act and other laws and regulations; and performing the HR operations. Similarly, to the intervention of the corporate management activities by the Board, the MD/CEO involvement to the board roles and responsibilities might degrowth and derail the banks' sustainability. No study has so far been conducted to show how board interplays the corporate management activities and vise-versa. The study is an attempt to find this research gap and hypothesized as follows:

$H_1$: Board of the banks interplays the corporate management roles

Further, what factors determine the role of the BODs of an organization? Earlier studies showed that the role of the board of directors for governance efficiency is determined by their qualification (Fedaseyeu et al., 2018; Andres & Vallelado, 2008), board composition, board independence (John and Senbet, 1998) and regulations (Andres & Vallelado, 2008). BASEL (2015), guidelines stated three principles for governance in banks of which responsibilities of the board (Principle-1), qualifications and composition of the board (Principle-2), structure and practices of the board (Principle-3) are identified to link with the role of the BOD in banks. Following the BCBs and OECD, the recent regulations (2018) of the Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Bank (BB), the Companies Act-1994 and the Bank Companies Act- 1991 require specified qualifications, experiences and skills, responsibilities and disclosures for directors. Similarly, for the Board, specific qualifications, skill set have been specified in the prudential guidelines of BB and the Bank Companies Act, 1991. The study attempted to examine how board qualification as well as MD/CEO qualification affect the performance of banks in Bangladesh. Hence, the following hypothesis have been set –

H2: Board and MD/CEO Qualifications affect the performance of banks
H2a: Board Qualifications affect the performance of banks
H2b: MD/CEO Qualifications affect the performance of banks

## 3. Research Methods

Both secondary and primary data were collected; and this study covered a 11-year period, from 2010 to 2020. Secondary data were collected from the annual reports of banks, different publications, standard practices, framework, laws and regulations particularly prudential guidelines of BB, BASEL guidelines on CG (2015), BSEC guidelines, the BCA 1991 and the Companies Act 1994.

A mixed method approach (Creswell and Clark, 2011) with a "Triangulation Design" (Morse, 1991) was used in this research. A mixed method with a "Triangulation Design" combines a Qualitative (QUAL) and Quantitative (QUAN) research approach (Islam et al., 2021).

### 3.1 Interview

Intensive interviews were conducted with Chairman of the Board, Directors, Managing Directors/CEO of the banks, and GM of BB to examine the roles and responsibilities of board and CEO/MD in board and corporate management of banks. The interviewees' summary is given in Table-3.1. The interviewees were selected purposively including state-owned and private commercial banks.

**Table-3.1: Interviewees**

| Interviewee | Total Interviews |
|---|---|
| Independent Directors | 05 |
| Board Secretary | 03 |
| MD/CEO | 05 |
| Observers | 03 |
| Regulators (BB) | 5 |
| **Total** | **21** |

### 3.2 Questionnaire Survey

Besides the interview, a semi-structured questionnaire (Appendix-I) was designed to assess how roles and responsibilities board and CEO play and interplay in board and corporate management of banks. Total sixty (60) questionnaires have been sent to the Board Secretariat Department of which twenty (20) responses has been received and analyzed.

### 3.3 Empirical Analysis

Based on the literature survey and Board of Directors (BoD) and MD/CEO background analysis, the study identified list of qualifications. The role and behavior of the Chairman has been assumed as a representative of the board. A qualification index was constructed for the Board (i.e. Chairman) and the CEO/MD of the banks. A total of 12 factors of qualification were used for developing this index (Table-3.2). The board (i.e. Chairman) and MD/CEO having the particular qualification were marked as '1' otherwise '0'.

**Table-3.2: Qualifications Mix**

| Sl . | Qualifications Mix |
|---|---|
| 1 | Education (Discipline) |
| 2 | Accounting/ Finance Experience |
| 3 | Management Experience* |
| 4 | Administrative Experience |
| 5 | Political Experience |
| 6 | Military Experience |

| Sl . | Qualifications Mix |
|---|---|
| 7 | Academic experience |
| 8 | Research Experience |
| 9 | Earlier Experience as Director/Chairman of Banks* |
| 10 | Earlier Experience as Director/Chairman other than Banks* |
| 11 | Experience to work in International Organization |
| 12 | Experience to work in different committees of the Government |

**Note**: Education is measured, based on the discipline of education. We marked '1' for the 'Business and Economics' degree, and '0' for the academic discipline. * Considered for the Chairman's Qualification matrix only.

Following regression models were in this study –

$$\text{Performance (ROA)} = \alpha + \beta_1 \text{ BQual} + \beta_2 \text{ BSize} + \beta_3 \text{ RInd} + \beta_4\text{RFemd} + \beta_5\text{RFord} + \beta_6\text{RInstd} + \beta_7\text{LnSize} + \beta_8 \text{ NPL} + \beta_9\text{DEratio} + \beta_{10} \text{ BAge} + \varepsilon_{it} \text{ -------(i)}$$

$$\text{Performance (ROA)} = \alpha + \beta_1 \text{ CEOQui} + \beta_2 \text{ BSize} + \beta_3 \text{ RInd} + \beta_4\text{RFemd} + \beta_5\text{RFord} + \beta_6\text{RInstd} + \beta_7\text{LnSize} + \beta_8 \text{ NPL} + \beta_9\text{DEratio} + \beta_{10} \text{ BAge} + \varepsilon_{it} \text{ ------(ii)}$$

$$\text{Performance (ROA)} = \alpha + \beta_1 \text{ (BQual x CEOQui)} + \beta_2 \text{ BSize} + \beta_3 \text{ RInd} + \beta_4\text{RFemd} + \beta_5\text{RFord} + \beta_6\text{RInstd} + \beta_7\text{LnSize} + \beta_8 \text{ NPL} + \beta_9\text{DEratio} + \beta_{10} \text{ BAge} + \varepsilon_{it} \text{ --------(iii)}$$

Here,

ROA = Return on Assets

BQui = Board Qualification Index

CEOQui = CEO/MD Qualification Index

BQual x CEOQui = Board Qualification Index x CEO/MD Qualification Index

BSize = Board Size

RInd = Independent directors to total directors

RFemd = Female directors to total directors

RFord = Foreign directors to total directors

Rinstd = Institutional directors to total directors

LnSize = Natural Logarithm of Size (Total Assests) of the bank

NPL = Non-Performing Loans (Classified loans to total disbursement);

DEratio = Debt- equity ratio

BAge = Bank's total age of incorporation

Further, the study covered 48 banks (Appendix-VII) to examine the impact of the board and the CEO/MD qualifications on the performance of banks (Table-3.3). The study intentionally excluded the foreign banks because of unavailability of data on corporate governance and major variations of the governance structures of foreign bank.

**Table-3.3: Secondary Data Analysis**

| Bank Category | Population | Sample |
|---|---|---|
| A. State-Owned Banks (SBs) | 06 | 06 |
| B. Specialized Banks | 03 | 01 |
| C. Private Banks | | |
| a) Foreign Banks | 09 | Nil |
| b) Private Banks | 32 | 31 |
| c) Islami Banks | 10 | 10 |
| **Total** | **60** | **48** |

**Source**: Bangladesh Bank Scheduled Bank Statistics, April-June-2021

## 4: Regulatory Framework for the Bank Board and the CEO

The key aspects of the role, responsibilities, and the formation/appointment of the BoD and CEO are generally regulated by different authorities, including the central bank. Ensuring good governance by separating the ownership from the bank management, and effective internal control system, achieving the objectives with prudent risk-return mix are the major motives behind those guidelines. The following discusses the board and CEO related regulations in the local and global context.

### 4.1 Board, and CEO: Local Regulations

#### 4.1.1 Appointment of the Directors

Directors of the state-owned banks are appointed by the Government, following the 'fit and person' criterion as per BB guidelines. However, in the private banks, directors are initially elected in the AGM by the shareholders. However, other than the specialized bank, every bank needs an approval from BB before such appointment. Any director, CEO cannot be dismissed without obtaining prior approval of Bangladesh Bank. The eligibility criteria in respect of appointment of any director, and CEO, including the tenure, age limit is specified in the BCA, 1991 (Amended in 2018; Section-15).

#### 4.1.2 Formation of the Board

The maximum number of directors of a bank can be 20, including a minimum of 2 Independent Directors (ID) if the number of directors is less than 20; and minimum of 3 IDs if the bank has 20 directors. It is also required for a bank to form three (3) committees of the board – these are EC, AC and RMC. The formation, responsibilities, and the qualification of the members are prescribed in BB regulation (Prudential Regulations of BB, 2014). BSEC –the regulator of the capital market issued BSEC Corporate Governance Codes that is relevant for the banks listed in the stock market (Appendix II).

#### 4.1.3 Responsibilities of the Board

The BCA (amended) Act, 2013 assigned the responsibilities of the board for policy formulation, implementation and its compliance in RM, ICC, internal audit. The BoD is given the responsibility of ensuring independence of internal audit functions along with requirement of placing the audit report directly to the AC. In line with the spirit of the Act, BB fixed up more detailed responsibilities relating to the BoD that covers preparing the working plan and strategic management, periodical monitoring of the implementation of the plan, and developing KPI for the MD/CEO and below two tiers of MD/CEO. As regards to *credit management*, the board of the banks should develop all kinds of strategies and polices for credit administration of the bank. The board is required to distribute the power of sanction and distribution of loan/investment among the CEO and the subordinate executives. Directors are forbidden to interfere in any way, either direct or indirect, into the loan approval process. Other major areas of board responsibilities include HR management and its development, internal control, financial management and CEO appointment.

