

The Evolution of Corporate Governance Practices in Bangladeshi Banks with the Implementation of the Code of Corporate Governance

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1. Introduction

The Global Financial Crisis has brought into focus the need for better supervision and governance in banks internationally. Banks are corporations and their firm value depends on good governance as any other firms. Corporate governance in banks is also of interest to businesses that are dependent on bank finance. The cost of funds in efficiently governed banks is found to be lower. From policy perspective bank regulators (reserve bank or central bank) would have interest in sound corporate governance mechanism in banks from financial system stability perspective.

Bank corporate governance is particularly important in less developed countries like Bangladesh because economic development and growth is dependent to a large extent on well functioning, stable and soundly managed banking system. For this reason, in 2004, Bangladesh Enterprise Institute (BEI) published the Code of Corporate Governance (CCG) for Bangladesh that is suited for, among others, financial institutions. The obvious function of a CCG for Bangladesh is to improve the general quality of corporate governance practices in Bangladesh. The Code does this by defining best practices of corporate governance and specific steps that organisations can take to improve corporate governance. In addition, the Code provides a standard that can be used to measure firms' progress towards the goal of best practices. However, a problem, which is how the CCG can be fully implemented, needs to be considered. Full implementation of the Code in all banks of Bangladesh would undoubtedly take a number of years and would require the cooperation of a vast number of relevant stakeholders (BEI, 2004).

The purpose of this study is to assess whether the corporate governance practices in Bangladesh banks have undergone significant improvement after introduction of the Code. To achieve the objectives of the study, we do content analysis of the annual reports of banks in Bangladesh before and after the introduction of the Code in 2004 and score the various elements of corporate governance. Thereafter use a non-parametric difference test to answer the research question whether the introduction of the Code has led to significant improvement in corporate governance practices of banks in Bangladesh.

The study is important for several reasons. First, we contribute to the existing literature on corporate governance in banks by providing evidence from a hitherto unexplored country like Bangladesh. As already indicated above, some existing literature supports that improved corporate governance practice in banks leads to better allocation of resources within an economy and contributes to growth. Second, the findings from the assessment of the compliance with the Code of corporate governance would help the Securities and Investment Commission in Bangladesh as well at the Bank of Bangladesh to take suitable policy measures to further strengthen the corporate governance of banks in Bangladesh. These positive findings are also expected to help the banking industry in Bangladesh to further strengthen the corporate governance practices so as to achieve world's best practice.

This paper is organized as follows. Section 2 presents a brief of overview of the banking industry in Bangladesh. Section 3 describes previous literature. Section 4 presents data and method used in this study. Finally the results are then shown in Section 5 and conclusions are addressed in final Section.

2. A Brief Overview of Banking Industry in Bangladesh

There are about forty local banks in Bangladesh totally. Most of these banks are private commercial banks and specialized banks except for four nationalized commercial banks (Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank).

Commercial Banks

The commercial banking system dominates the financial sector with limited role of Non-Bank Financial Institutions and the capital market. The banking sector alone accounts for a substantial share of assets of the financial system. The banking system is dominated by the four State Owned Commercial Banks, which together control more than 30% of deposits and operates 3383 branches (50% of the total) as of June 30, 2008 (Bangladesh Bank 2009).

Specialized Banks

Out of the five specialized banks, two (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) were created to meet the credit need of the agricultural sector while the other two (Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangtha (BSRS)) are for extending term loans to the industrial sector of Bangladesh (Bangladesh Bank 2009).

3. Literature Review

In the area of corporate governance practices of banks, three strands of literature are found. First strand focuses on how the corporate governance practices in banks differ from those in non-banking firms (for example, Prowse 1997; Furfine 2001; Morgan 2002; Macey and

O'Hara 2003). Furfine (2001) suggested that banks have two related characteristics that inspire a separate analysis of the corporate governance of banks. First, banks are generally more opaque than nonfinancial firms. Although information asymmetries plague all sectors, evidence suggests that these informational asymmetries are larger with banks (Furfine, 2001). From the perspective of banking, loan quality is not readily observable and can be hidden for long periods. In addition, banks can alter the risk composition of their assets more quickly than most non-financial industries, and banks can readily hide problems by extending loans to clients that cannot service previous debt obligations. Therefore, Morgan (2002) found that bond analysts disagree more over the bonds issued by banks than by nonfinancial firms. The comparatively severe difficulties in acquiring information about bank behavior and monitoring ongoing bank activities hinder traditional corporate governance mechanisms (Levine 2004).