Revised guidelines on credit risk management makes it mandatory to sanction/approve loans on the basis of board' determined delegated authority to senior credit executives based on the executive's experiences and knowledges. To ensure accountability of the loan approval, it is advised to delegate approval authority to individual executives and not to committees (CRM, 2016). However, in the same guideline banks are instructed to approve large loans and loan restructuring in the board and advised to bring complex or unusually high-risk loan in the board for taking decision. According to another circular, large loans[1] sanction, renew or reschedule shall be approved by the BoD for local banks while it will be done by CEO for foreign banks (BRPD Circular 02, 2014).

#### 4.1.4 Responsibilities of the Chairman

Like any director, the chairman of the BoD/Chairman of any committee of the board is not permitted to participate in or interfere into the administrative or operational and routine affairs of the bank. The chairman of the bank can conduct on-site inspection of any branches, can call bank's operation related information, and can investigate any affairs. S/he has to submit the information/investigation report to the board meeting of the bank or EC of the bank. S/he can also ask the CEO to take necessary action after having approval from the board. Complains related to the CEO of the banks have be placed to BB via board of the bank along with the CEO's statement. The chairman will enjoy an office-room with

[1]Large loan means to a single person/counterparty or a group exposure i.e. equal to or greater than 10% of the capital.

a PS and a peon or MLSS. He will also receive office telephone and a mobile phone, along with a vehicle for the bank purpose visits.

#### 4.1.5 Appointment, Role and Responsibilities of the CEO

The qualifications, appointment procedures and responsibilities for the CEO are regulated by Bangladesh Bank. The BoD is given the responsibility of appointing CEO in accordance with the laid down criteria. The MD/ CEO must have graduation degree to be appointed. Emphasis is given for graduation/higher education in Economics, Accounting, Finance and Banking, Management and Business Administration. The candidates having third division/ class in any level of the education are not considered for appointment. The appointed CEO must be within 65 years of age and have at least fifteen (15) years of banking experience with two (2) years below the CEO/MD position. The CEO appointment shall be initially for a minimum of three (3) years.

#### 4.1.6 Insider Loan and Regulatory Responses to Imprudent Behavior of the Directors

Loan facilities to the Directors (except Independent Director/ Government Nominated Director): A director can avail loan from his/her own bank not exceeding 50 percent of shareholding with the bank. Lending decision by the bank in the case of its own director can be made only in the board meeting in the absence of the concerned director during the discussion in the meeting. All loans to the directors, their family members, and any firm connected to the director/family members of the director must be backed by adequate collateral securities. Approval from BB is needed for Tk. 5.00 million (funded) and Tk. 10.00 million or above (funded and non-funded).

#### 4.1.7 Vacation of the Office of the Director

If a bank director (other than the state-owned banks) becomes loan defaulter or fails to act in accordance with the guarantee given by him, the office of the director will be vacated provided that the explanation received from the director in this regard does not satisfy Bangladesh Bank. Once the director's office is vacated, s/he will not be eligible to become a director of any other bank or FIs for next one year from the date of loan repayment. It is noted that his share will be adjusted with the defaulted loan (BCA, 1991). Except for the SOCBs, BB can remove any director/ a number of directors or dissolve the board of the banks to protect the public interest/ depositors' interest, based on the outcome of the opportunity given to the said director(s) to defend themselves.

### 4.2 Board and CEO: Corporate Governance Principles at Global Level

Corporate Governance standard is well covered by the different globally recognized institutions that documents a set of principles for establishing an ideal governance environment. The role, responsibilities, and the expected level of professionalism on the part of the Board mainly have been reflected in those prudential norms. OECD (2015) issued a set of principles known as 'OECD Principles of Corporate Governance' covering seven major areas, viz. actin good faith with due diligence, treating all shareholders equally, maintaining high ethical standards, reviewing and monitoring the effectiveness of the company's governance practices, ability to exercise objective independent judgement, having access to accurate, relevant and timely information, and preparing the employee in case of their presence in the board meeting (Appendix-III).

BIS developed a guideline termed as 'BASEL Guidelines on Corporate Governance' that incorporates 13 principles (BASEL, 2015). Among the principles, four have been stipulated on board. These are the overall responsibilities of the board (Principle-1), composition and qualifications of the board (Principle-2), structure and practices of the board itself (Principle-3) and governance of group structures (Principle-5). Moreover, Principle-5 also applies in case of senior management of the banks (Appendix-IV).

The role of the directors in Internal Control and Compliance (ICC) is highlighted in COSO framework (COSO 2012) (Appendix-V).

## 5. Behavioral Pattern of the Bank Directors: Bangladesh Perspective

The board's key roles include developing vision and mission statement for the bank; putting effort in designing strategy and policy formulation; monitoring and supervision of the corporate management operations in the banks. A number of regulations puts emphasize on the capacity and involvement of the board in key areas of banking (Core Risk Management Guidelines, RBCA Guideline, Bangladesh Bank).

The amount of time spent in attending meeting and examining the meeting agenda, nature of attention given on the performance of the banks considering their opportunity cost of time certainly demands additional remuneration for the directors in addition to their usual return (dividend and capital gain) as shareholders. Generally, two types of returns are associated with the directorship, viz, pecuniary and non-pecuniary. Non-pecuniary benefit such as perks and prestige in the society, accruing to the bank directors are to some extent subjective in nature and thus cannot be measured in monetary terms. The monetary benefit of the bank directors in Bangladesh is limited only to the fee for attending the meeting, although the Chairman is entitled to get a full-time office room decorated with the logistic support, a car, and the continued service of office staff. BB fixes the meeting attendance fee which at the moment is Tk.8000 with a maximum number of two paid meeting per month[2]. In comparison to south Asian and some other developed countries, the remuneration for the bank director in Bangladesh is markedly low. Directors of the public sector banks and private sector banks in India receive Tk.45,000 per meeting and Tk. 1,89000 per month respectively. The director's remuneration in Pakistan and Sri Lanka are per meeting Tk.52,000 and Tk.64,000 respectively. Surprisingly, in developed countries such as USA, Canada, Australia, the monthly salary of the bank directors is more than Tk.10 lac. Fixation of director's remuneration through approved policy by the regulatory body or the board itself is also seen in different countries (Appendix-VI).

Apparent low explicit monetary benefit of the bank directors in the banking sector of Bangladesh, however, needs to be carefully judged against various kinds of indirect/ implicit benefits that accrue to them in many cases. The findings of the study give evidence of manifold advantages of being a bank director. The list includes getting loan approval authority, opportunity to extract benefit by utilizing bank's fund in other business, using the own building/premises for bank branches/ office against rent, gaining access in recruitment, transfer of the bank employees and so on. So, generally, the indirect benefit for a director greatly outweighs the explicit benefit.

The liability, accountability and the possibility of facing punishment for wrongdoings or violations of laws, intentionally or unintentionally, should be considered against the advantages or benefits received from being a director. Since the independence of the country, no bank has so far gone for liquidation. The crisis-ridden banks at different times were saved by the state through bail out policy/ recapitalization for the sake of greater public interest. The purchase and assumption of Oriental Bank by the ICB Islamic bank in 2008 and the major restructuring of Farmers bank in recent period may be cited as examples of willingness on the part of the regulatory authority to allow the distressed banks to continue their business to prevent further loss of public confidence from being liquidated. . The list of the banks that were brought under recapitalization includes a number of state-owned banks. The kind of implicit guarantee by the regulators, however, increases moral hazard for the owners and the bank management. The support extended to the poorly managed bank ultimately provides a sense of security to the directors with an expectation that they will also be saved in future, regardless of the extent of the problem. Regulatory forbearance for the banks in meeting some core requirements such as loan loss provisioning and capital shortfall also increases the moral hazard for the banks. Absence of exemplary punishment of the perpetrators involved with the big scams occurred in few

---

[2]Directors will get maximum BDT 8,000/ per meeting as allowance (15% source Tax applicable); this allowance is applicable for maximum 2 board meetings, 4 EC meetings, 1 AC meeting and 1 RMC meeting in each month.

banks in the last decade, also giving a wrong signal for such potential wrongdoers in the banking industry. The members of the board, to some extent, also remain untouched for their inappropriate role due to not having board performance appraisal/ evaluation system, a mechanism seen in some other countries.

The major functional responsibilities of the board include operational areas such as approval of loan, loan rescheduling and recovery, and human resource management issues. So, the management needs to take the responsibility for suboptimal performance by the bank without any consideration of the possible weaknesses in internal policy or internal control environment. Ideally, all the departments of the Head Office of bank should be periodically/ yearly audited by the Internal Audit team. However, Board Division tends to be the least audited department in our banking industry (Siddique et al., 2019). One of the major roles of the board is to set a strong internal control environment within the organization. The supervisory rating of the banks on internal control and compliance (ICC), one of the six core risks defined by BB, determines the strength of the internal control culture. Hardly any bank had the highest rating (strong) in ICC in the last few years (Siddique et al. 2019).

Merger or acquisition to resolve the acute/persistent nature of problems of a bank has hardly been practiced in our country. The simultaneous presence of a mixture of strong and weak banks in the industry creates room for voluntary merger/acquisition. However, the directors of poor-performing banks are reluctant to go for a merger because of the fear of dilution of authority. Apprehending the possibility of losing the control, directors or boards of poor-performing banks prefer to run a weak bank than to become acquired by another bank (Siddique et al., 2018). The liberal use of bail out policy for maintaining the financial stability along with the absence of harsh punishment for severe corruption creates the opportunity for a director to remain in a favorable position, irrespective of the condition of the bank. So, the observed variation among the banks in terms of quality of corporate culture and corporate governance arises mainly due to qualitative differences in existing corporate governance landscape discussed above.