The second strand of literature looks at how better governance practices in banks can help their financial development and growth (For example, Levine 1997; Bushman and Smith 2003). Bushman and Smith discussed economics-based research focused primarily on the governance role of financial accounting information and propose future research ideas. As presented in their study, a framework that isolates three channels through which financial accounting information can affect the investments, productivity, and value-added of firms. The first channel involves the use of financial accounting information by managers and investors in identifying promising investment opportunities. The second channel is the use of financial accounting information in corporate control mechanisms that discipline managers to direct resources toward projects identified as good and away from projects identified as bad. The third channel is the use of financial accounting information to reduce information asymmetries among investors.

The third strand looks at corporate governance practices in banks from the perspective of its impact on performance and efficiency of the banks themselves (For example, Jensen and Meckling 1976; Williamson 1985; Hovey et al. 2003). This strand has roots in the agency theory and underpins our study.

Against the above background, the principal aim of the project is to assess whether the corporate governance practices of banks in Bangladesh have undergone significant improvement after introduction of the Code.

4. Data and Method

The data required for the study was collected from the annual reports of thirty banks in Bangladesh available at the website of the Mint Global Database to identify whether the reports appear to reflect these banks complying with the CCG. We did a content analysis of the latest annual reports of banks for the year prior to and after year 2004 when the CCG was introduced. As the Code was introduced in the year 2004 we examined the annual reports for the year 2003 and where this was not available then for the latest year prior to 2004 for which it was available. Similarly we examined the annual reports for the year 2004 and thereafter for the year 2008 or the latest year for which these were available.

Compliance of Banks to each of the Elements of the Code of Corporate Governance

In the first place, under the CCG's first section entitled 'Board Issues', many detailed statements about banks' board of directors had to be reviewed. The section 'Board Issues'

includes 17 items which encourage boards to become more proactive and effective by training directors in corporate governance and their responsibilities. First, in terms of items 1.6 separation of chairman and CEO and 1.7 the Size of the Board, this study found that most of these 30 banks have these 2 items mostly observed in their annual reports in the 3 years. In other words, the positions of chairman of the board and CEO are given to different individuals since they have independent functions and the size of the boards are large enough to ensure a well-functioning and involved board in most banks of Bangladesh in all 3 years.

Second, the items 1.1 mission of the board of directors; 1.2 duties of the board; 1.5 training; 1.10 Committees (Type, Structure, Responsibilities); 1.11 Director's Report; 1.13 Company Secretary/Compliance Officer; 1.14 Access to Senior Management Outside and Professional Advice and 1.17 Disclosures and Reporting are not or barely observed in most banks' annual reports in the year (2002) before issuing the CCG, but these items were partly, mostly or even completely observed in banks' annual reports in the year (2004) when the CCG was issued and the year (2006) after issuing the Code. That means most banks in Bangladesh did not pay much attention to the mission of the board of directors, the duties of board, training of individual directors, establishing appropriate committees, making adequate annual director's reports, employing qualified secretary or other qualified compliance officer, accessing to senior management outside and professional advice and expanding the annual report to cover adequate disclosures. However, in the year (2004) of issuing the CCG, the annual reports of most banks indicate that most banks began applying these provisions of the Code. Especially in the year 2006 which was 2 years after the issuance of the Code, this situation became even more obvious because full implementation of the Code would undoubtedly take a number of years.