## 6. Board and CEO Interplays: Interview Summary

The study conducted 21 intensive interviews. Findings from such interviews, however, cannot be generalized for all banks.

### 6.1 Selection of Board Members

The board members are elected by the shareholders in Annual General Meeting (AGM) which has to be approved by BB. However, the board of the private bank is formed by family and friends. The board is mainly controlled by the chairman and his friends. The directors of the bank are selected by the government and they have high political ties and sometimes they have little knowledge about bank management. One DMD of a bank had become director of the same bank. As a result, that DMD, as a director, dictates the activities of MD as well as top high officials of the bank. All of the directors of the banks are employees from an organization which is owned by the family of the Chairman. So, they never participate in any business discussion, rather they participate in many non-business matters such as transfer, personal activities in the board meeting.

### 6.2 Selection of Independent Directors (ID)

Board of the bank basically proposes ID for the banks, which is approved by the BSEC and BB. The study found that IDs are chosen based on the relationship either with the Chairman/Directors or regulators. BB should select and appoint ID in the banks and ID should work objectively. In our country, BB has no Independent Director (ID). If a board selects ID, they will act under the authority of the board. A director nominated by the board remain either silent in the board or work in favor of the board.

### 6.3 No Age limit, KPI and Audit Culture for Board

Although there are restrictions for age limit and KPI for CRO/MD, there is no age limit and KPI for the board of directors of the bank. The board functions also have not been audited by any independent team. The bank has a director whose age is 80 years and another of 90 years. They sleep sometimes while attending the board meeting. There is no auditing culture of the board functions, even no KPI for the directors. Therefore, there is no motivation for the directors to work for the bank. Some banks have checklist for directors' appointment and as per the checklist, the would-be directors' CIB report, court report, NBR report and other regulatory restriction are examined.

### 6.4 Time to Receive Board Agenda and Memos

The board members receive the agenda and memos of the board just one or two days before the board meeting, and thus, it impedes the active and information-based participation of the directors in the board meeting. Even in worst cases, it happens that the directors receive the board agenda and printed memos of 250 pages just on the previous night of the board meeting.

### 6.5 Daisy Financing

Although the laws and regulations prevent the directors from taking loan in excess of a rule-based limit from their own banks, yet they can take loan from the other banks. Directors avail this loophole of regulation by taking loan from other banks by private and confidential arrangement. It is true that if two or three most influential board members support any specific borrower as per their previous connectivity with the borrower, then other board members either extend their support for that particular borrower or remain silent. Thus, the connected part loan is approved.

### 6.6 Decision behind the Board Meeting

The power of the former or founder chairman and director is carried forward to the current board of the bank. Thereby, the former chairman/directors' desire is important for loan approval, employee recruitment, promotion and transfer. Sometime, the former chairman of the bank remains so autocratic that every agenda and minutes of the board are prepared as per direction of the former chairman. So, the current chairman virtually does not have any power to implement his/her own decision but to obey the directions of the former chairman.

### 6.7 Implicit Benefits of the Directors

The directors' direct benefit from the bank is around Tk. 8000 per board meeting – no other benefits are allowed. Though directors' remuneration is low, yet they do not bother about their remuneration. Because by using the title 'Director', they can manage different kinds of businesses in various ways such as printing of the office stationaries from their own business, renting their building at high rate to the bank, supplying office furniture and equipment to the bank at an exorbitant rate, opening branches in their locality to gain popularity etc. Even they influence the recruitment of employees to the bank in exchange for getting additional benefit. The Chairman or directors of the bank approve loan not on the basis of the merit of the proposal, but they do this only to get some pecuniary benefit from the borrower.

### 6.8 Dysfunctional Board and Directors' Participation in Board Meeting

In some banks, board members have been selected from the employees of the organization of the Chairman/Directors. They do not participate in the board meeting. Conflict among the directors is another serious concern for the bank. The board becomes dysfunctional due their group conflict. When a group raises issue, then the opposite group goes against it and finally either no decision is made or the decision goes in favor of the powerful and influential group in the board. All of the board members are shadow of the former Chairman. Directors are also appointed from the organization of the chairman and then the board becomes very ineffective as no meaningful discussion is made.

### 6.9 Nonalignment of the Core Business with the Stated Mission and Vision

There are f mission and vision statement for each bank, but hardly any bank is being run as per the vision and mission statement. The board always looks for their short-term profit, without thinking about long-term goal of the bank. Since, the directors are businesspersons, they want only profit. They don't like to see future planning. Thus, the board of a bank assesses/evaluates CEO performance based on profit, NPL performance. Although the bank works for mass people of the country and implements the development agenda of the government, at the end of the day the performance of the bank is measured based onthe profit earned or NPL management.

### 6.10 Board Intervention in Operational Activities

Board of the bank can not intervene the HR activities of the bank. In reality, the chairman/directors intervene in employee recruitment, transfer, promotion and other operational activities of the bank. Board talks all about the employee related affairs such as employee transfer, promotion, demotion, disciplinary etc. Even when MD is reluctant to transfer an employee in violation of BB regulation, the chairman orders the MD to accomplish it by managing/convincing BB.

### 6.11 Loan Approval in the Board

The prudential regulations of BB (2014) restrict to place all kinds of loan to the board meeting. Thus, it has been relaxed by different circulars of BB. BB allows commercial banks to place large loan/corporate loan to the board of the bank. Now almost all of the memos and agendas placed in the board are related with the loan approval. Some bank's board approve all kinds of loan. Even car loan, house loan, consumer loan etc. are approved in the board.

### 6.12 False Accusation by the Board to Step-down MD/CEO

Board of the bank force the MD/CEO to listen to their direction and these directions are mostly related to loan approval, recruitment, transfer etc. If an MD/CEO disobey their directions, the board make a false accusation against the MD/CEO to step-down or they force the MD/CEO to resign. If an MD of a bank disagree to give favour to the board which can result in classified loan. Then the board create female related issue with him and finally remove him from the bank.

### 6.13 BB Lost Its Independence

The independency of BB has been lessened by the law. Sometime the intervention of MoF and government is mentionable. It jeopardizes the authority of BB to exercise. BB has lost its independency, for example, BB was against to give licenses to new banks but finally BB was compelled to issue license to the new banks and also propose to amend the Bank Company Act, 1991 (2018) where no. of family member increased to four in the board and duration of the directors has been increased to 9 years from 6 years.  This has happened because of powerful politician, businessperson and their affiliation with the government.

### 6.14 Policy Formulation

One of the key roles of the board of a bank is to formulate policy such as Credit Policy, HR policy, Treasury policy. On the other hand, all manuals should be prepared by the management. But, it is found that policies are formulated by the management and manuals are prepared by the board.

### 6.15 Regulatory Forbearance

BB appoints observer to the commercial banks based on some criteria such as – NPL increase, profit falls, internal governance problem, CAMELS rating etc. However, BB sometimes appoints and withdraws 'Observer' from the commercial banks on the basis of the relationship with the competent officials of BB and Board and MD/CEO. On the other hand, BB appoints observer to a good bank based on the conflict with the BB and the bank.

### 6.16 Performance Evaluation of MD/CEO

There are KPIs for the MD/CEO. These KPIs are fixed by the board of the bank. However, finally these KPIs does not work. In private banks, renewal of MD/CEO position depends on the degree of the relationship with the board, extent of loyalty to the board etc. while in state-owned banks, it depends on high political connection/linkage.

## 7. Board and CEO/MD Interplays – Survey Findings

### 7.1 Board Meeting, Agenda, Participants and Attendance Rate

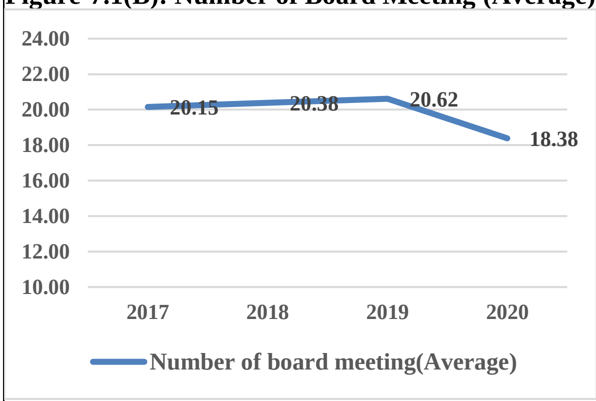


**Figure-7.1(B): Number of Board Meeting (Average)**

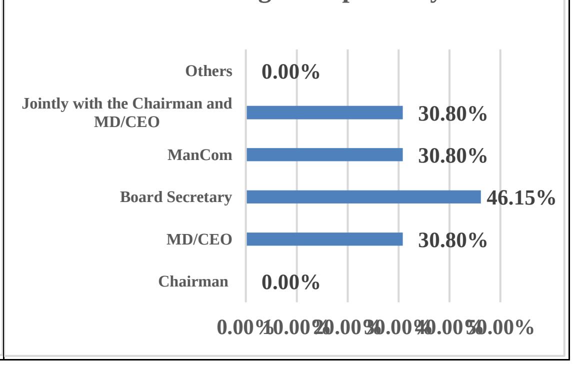


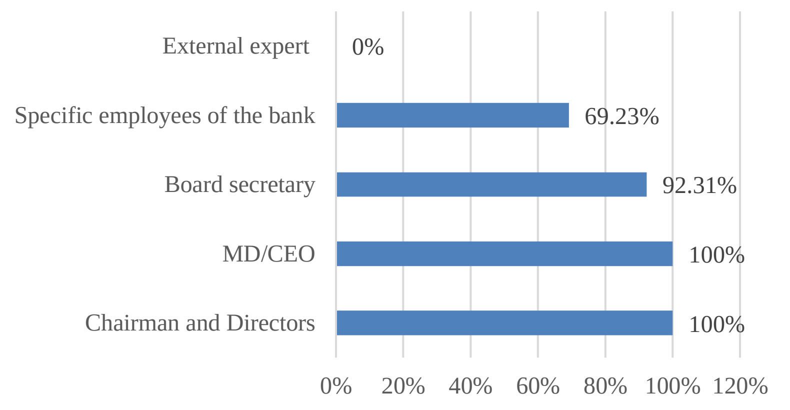
**Figure-7.1(A): Agenda of the Board Meeting is Prepared by**