Third, it is hard to find any evidence related to items 1.3 Board Membership Criteria; 1.4 Nomination of New Board Members; 1.8 Board Compensation; 1.12 Code of Conduct; 1.15 Evaluation of Board Performance and 1.16 Employees for most banks' annual reports in the year before issuing the Code. Even in the year of issuing the Code and the year after that, this kind of situation still exists or has been changed slightly. It means that these items can only be barely observed even in recent years' annual reports. Finally, the item 1.9 Board Agenda is partly observed in most banks' annual reports in all 3 sample years. There is no significant change since the year before the issuance of the Code until the year after that.

In the second place, this issue of the role of shareholders' for banks has been reviewed. The provisions of this section 'Role of Shareholders', which includes 3 items, let the most shareholders be well aware of their rights and exercise them. First, this study found that item 2.1 Shareholders Handbook cannot or hardly be observed in most banks' annual reports. Although most banks in Bangladesh do educating and informing shareholders in different methods, the Shareholders' Handbook cannot be available on the websites of the banks or stock exchanges. Second, the information relevant to the items 2.2 General Meetings and 2.3 Voting Rights and Duties cannot or hardly be observed in most banks' annual report before the emerging of the Code. After the emerging of the Code, nevertheless, there is an improvement in informing shareholders regarding the general meetings and voting rights and duties. The evidence of improvement in informing shareholders regarding the general meetings and voting rights and duties are partly or even mostly observed in the banks' annual reports for the year 2004 and especially for the year 2006.

In the third place, the CCG's third section is entitled 'Financial Reporting, Auditing and Non-financial Disclosures', which includes 5 items. The focus of this section is on "financial reporting, auditing and non-financial disclosures" providing the tools by which stakeholders can monitor and evaluate an organisation's corporate governance practices. First, most of these 30 banks have item 3.1 Accounting Standards be mostly or even completely observed in their annual reports in the 3 years. Thus, accounts of most banks in Bangladesh conform to all Bangladesh Accounting Standards (BAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) not only in the year after issuing the Code but also in the year before issuing the Code. Second, the items 3.2 Preparation of Accounts, 3.4 Internal Audit and 3.5 disclosures are not or hardly observed in most banks' annual reports in the year before issuance of the Code. In contrast, these items can be partly, mostly or even completely observed in banks annual reports in the year when the CCG was issued and especially in the year after issuing the Code. Third, the item 3.3 External Auditors can be more observed in most banks' annual reports as the time goes from the year before issuing the Code to the year after issuing the Code.

In the fourth place, the 'Financial Institutions' section of the CCG, which has 14 items, is specifically addressed in the evaluation due to their unique position as the lifeblood of any economy. As financial institutions form an essential link in the chain of national economic development, the health of banks and public confidence in them are necessary to sustain and expand economic activity. First, items 4.1 Develop and Publish a Code of Best Practice for Customers, 4.7 Develop and Assign Personnel to a Corporate Governance, 4.8 Duties to Depositors and Customers, 4.11 Credit Assessment and Asset Monitoring and 4.12 Debt Recovery cannot or barely be observed in most banks' annual reports in all 3 years. Hence,

these items have not attracted most banks' attention. Second, the items 4.3 Expand Disclosures in the Annual Report and other Public Documents to Comply with the CCG, 4.4 Initiate a Risk Management Review, 4.5 Review Credit Assessment Process to Incorporate Corporate Governance into Credit Decisions, 4.6 Develop and Affirm an Attestation Form the CEO/MD that Material Risks are Being Effectively Identified, Monitored and Managed, 4.9 Disclosures, 4.10 Board of Directors, 4.13 Risk Management and 4.14 Corporate Governance Compliance can be increasingly observed in most banks' annual reports as the time goes from the year before issuing the Code to the year after issuing the Code.

The compliance by a bank with each of the elements of corporate governance was scored on a five-point scale. The contents of the annual reports were assessed to examine the level of compliance to the particular element. Where the bank has fully complied with a particular element, it was scored 4; largely complying was scored 3; partially complying was scored 2; barely complying was scored 1; not complying was scored 0. The OECD has used similar scoring practice to assess the compliance of various countries to the OECD Code of Corporate Governance. Scores of each of the banks against each of the elements of corporate governance was determined and thereafter added up to arrive at total score. The total scores of each of the thirty banks towards compliance with the CCG before and after issuance of the Code are listed as follows:

Table 1. Scores of Bank Compliance with the CCG

Serial number of the bank	Before 2004	After 2004	Serial number of the bank	Before 2004	After 2004
1	143.00	228.00	16	140.00	116.00
2	121.00	167.00	17	89.00	142.00
3	100.00	130.00	18	93.00	151.00
4	98.00	177.00	19	120.00	153.00
5	100.00	213.00	20	61.00	151.00
6	111.00	150.00	21	36.00	168.00
7	33.00	168.00	22	45.00	117.00
8	94.00	163.00	23	74.00	151.00
9	102.00	241.00	24	71.00	132.00
10	91.00	165.00	25	97.00	166.00
11	97.00	137.00	26	106.00	157.00
12	71.00	165.00	27	73.00	198.00
13	94.00	230.00	28	104.00	197.00
14	98.00	200.00	29	110.00	201.00
15	39.00	76.00	30	97.00	170.00

To assess whether the corporate governance practices in banks have significantly improved after introduction of the Code, we use the Wilcoxon signed ranked test. The results of the test are presented in the next section.

5. Results

The result of the Wilcoxon signed ranks test and the Sign test are shown in the tables as follows:

Table 2. Wilcoxon Signed Ranks Test Statistics

		N	Mean Rank	Sum of Ranks
Compliance with the CCG after Issuing the Code - Compliance with the CCG before Issuing the Code	Negative Ranks	1 ^a	1.00	1.00
	Positive Ranks	29 ^b	16.00	464.00
	Ties	0 ^c		
	Total	30		

- a. Compliance with the CCG after Issuing the Code < Compliance with the CCG before Issuing the Code
- b. Compliance with the CCG after Issuing the Code > Compliance with the CCG before Issuing the Code
- c. Compliance with the CCG after Issuing the Code = Compliance with the CCG before Issuing the Code

Table 3. Wilcoxon Signed Ranks Test Statistics

	Compliance with the CCG after Issuing the Code - Compliance with the CCG before Issuing the Code
Z	-4.762 ^a
Asymp. Sig. (2-tailed)	.000

a. Based on negative ranks.

Table 4. Frequencies of Sign Test

		N
Compliance with the CCG after Issuing the Code - Compliance with the CCG before Issuing the Code	Negative Differences ^a	1
	Positive Differences ^b	29
	Ties ^c	0
	Total	30

a. Compliance with the CCG after Issuing the Code < Compliance with the CCG before Issuing the Code

b. Compliance with the CCG after Issuing the Code > Compliance with the CCG before Issuing the Code

c. Compliance with the CCG after Issuing the Code = Compliance with the CCG before Issuing the Code

Table 5. Sign Test Statistics

	Compliance with the CCG after Issuing the Code - Compliance with the CCG before Issuing the Code
Z	-4.930
Asymp. Sig. (2-tailed)	.000

The results of the above tests confirm that there is significant improvement in the corporate governance practices of banks in Bangladesh after introduction of the Code.

6. Conclusion

The study examined whether the corporate governance practices of banks in Bangladesh have significantly improved after introduction of the Code of Corporate Governance for banks in Bangladesh. The Code is voluntary. Content analysis was used to assess the compliance to various elements of the Code. We propose to study two more aspects in future work: what has been the impact on performance of the banks before and after introduction of the Code and through structured interviews of banks executives assess their perceptions about the Code and impediments to full compliance with the Code if any.