**Source**: Authors' estimation from survey data

During the last three years (2017 up to 2019), the number of board meetings per year was 20, but in 2020 it declined to 18 due to the Covid-19 pandemic. The responsibility of preparing the agenda of the board meeting lies with the Chief Executive Officer/Managing Director. The CEO/MD will collect the agenda from various divisions/departments of the bank and then place it to board in lucid and well-formatted way. But, the survey data show that in around 46 percent cases, board secretary prepared the agenda of the board meeting and that was followed by the MD/CEO, ManCom and jointly with the chairman (Figure-7.1).

Generally, Chairman, MD/CEO, Directors and board secretary present in the board meeting. In some cases, some specific employees may also be present in the board meeting, 6 percent as reported by the respondent banks. But, board secretary was absent in some cases which is not usually expected (Figure-7.2).

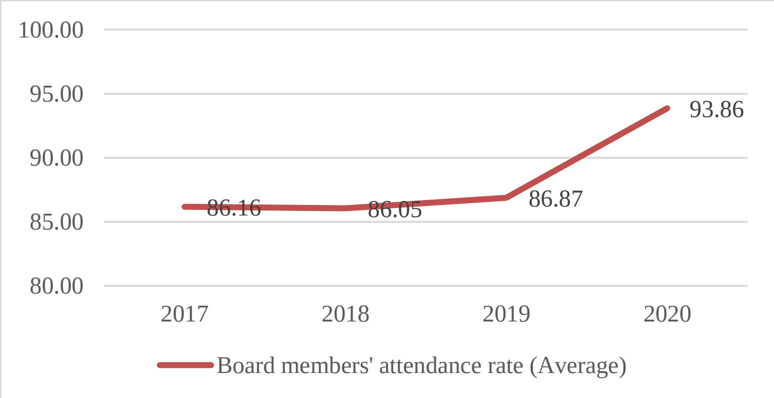
**Figure-7.2: Participants in the Board Meeting**




**Source**: Authors' estimation from survey data

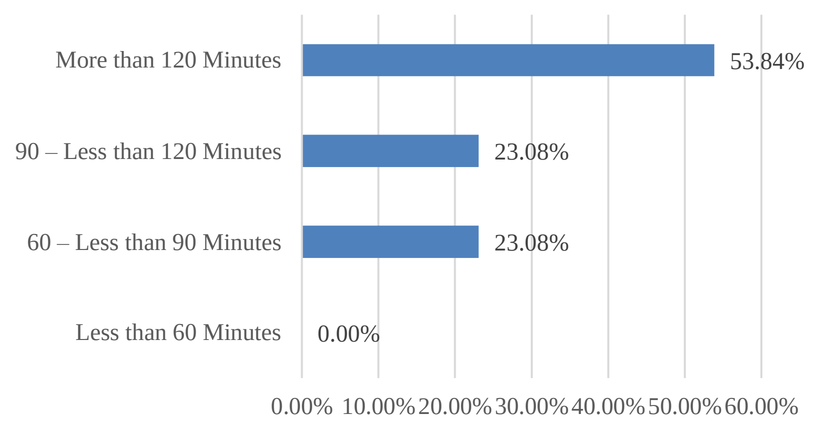
As per sample data provided by the respondent banks, the attendance rate of board members was around 86 percent during 2017 and 2018, but this rate increased during 2019 and 2020 (Figure-7.3). The board members attendance rate for 2020 was almost 94 percent, which is the result of zoom board meeting where the members can easily attend without taking the hassle of travelling to the meeting place.

**Figure 7.3: Attendance Rate of the Board Members**




**Source**: Authors' estimation from survey data

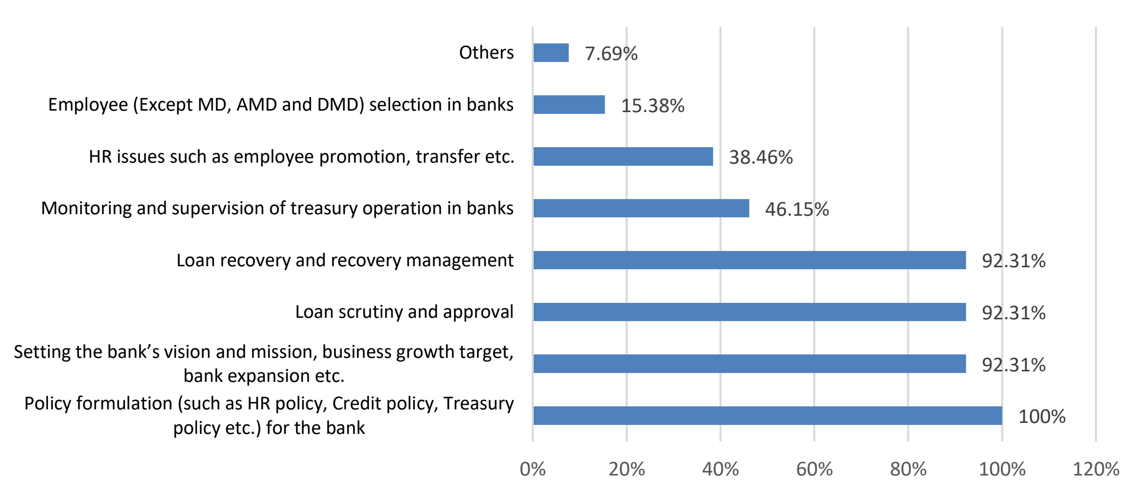
**Figure-7.4: Duration of the Board Meeting**




**Source**: Authors' estimation from survey data

The duration of the board meetings should be of such duration enabling the members to contribute in a rational way. But the survey data show that in over half the cases the board meeting lasted more than two hours, whereas in the remaining cases the meetings lasted between more than one hour and less than two hours (Figure-7.4).

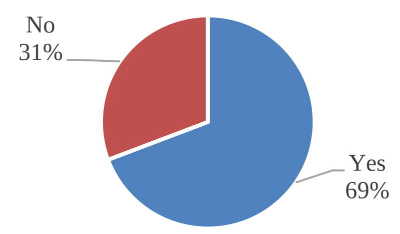
**Figure-7.5: Agenda of the Board Meeting -**




**Source**: Authors' estimation from survey data

The vital task of formulating all the policy framework lies with the board. The survey data affirms this that in 100% cases, all the banking policies were formulated by the board (Figure-7.5). While sound corporate governance requires that the final loan scrutiny and approval lie with the CEO/MD, the survey data show that in around 92 percent cases, this critical task was performed by the board of the banks. Further, while employee selection in banks, HR issues such as employee promotion, transfer, etc. monitoring and supervision of treasury operation in banks, loan recovery and recovery management should be the responsibility of management, the information received from the respondent banks show that board was performing these vital managerial activities. For these reasons, bank management does not like to take the responsibility of poor performance of these core banking activities.

**Figure-7.6: Incidence to Defer the Agenda for the Next Board Meeting (2017-2020)**




**Source**: Authors' estimation from survey data

Survey data show that in about 69 percent cases, the agenda for a stipulated board meeting was deferred to the next board meeting (Figure-7.6), indicating, either inadequate time for board meeting or inadequate number of board meeting. The percentage of deferred agendas is given in Table-7.1.

**Table 7.1: Percentage of Deferred Agendas (2017-2020)**

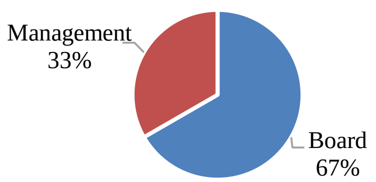
| Year | Number of Agendas in the Board Meeting (Average) | Agendas Deferred to the Next Board Meeting (%) |
|---|---|---|
| 2017 | 1040 | 8.17% |
| 2018 | 1086 | 8.82% |
| 2019 | 1055 | 9.61% |
| 2020 | 906 | 6.98% |

**Source**: Authors' estimation from survey data

### 7.2 Board Functions and Audit of the Board Division

The role of board and management in policy formulation is shown in Figure-7.7. One-third of policies were formulated by the management of the banks, while two-thirds by boards. In fact, management of the bank mostly formulates the policies with approval from the board (Figure-7.7). Hardly any bank formed sub-committee of the board for formulating polices (source: Survey data, 2021).

**Figure-7.7: Policy Formulation**




**Source**: Authors' estimation from survey data

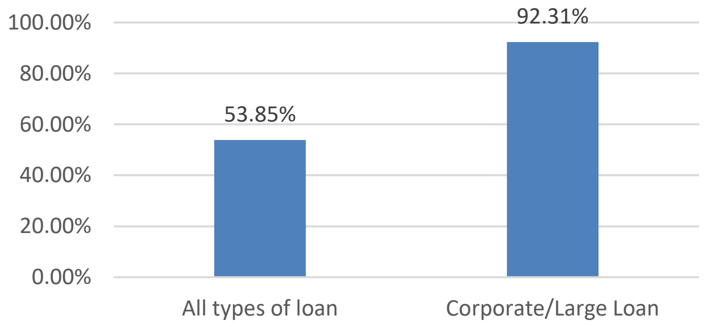
**Table-7.2: Loans/Investment Approved in the Board Meeting (%)**

| Year | Number of Loans/Investments have been Approved in the Directors' Board Meeting (Average) | Loans/Investments Proposal Place in the Board Meeting but not Approved (%) |
|---|---|---|
| 2017 | 197 | 1.69% |
| 2018 | 189 | 1.98% |
| 2019 | 191 | 1.79% |
| 2020 | 265 | 1.40% |

**Source**: Authors' estimation from survey data

While only corporate/large loans should be placed in the board meeting for getting the better decision regarding the fate of those critical loans, the survey data show that in 92 percent of cases the corporate/large loans were placed in the board meeting. In over half of the cases, all types of loans were also taken in the board meeting (Figure-7.8).

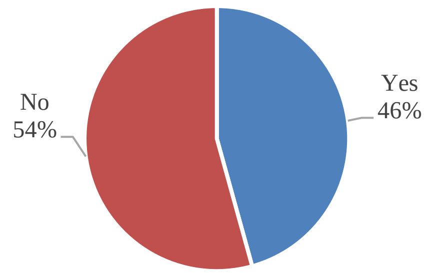
**Figure -7.8: Nature of the Loan Placed in the Board meeting**




**Source**: Authors' estimation from survey data

The guideline given by Bangladesh Bank stipulated that the board division should be audited by the internal audit team; however, the survey data show that in 54.9 percent board division was not audited by the internal audit team (Figure-7.9). All the banks should adopt stringent measures to comply with the regulation, and thereby, have a transparent board division.

**Figure-7.9: Board Division is Audited by the Internal Audit Team**



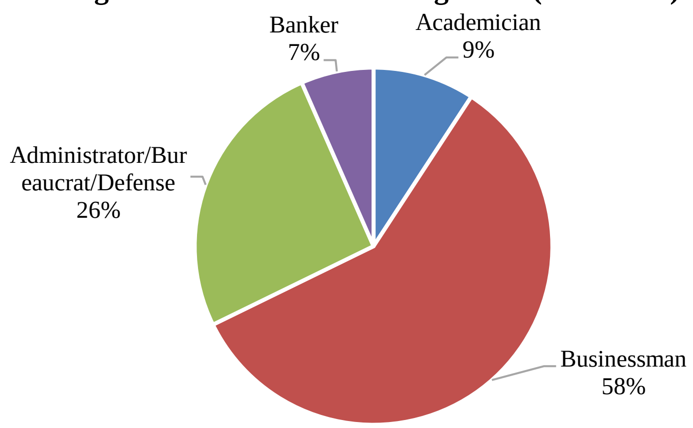

**Source**: Authors' estimation from survey data

## 8. Board and CEO Qualifications and Performance of Banks – Regression Results

### 8.1 Descriptive Statistics

The study analyzed the bankground of the Chairman of the banks for the period 2010-2020. Among these Chairman, 58.6 percent were businessman, 25.7 percent werefrom administrative service 9.2 percent were academicians and 6.6 percent were bankers (Figure-8.1). Futher, 66.4 percent Chairman and 21.9 percent CEO/MD of the banks were either Chairman or Director of other organizations (Table-8.1).

**Figure-8.1: Chairman's Background (2010-2020)**




**Source**: Authors' estimation from survey data

**Table-8.1: Chairman and CEO/MD of Banks**

| Position in Bank | Chairman/Director of Other Organization(s) (2010-2020) |
|---|---|
| Chairman | 66.44% |
| CEO/MD | 21.94% |

**Source**: Survey data (2010-2020)

In 2020, the maximum age of the bank Chairman was 90 years and the minimum were 39 years. A total of 12 bank Chairman were above 65 years (Table-8.2).

**Table-8.2: Chairman and CEO/MD Age**

| Year | Chairman Maximum Age | Chairman Minimum Age | Number of Chairman above 65 Years of Age | CEO/MD Maximum Age | CEO/MD Minimum Age |
|---|---|---|---|---|---|
| 2020 | 90 | 39 | 12 | 64 | 56 |
| 2019 | 89 | 40 | 12 | 63 | 56 |
| 2018 | 88 | 39 | 13 | 62 | 56 |
| 2017 | 87 | 38 | 12 | 63 | 55 |

The study analyzed total 48 banks, excluding foreign banks in Bangladesh, to examine how board and CEO/MD qualification affects performance of banks. Table-8.3A and 8.3B show that the Board (i.e. Chairman) mean qualification index (BQui) of the state-owned banks

(0.42) was higher than the private banks (0.28). Although the qualification index of Chairman in state-owned banks was higher, the mean ROA of the state-owned banks (-0.34) was lower than the private banks (1.00). On the other hand, the mean qualification index of the CEO/MD (CEOQui) in private banks was higher (0.23) than that in state-owned banks (0.21).

**Table-8.3A: Descriptive Analysis-Panel A: Private Banks**

| Variable | Obs | Mean | Std. Dev. | Min. | Max. |
|---|---|---|---|---|---|
| ROA | 389 | 1.00 | 0.85 | -5.87 | 5.09 |
| BQui | 390 | 0.28 | 0.13 | 0.08 | 0.67 |
| CEOQui | 379 | 0.23 | 0.11 | 0.10 | 0.5 |
| BSize | 380 | 14.09 | 4.20 | 5 | 22 |
| RInd | 380 | 0.14 | 0.11 | 0 | 0.57 |
| RFemd | 380 | 0.12 | 0.11 | 0 | 0.43 |
| RFord | 380 | 0.05 | 0.18 | 0 | 1 |
| RInstd | 390 | 0.18 | 0.22 | 0 | 0.8 |
| LnSize | 388 | 11.84 | 0.99 | 8.48 | 14.25 |
| NPL | 390 | 4.81 | 5.38 | 0.02 | 50.39 |
| DEratio | 390 | 8.83 | 51.26 | -989.75 | 125.60 |
| BAge | 390 | 19.58 | 12.90 | 1 | 61 |

**Table-8.3B: Descriptive Analysis-Panel B: State Owned Banks**

| Variable | Obs | Mean | Std. Dev. | Min. | Max. |
|---|---|---|---|---|---|
| ROA | 76 | -0.34 | 2.33 | -14.04 | 2.56 |
| BQui | 75 | 0.42 | 0.19 | 0.17 | 0.75 |
| CEOQui | 77 | 0.21 | 0.11 | 0.10 | 0.4 |
| BSize | 68 | 10 | 2.34 | 5 | 17 |
| RInd | 68 | 0.18 | 0.37 | 0 | 1 |
| RFemd | 68 | 0.93 | 0.10 | 0 | 0.4 |
| RFord | 68 | 0 | 0 | 0 | 0 |
| RInstd | 68 | 0 | 0 | 0 | 0 |
| LnSize | 77 | 12.56 | 1.04 | 10.22 | 14.28 |
| NPL | 76 | 25.37 | 13.80 | 4.38 | 57.15 |
| DEratio | 77 | 12.45 | 12.94 | -17.03 | 52.25 |
| BAge | 77 | 40.57 | 6.80 | 21 | 49 |

**Note**: ROA = Return on Assets; BQui = Board Qualification Index; CEOQui = CEO/MD Qualification Index; BSize = Board Size; RInd = Independent directors to total directors; RFemd = Female directors to total directors; RFord = Foreign directors to total directors; Rinstd = Institutional directors to total directors; LnSize = Natural Logarithm of Size (Total Assets) of the bank; NPL = Non-Performing Loans – ratio of classified loans to total loans and advances; DEratio = Debt- equity ratio; BAge = Bank's total age of incorporation.

### 8.2 Regression Result

The regression results of the private banks and state-owned banks are given in Table-8.4. It shows that board qualification (BQui) was positively significant with the performance of bank (ROA) ($\beta = 1.12$, $p<0.05$) (Model-1), while CEO/MD qualification (CEOQui) had insignificant impact (Model-2) on the performance of the private commercial banks. The interaction between board qualification and CEO/MD qualification (BQuiX CEOQui) was also positively significant ($\beta = 2.18$, $p<0.05$) (Model-3) with the performance of banks, indicating that board qualification (i.e. Chairman's Qualification) significantly improves the performance of private banks. Although the CEO/MD qualification had insignificant impact, the mix of board and CEO/MD qualification improved private banks performance significantly (Table-8.4). On the other hand, board qualification and MD/CEO qualification had insignificant impact on the performance of state-owned banks in Bangladesh (Table-8.4; Model-4, Model-5 and Model-6). Based on the regression result, we cannot reject our null hypothesis (H2), i.e. board and CEO/MD qualification affect the performance of banks in Bangladesh.

**Table-8.4: Regression Result**

| | **Private Banks** | | | **State-Owned Banks** | | |
|---|---|---|---|---|---|---|
| | **Dependent Variable (ROA)** | | | **Dependent Variable (ROA)** | | |
| Variables | Model-1 | Model-2 | Model-3 | Model-4 | Model-5 | Model-6 |
| BQui | 1.12** (2.46) | | | -1.27 (-0.58) | | |
| CEOQui | | 0.02 (0.06) | | | -2.27 (-0.60) | |
| BQuiX CEOQui | | | 2.18** (2.21) | | | -7.07 (-1.15) |
| BSize | 0.01 (0.40) | 0.01 (0.42) | 0.01 (0.72) | -0.25 (-1.20) | -0.30 (-1.43) | -0.33 (-1.58) |
| RInd | 0.27 (0.48) | 0.21 (0.36) | 0.33 (0.60) | 3.66 (0.34) | 1.76 (0.16) | 0.02 (0.00) |
| RFemd | -0.55 (-1.05) | -0.85 (-1.54) | -0.67 (-1.28) | -4.55 (-0.70) | -5.90 (-0.94) | -5.24 -0.85) |
| RFord | -0.69 (-0.58) | -0.80 (-0.66) | -0.51 (-0.43) | -- | -- | -- |
| RInstd | -0.16 (-0.50) | -0.22 (-0.71) | -0.14 (-0.46) | -- | -- | -- |
| LnSize | 0.40*** (3.39) | 0.39*** (3.22) | 0.42*** (3.55) | 1.99 (0.78) | 1.93 (0.81) | 1.49 (0.62) |
| NPL | -0.08*** (-6.41) | -0.07*** (-6.06) | -0.70*** (-6.30) | -0.06 (-0.91) | -0.08 (-1.16) | -0.08 (-1.24) |
| DEratio | -0.00 (-0.13) | 0.00 (0.10) | -0.00 (-0.09) | -0.17*** (-3.44) | -0.16*** (-3.20) | -0.16*** (-3.52) |
| BAge | 0.00 (0.04) | -0.01 (-0.09) | 0.01 (0.14) | -0.31 (-0.91) | -0.32 (-1.08) | -0.25 (-0.83) |
| Const. | -2.76 (-1.44) | -1.98 (-0.97) | -3.06 (-1.58) | -4.89 (-0.21) | -3.33 (-0.15) | 0.44 (0.02) |
| Observation | 377 | 366 | 378 | 64 | 66 | 66 |
| Year Fixed Effect | Yes | Yes | Yes | Yes | Yes | Yes |
| Bank Fixed Effect | Yes | Yes | Yes | Yes | Yes | Yes |
| $R^2$ (Overall) | 0.66 | 0.66 | 0.66 | 0.60 | 0.60 | 0.61 |

## 9. Observations and Findings

### 9.1 Approval of Loan by the Board

Usually, one major agenda in each board meeting is the approval of loan and other credit administration related issues like rescheduling, loan recovery. Separation of ownership and control is considered as a vital factor in modern day corporations. This separation works when the board takes the leading role in strategy/policy formulation and the management focuses on operational areas in line with the board approved policies and procedures. There is a reason to believe that the nature of the borrower, business prospect, analyzing the credit appraisal tools, and loan structuring process are understood by the CEO and delegated credit authorities better than any other agent. So, the increasing practice of bringing the loan sanctioning decision in the board meeting indicates either the undue benefits of the directors that they will not be able to realize if the decision is left to the bank management or the lack of confidence on the professional capacity of the CEO. But, the Board of a bank cannot logically claim a CEO as incapable of taking lending decision independently as the Board itself appoints the CEO. Put in another perspective, the role of the board in lending process should transfer the accountability of the bank management for non-repayment of loan although that did not happen in the industry.

### 9.2 Absence of Agency Conflict between the Board and the Management

Principal-agent conflict is a common problem in the corporate business structure. The discrepancies between the aim of the principal and agent create the conflict as the owners focus on long term growth and stability whereas the CEOs (agent) remain shortsighted caring mainly about maximizing profit. But, the study finds that the goals of both the directors and CEOs are to maximize short run profit without caring about the long run goals such as building reputation, becoming a compliant bank, standardizing the banking policies and procedures, to name a few. The board evaluates performance of the management merely on the basis of business growth and profit. These sorts of harmony in between the board and MD are potentially threatening for developing a strong and stable corporate culture in future.

### 9.3 Strengthening the Role of the Independent Director

Independent Directors are expected to look at the long-term interest of the bank and the depositors' safety. The widely shared view is that independent directors improve the performance of the company through their objective view of operations. The position of Independent Directors (ID)adds value to the organization by curbing down the excessing risk level/ risk taking tendency of the owner directors. The approval authority and appointment process of the Independent Directors matters much for the expected functioning of the ID. The banks' involvement by proposing the list of own independent directors to the approval authority hampers the neutrality principle in appointment of ID.

The study finds wide variation among the independent directors in discharging their roles in the board meeting that may be attributed partly to the nomination procedure of independent directors. In this regard, some respondents were in favor of appointing independent directors from a panel developed by Bangladesh Bank.

### 9.4 Formulation of Strategy, Policy and Operational Procedures

Banks provide multiple services to the different segments of clients assuming a number of risks. Maintaining safety and soundness of the operations, uniformity of the services across the different branches, aligning business with the strategic/long term plan, attaining the best practice requires a set of approved and well-documented policies, systems procedures, and operational guidelines. The regulatory environment for the financial sector is built upon different Laws/Acts, central bank's guidelines, banks' policies approved by their boards, operational manual prepared by the top management that are periodically reviewed to accommodate the changes in the business environment and observed gaps in the policies. The study finds a wide gap between the expected and actual role among the agents in their responsibility of policy making. Bangladesh Bank has issued a number of guidelines/circulars which were supposed to be framed by the board of the bank as per the internal best practices. These group includes policy for managing core risks, loan rescheduling, write-off, ICAAP policy and some others. Although BB expects or demands customization of BB policies by the respective banks that did not happen generally in our banking sector. The passive role of the bank board in making strategy and policy is discussed earlier in the paper. It is ultimately the management that contributes to making broad based policies and operational procedures before getting finally approved by the board. So, the issue of bank specific optimum policy and work standards remains largely missing in our banking industry. Regulatory guidelines to some extent create the opportunity for the directors to remain silent in policy making affairs. More on that, some boars do not prefer to have well-articulated, comprehensive and detailed out policies as having of such is likely to diminish the discretionary power that they enjoy over the operations of the banks.

### 9.5 Lack of Objectivity in Fixing Business Target and Tolerance Level

Being a business & profit-oriented institution a bank fixes some core targets that is transmitted to the business/operational units for attainment. Observations suggest that key business objectives such as projection of deposit and loan growth, profit target are generally set by the banks without any underlying objective and quantitative analysis by taking into account the relevant micro and macro factors such as organizational capacity of the bank, availability of physical and human resource in managing credit portfolio, business prospects of the area in which a branch is operating, investment climate, business cycle, macro policy and so on. In fact, the widely accepted perception is that the current year’s business targets are fixed naively by placing a mark-up over the previous year’s position and thus does not match with the reality in some periods. Fixing the tolerance level of risk (under risk-based capital adequacy framework), non-performing loan in a planned way also seem largely missing in the banking industry.

### 9.6 Absence of Board Audit and Appraisal

Ideally, all the activities from the board to the bottom line of operations should be brought under internal audit. But, as is observed, board division remains unaudited in majority of the banks. The board evaluates the performance of the CEO on the basis of Key Performance Indicators (KPI) set by the board. But, there is no evaluation system of the board in our banking industry. The evaluation of the board activities is well established in both developed and developing countries. The U.K. Corporate Governance Code, OECD Principles, to name a few, requires self-evaluation to be done annually by the board through a formal and rigorous process of its Committees and individual directors. Board appraisal shows variation across the countries in terms of coverage, methodology, frequency, and the authority appointed for appraisal of the board. Independent third party is also appointed to appraise the board in some countries.

### 9.7 Board Meeting, Contribution by the Directors, and Board Remuneration

Members of the bank board mainly interact in the board meeting to oversee the management activity and set the tone of the organization by deciding about policy matters. So, the quality of board decision depends on the contribution by each board member. It is felt by the research team without precisely measured indicators that the bank does not get active participation from all the members. Agenda of the board meeting in many cases is sent to the members just few days ago of the meeting which does not always allow the members to contribute effectively in the meeting. There are even instances of taking the decision before/behind the meeting due to the dominance of the former Chairman or key person. The reasonable highest age limit to act as a director in the context of our country has also not been considered in few cases. Board remuneration is also found significantly low compared to other countries that may be one of the demotivating factors in giving sufficient time on the part of the directors. Fixing the equal amount of fee for attending the meeting also does not reflect the difference across the banks in terms of their size and complexity of operations, number of agendas placed in a meeting and so on.

### 9.8 Wide Variation in the Board Functioning

The study finds a large variation across the banks in the functioning of the board. The quality of the board functioning in some banks stands vary high with opposite picture observed in others. Such degree of heterogeneity in a competitive banking industry having 61commercial banks attracts attention of the researchers, policy makers including the regulators. The presence of 16 banks having NPL up to 3% and 8 banks with NPL more than 20 percent as of June, 2021 is just an example of the nature of variation among the banks in our banking sector (Financial Stability Report, April-June, 2021 BB). High tolerance level and forbearance shown by the governance system may be one of the underlying reasons for such observed differences.

To conclude, the present study attempted to find out the relationship between the qualifications of the board and the CEO and the performance of banks in Bangladesh. One other major objective of the research was to assess the gap between the expected and actual role of the board in our banking industry. The empirical results largely support a priori expectation in case of private commercial banks with sensible variation in state-owned commercial banks. The board of the banks fairly adheres to accepted principles of governance with high variation across the banks. But, there is a considerable gap in the functioning of the board, if judged against the global best practices. There should be more meaningful separation between the board and the management by delegating the loan approval authority to the management and the board for strengthening policy formulating and KPI based overseeing role of the board, setting strategic plan for the bank and the business targets more objectively, establishing board appraisal system and determining directors' remuneration in light of their contribution. However, a single study limited by the number of observed banks is not enough to generalize the findings. We need to examine the governance structure/environment of the banks further to get the industry picture about the kind and degree of the characteristics that have been found in the present study before regulatory intervention.

## References

Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2012*).* *Internal Control – Integrated Framework*, available at www.coso.org.

Creswell, J.W., & Plano Clark, V.L. (2011). *Designing and Conducting Mixed Methods Research*, Thousand Oaks (2nd edition), CA: Sage Publications, Inc.

Fama, E.F., & Jensen, M.C. (1983). Separation of ownership and control, *Journal of Law and Economics*, 26, 301-325.

Fedaseyeu, V. Linck, J.S. & Wagner, H.F. (2018). Do qualifications matter? New evidence on board functions and director compensation. *Journal of Corporate Finance*, 48, 816-839.

Islam, M.T. Kokubu, K. & Nishitani (2021), Corporate social reporting in the developing country's banking industry - A test of legitimacy theory. *Social Responsibility Journal*, 17 (2), 198-225.

Klein, P. Maidl, C., & Woyand, C. (2021). Bank ownership and capital buffer: how internal control is affected by external governance. *Journal of Financial Stability*, In press, https://doi.org/10.1016/j.jfs.2021.100857

Morse, J.M. (1991). Approaches to qualitative-quantitative methodological triangulation. *Nursing Research*, 40, 120-123.

Refakar, M. & Ravaonorohanta, N. (2020). The effectiveness of governance mechanisms in emerging markets: A review. *Corporate Ownership & Control* 17(3), 8-26.

Siddique, M.M., Hossain, M.M., Khatun, M. & Islam, M.R. (2019). Review of internal control and compliance of banks – 2018. *Banking Review Series 2019*. Paper 4, BIBM, Dhaka.

# Appendices

## Appendix I: Survey Questionnaire

**Bangladesh Institute of Bank Management**
Mirpur-2, Dhaka

**Questionnaire**
On
**"Board, Chief Executive Officer and Performance of Banks in Bangladesh"**
(Note: This is an academic research. The information in this study will be used anonymously)

**Name of the Bank:**

**Respondent's Name (**Optional):

**Respondent's Designation:** **Department:** Board/Company Secretariat

How many years you are working as Board/Company Secretary? ______________

1. Number of board meeting held and board member's attendance rate:

| Year | Number of Board meeting | Board member's attendance rate (%) |
|---|---|---|
| 2020 | | |
| 2019 | | |
| 2018 | | |
| 2017 | | |

2. Normally how many days before, the agenda is sent to the board members?
   a. 1 Week b. 1-2 Weeks c. 2 – 3 Weeks d. 3 – 4 Weeks
3. Agenda of the board meeting is prepared/Proposed by – (**You can give multiple answers) (√)**
   a. Chairman of the bank
   b. MD/CEO
   c. Board Secretary
   d. Top management of the bank
   e. Jointly with the Chairman and MD/CEO
   f. Others: Please specify _________________
4. How long (duration) is each board meeting held generally?
   a. Less than 60 Minutes
   b. 60 – Less than 90 Minutes
   c. 90 – Less than 120 Minutes
   d. More than 120 Minutes

5. Agenda of the board meeting are generally in the area of – (**You can give multiple answers (√)**

| Tick (√) | Particulars |
|---|---|
| | Policy formulation (such as HR policy, Credit policy, Treasury policy etc.) for the bank |
| | Setting the bank's vision and mission, business growth target, bank expansion etc. |
| | Loan scrutiny and approval |
| | Loan recovery and recovery management |
| | Monitoring and supervision of treasury operation in banks |
| | HR issues such as employee promotion, transfer etc. |
| | Employee (Except MD, AMD and DMD) selection in banks |
| | Others: Please specify: |

6. Who participate in the board meeting? (**You can give multiple answers (√)**
   a. Chairman and Directors
   b. MD/CEO
   c. Board secretary
   d. Specific employees of the bank
   e. External expert
7. Is there any incidence to defer the agenda for the next available board meeting?
   a. Yes b. No c. Not applicable
8. How many agenda have been deferred for the next available board meeting?

| Year | Total number of agendas in the board meeting | Total number of agendas deferred for the next available board meeting | Total number of board meetings where agenda have been deferred |
|---|---|---|---|
| 2020 | | | |
| 2019 | | | |
| 2018 | | | |
| 2017 | | | |

9. Number of sub-committees have been formed by the board members for any strategy/policy formulation for the bank.

| Year | Number of sub-committees formed by the board members | Name of the strategy/policy for that sub-committees assigned |
|---|---|---|
| 2020 | | |
| 2019 | | |
| 2018 | | |
| 2017 | | |

10. The following policies/manual are formulated and prepared by –**(Give Tick (√) mark)**

| | Policy/Manual | BoD/ sub-Committees of the Board | MD/ CEO | ManCom/Sub-Committees of the top management | Outsourced | Year of Formulation |
|---|---|---|---|---|---|---|
| 1 | Credit Policy | | | | | |
| 2 | Treasury Policy | | | | | |
| 3 | Trade Policy | | | | | |
| 4 | HR policy | | | | | |
| 5 | Risk Management Policy | | | | | |
| 6 | ICC Policy | | | | | |
| 7 | IT Policy | | | | | |
| 8 | Credit Operation Manual | | | | | |
| 9 | Treasure Operation Manual | | | | | |
| 10 | IT Operation Manual | | | | | |
| 11 | Trade Operation Manual | | | | | |
| 12 | Internal Audit Manual | | | | | |
| 13 | HR Manual | | | | | |
| 14 | Risk Management Operation Manual | | | | | |
| 15 | Code of Conduct for the employees | | | | | |
| 16 | Purchase and Procurement Policy | | | | | |
| 17 | Review the Asset-Liability Committee (ALCO) function | | | | | |

11. Is Board Division yearly audited by the internal audit team?

a. Yes b. No c. Not Applicable

| |
|---|
| **If yes, please mention the area of board affairs that are audited by the internal audit team.** |

12. How many loans/investments have been approved in the Directors' board meeting?

| **Year** | **Number of loans/investments have been approved in the board meeting** | **Number of loans/investments not approved in the board meeting** |
|---|---|---|
| 2020 | | |
| 2019 | | |
| 2018 | | |
| 2017 | | |

13. What types of loans in terms of size and nature are placed in the board meeting for decision?

| **a. Please tick (√); You can give multiple answer** | **Nature of the Loan Placed in the Board meeting** |
|---|---|
| | All types of loan |
| | Large/Corporate loans |
| | Loans to directors and their family members |

**b)** Loan that above **BD Tk______________**Crore is approved by the board.

14. Do you have any experience of taking decisions based on the 'VOTE' (majority) in the board meeting?
    a. Yes b. No c. Not Applicable

15. Please give **tick** for the following statements:

Indicate what extent do you agree or disagree:

5 = Strongly Agree; 4 = Agree; 3 = Neutral; 2 = Disagree; 1= Strongly Disagree

| # | **Particulars** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| 1 | Board determine goals and strategies and working plan annually. | | | | | |
| 2 | Board analyze and monitor the development of implementation of the working plan. | | | | | |
| 3 | Board fix the KPIs for the MD/CEO, AMD and DMD and evaluate it time to time. | | | | | |
| 4 | Power of sanction of loan/investment and such disbursement has been given to the CEO and his sub ordinates. | | | | | |
| 5 | Board/Directors directly and indirectly involve in the loan approval process. | | | | | |
| 6 | Board frame the Risk Management Policy and monitor it at quarterly basis. | | | | | |
| 7 | Board allow the audit committee to perform their work independently. | | | | | |
| 8 | Chairman/Board of the bank finally conduct an interview to the newly recruited employees before the final appointment. | | | | | |
| 9 | Chairman/Board of the bank finally conduct promotion interview for the employees. | | | | | |
| 10 | Board focus on the employee development skills. | | | | | |
| 11 | Board review/monitor the income, expenditure, liquidity, NPL etc. quarterly. | | | | | |
| 12 | The maximum possible delegation of power of expenditures is rest on the CEO and his subordinates. | | | | | |
| 13 | The chairman of the Board participates in or interfere into the administrative or operational and routine affairs of the bank. | | | | | |
| 14 | The chairman conducts on-site inspection of any bank-branch or financing activities under the purview of the oversight responsibilities of the board. | | | | | |

## Appendix II: BSEC Corporate Governance Codes

1. Board of Directors

*Size of the Board of Directors*-The total number of members of a company's board of directors shall not be less than 5 (five) and more than 20 (twenty).

*Independent Directors*-At least one-fifth (1/5) of the total number of directors on the board shall be independent directors[3], so that the board, as a group, includes core competencies considered relevant in the context of each company.

*CEO Duality* - The positions of the chairperson of the board and the MD/CEO of the company shall be filled by different individuals.

Qualification of independent director; t*he Directors' report to shareholders, m*eetings of the board of directors, code of conduct for the chairperson, other board members and chief executive officer.

2. Governance of board of directors of the subsidiary company
3. Managing Director (MD) or chief executive officer (CEO), chief financial officer (CFO), head of internal audit and compliance (HIAC) and company secretary (CS) - appointment, duties and requirement to attend board of directors' meetings
4. Board of directors' committee - For ensuring good governance in the company, the board shall have at least the following sub-committees: (i) Audit Committee; and (ii) Nomination and Remuneration Committee.
5. Audit Committee.
    (1) Responsibility to the board of directors - shall assist the board in ensuring that the financial statements reflect a true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business. The Audit Committee shall be responsible to the Board.
    (2) Constitution of the Audit Committee - shall be composed of at least 3 (three) non-executive directors excepting Chairperson of the Board and shall include at least 1 (one) independent director;
    (3) Chairperson of the Audit Committee – shall be an independent director;
    (4) Meeting of the Audit Committee - at least its four meetings in a financial year;
    (5) Role of Audit Committee
    (6) Reporting of the Audit Committee - Reporting to the board of directors, BSEC, shareholders and general investors.
6. Nomination and Remuneration Committee (NRC)
    (1) Responsibility to the board of directors
    (2) Constitution of the NRC - The Committee shall comprise of at least three non-executive directors including an independent director.
    (3) The Chairperson of the NRC shall be an independent director.
    (4) Meeting of the NRC - The NRC shall conduct at least one meeting in a financial year.
    (5) Role of the NRC - NRC shall be independent and responsible or accountable to the board and the shareholders.

[3]who either does not hold any share in the company or holds less than 1% shares of the totalpaid-up shares of the company or who is not a sponsor of the company or is not connected with the company's any sponsor or any shareholders; who has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan or any advance to a bank or a Non-Bank Financial Institution (NBFI), among others.

## Appendix III: OECD Principles of Corporate Governance

A. Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders.

B. Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.

C. The board should apply high ethical standards. It should take into account the interests of stakeholders.

D. The board should fulfil certain key functions, including:

   1. Reviewing and guiding corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
   2. Monitoring the effectiveness of the company's governance practices and making changes as needed.
   3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
   4. Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders.
   5. Ensuring a formal and transparent board nomination and election process.
   6. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
   7. Ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
   8. Overseeing the process of disclosure and communications.

E. The board should be able to exercise objective independent judgment on corporate affairs.

1. Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgment to tasks where there is a potential for conflict of interest. Examples of such key responsibilities are ensuring the integrity of financial and non-financial reporting, the review of related party transactions, the nomination of board members and key executives, and board remuneration.
2. Boards should consider setting up specialized committees to support the full board in performing its functions, particularly in respect to audit, and, depending upon the company's size and risk profile, also in respect to risk management and remuneration. When committees of the board are established, their mandate, composition and working procedures should be well defined and disclosed by the board.
3. Board members should be able to commit themselves effectively to their responsibilities.
4. Boards should regularly carry out evaluations to appraise their performance and assess whether they possess the right mix of background and competencies.

F. To fulfil their responsibilities, board members should have access to accurate, relevant and timely information.

G. When employee representation on the board is mandated, mechanisms should be developed to facilitate access to information and training for employee representatives, so that this representation is exercised effectively and best contributes to the enhancement of board skills, information and independence.

**Source:** G20/OECD Principles of Corporate Governance 2015.

## Appendix IV: BASEL Guidelines on Corporate Governance

**Principle 1: Board's Overall Responsibilities**

The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.

**Principle 2: Board Qualifications and Composition**

Board members should be and remain qualified, individually and collectively, for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the bank.

**Principle 3: Board's Own Structure and Practices**

The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.

**Principle 4: Senior Management**

Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.

**Principle 5: Governance of Group Structures**

In a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities.21 The board and senior management should know and understand the bank group's organizational structure and the risks that it poses.

**Principle 6: Risk Management Function**

Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board.

**Principle 7: Risk Identification, Monitoring and Controlling**

Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice.

**Principle 8: Risk Communication**

An effective risk governance framework requires robust communication within the bank about risk, both across the organization and through reporting to the board and senior management.

**Principle 9: Compliance**

The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.

**Principle 10: Internal Audit**

The internal audit function should provide independent assurance to the board and should support the board and senior management in promoting an effective governance process and the long-term soundness of the bank.

**Principle 12: Disclosure and Transparency**

The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.

**Principle 13: The Role of Supervisors**

Supervisors should provide guidance for and supervise corporate governance at banks, including through comprehensive evaluations and regular interaction with boards and senior management should require improvement and remedial action as necessary and should share information on corporate governance with other supervisors.

**Source:** Corporate Governance Principles for Banks, BASEL (January 9, 2015)

## Appendix V: Components of Internal Control (COSO Framework)

**Control Environment**

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.

**Risk Assessment**

Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

**Control Activities**

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

**Information and Communication**

Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

**Monitoring**

Internal control systems need to be monitored--a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

**Source**: COSO (2012)

**Appendix-VI: Comparative Status of the Board Remuneration**

| Country | Remuneration (in Tk.) | Determining Authority | Policy |
|---|---|---|---|
| Bangladesh | 8,000 per meeting | Central Bank | **Fixed by Bangladesh Bank** This allowance is applicable for maximum 02 board meeting, 04 EC meeting, 01 AC meeting and 01 RM committee meeting in each month. |
| India | 45,417 per board meeting in State Owned Banks.<br><br>189,109 per month in Private Commercial Banks. | *Central Bank<br><br>*Commercial Banks | **Yes** The remuneration of the directors shall be recommended by the nomination and Remuneration Committee of board with due observance with the remuneration policy. |
| Pakistan | 51,960 per meeting | Central Bank | **Yes** The Board Remuneration Committee (BRC) is comprised of independent directors in majority, with chairmanship of an independent director. The executive directors have no position in BRC. |
| USA | 1,180,479 per month | Commercial Banks | **Bank Board** |
| UK | 1,086,940 per month | Commercial Banks | **Bank Board** |
| Malaysia | 336,438 per month | Central Bank | **Yes** There should be a formal and transparent procedure for fixing the remuneration package and the Remuneration Committee should be responsible for developing a clear policy and framework. |
| Canada | 844,578 per month | Commercial Banks | **Bank Board** |
| Australia | 1,105,794 per month | Commercial Banks | **Bank Board** |
| Sri Lanka | 63,552 per meeting | Commercial Banks | **Bank Board** |

**Source**:

- https://www.glassdoor.ca/Salary/Bank-of-Canada-Director-Salaries-E42575_D_KO15,23.htm
- https://employeebenefits.co.uk/issues/january-online-2017/barclays-and-deutsche-bank-are-the-highest-paying-organisations-for-uk-directors/
- https://www.glassdoor.com/Salary/U-S-Bank-Director-Salaries-E8937_D_KO9,17.htm
- https://www.salaryexpert.com/salary/job/investment-banking-director/malaysia
- https://www.glassdoor.com/Salary/NAB-National-Australia-Bank-Director-Australia-Salaries-EJI_IE4262.0,27_KO28,36_IL.37,46_IN16.htm

**Annex-VII: List of Banks**

| # | Name of the Bank |
|---|---|
| 1 | AB Bank Ltd. |
| 2 | Agrani Bank Ltd |
| 3 | Al Arafah Islami Bank Ltd. |
| 4 | Bangladesh Krishi Bank Ltd. |
| 5 | Bank Asia Ltd. |
| 6 | BASIC Bank Ltd. |
| 7 | Bangladesh Commerce Bank Ltd. |
| 8 | Bangladesh Development Bank Ltd. |
| 9 | Bengal Commercial Bank Ltd. |
| 10 | BRAC Bank Ltd |
| 11 | City Bank Ltd. |
| 12 | Community Bank Bangladesh Ltd. |
| 13 | Dutch Bangla Bank Ltd. |
| 14 | Dhaka Bank Ltd. |
| 15 | Eastern Bank Ltd. |
| 16 | EXIM Bank Ltd. |
| 17 | First Security Islami Bank Ltd. |
| 18 | Global Islmai Bank Ltd. |
| 19 | Islami Bank Bangladesh Ltd. |
| 20 | IFIC Bank Ltd. |
| 21 | Jamuna Bank Ltd. |
| 22 | Janata Bank Ltd. |
| 23 | Meghna Bank Ltd. |
| 24 | Mercantile Bank Ltd |
| 25 | Midland Bank Ltd. |
| 26 | Modhumoti Bank Ltd. |
| 27 | Mutual Trust Bank Ltd. |
| 28 | National Bank Ltd. |

| # | **Name of the Bank** |
|---|---|
| 29 | NCC Bank Ltd. |
| 30 | NRB Bank Ltd. |
| 31 | NRB Commercial Bank Ltd. |
| 32 | ONE Bank Ltd. |
| 33 | Padma Bank Ltd. |
| 34 | Premier Bank Ltd. |
| 35 | Prime Bank Ltd. |
| 36 | Pubali Bank Ltd. |
| 37 | Rupali Bank Ltd. |
| 38 | South Bangla Agriculture and Commerce Bank Ltd. |
| 39 | Shahjalal Islami Bank Ltd. |
| 40 | Shimanto Bank Ltd. |
| 41 | Social Islami Bank Ltd. |
| 42 | Sonali Bank Ltd. |
| 43 | Southeast Bank Limited |
| 44 | Standard Bank Ltd. |
| 45 | Trust Bank Ltd. |
| 46 | United Commercial Bank Ltd. |
| 47 | Union Bank Limited, |
| 48 | Uttara Bank Ltd. |

**Bangladesh Institute of Bank Management (BIBM)**
Plot No. 4, Main Road No. 1 (South), Section No. 2, Mirpur, Dhaka-1216
Tel: 48032091-4; 48032096-7, 48032104,E-mail bibmresearch@bibm.org.bd; Web: www.bibm.org.bd

Price: BDT 300.00
USD 8.00