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Checklist for Code of Corporate Governance

Short Checklist for Code of Corporate Governance in Bangladesh:

	0	1	2	3	4
<p>1. Board Issues: Board of directors to be central entity & governing body accountable to shareholders/stakeholders of the organisation. Not to be involved in day-to-day operations. Mgt accountable to board and information systems to provide relevant, transparent and material info to the board.</p>					
<p>1.1 Mission of the Board of Directors 1.1.1 to lead and oversee strategy & policy of bank; 1.1.2 provide direction to mgt; 1.1.3 actions to be in the best interest of the bank and shareholders</p>					
<p>1.2 Duties of the board: The Board of directors to define its role and job responsibilities</p> <p>1.2.1 Serve legitimate interests of shareholders &/or owners & account to them fully. Ensure bank complies with all relevant laws and regulations including the Code of Governance and other codes of best practice.</p> <p>1.2.2 Ensure bank complies with all relevant laws and regulations including the Code of Governance and other Codes of best practice</p> <p>1.2.3 Determine, monitor, and evaluate strategies, policies, management performance criteria and business plans.</p> <p>1.2.4 Identify and monitor key risk areas and performance indicators of the enterprise.</p> <p>1.2.5 Ensure that technology and information systems used in the organisation are sufficient to operate the organisation effectively and maintain competitiveness.</p> <p>1.2.6 Review and monitor risk management systems and internal control mechanisms to enable decision making and maintain the accuracy of financial results.</p> <p>1.2.7 The Board of directors should appoint the managing director/Chief Executive officer and participate in the appointment of senior management.</p>					

1.3 Board Membership Criteria	0	1	2	3	4
<p>1.3.1 Each director to be well-qualified to carry out their duties and be able and prepared to devote sufficient time and effort to his/her duties as a director. To ensure sufficient time will be given directors should not hold directorships in more than 6 boards</p> <p>1.3.2 Directors should each add value to the board and bring independent judgement to bear on their duties.</p> <p>1.3.3 Directors who have not attended at least 50% of the board meetings without a leave of absence should not be eligible for re-election to the board.</p>					
<p>1.4 Nomination of New Board Members</p> <p>1.4.1 When nominating new members, shareholders should consider the mix of director characteristics, experiences, diverse perspectives and skills that is most appropriate for the organisation.</p> <p>1.4.2 A nominating Committee of the Board can be a method to seek out and nominate qualified persons for directorships.</p> <p>1.4.3 Shareholders should have an opportunity to nominate board candidates before the notice of annual meeting.</p>					
<p>1.5 Training</p> <p>Companies should recognise that a directorship is a professional appointment and they should provide opportunities and funds for training of individual directors and the development of the board.</p>					
<p>1.6 Separation of Chairman and CEO</p> <p>The positions of Chairman of the Board and CEO should be filled by different individuals since their functions are necessarily separate.</p>					
<p>1.7 Board Composition</p> <p>1.7.1 The size of the board should be large enough (membership of 7 to 15 directors) to include directors with diverse expertise and experience.</p> <p>1.7.2 The board should periodically review its size and composition.</p> <p>1.7.3 A majority of board members should be non-executive and independent directors.</p>					

1.8 Board Compensation:

Board Compensation should be sufficient to compensate directors for the time and effort required to complete their duties well.

1.9 Board Agenda:

1.9.1 The Agenda and materials for each board meeting should be provided to directors sufficiently in advance of the board meeting to allow them to prepare and provide substantial input and comments on agenda items.

1.9.2 The Board Agenda should be prepared by the chairman of the board, who should also determine the materials for the board meetings, and all board papers to be organised and circulated by the bank secretary.

1.10 Committees (Type, structure and responsibilities)

1.10.1 Committees in which conflicts of interest are more likely to occur (Audit, Nomination, etc.) should be made up of a majority of non-executive directors, or at least should be headed by a non-executive director.

1.10.2 Companies with greater than taka 300 million turnover should have an audit committee of the board.

1.10.3 Companies should also consider forming other board committees as deemed necessary (such as Nomination committee or a Remuneration committee).

1.10.4 All committee should be given clear terms of reference including:

- structure;
- Roles, responsibility and authority delegated to it by the board;
- frequency, length and agenda of committee meetings
- the above info on committees should be made available by the bank on request.

1.10.5 The committee should have access to adequate resources, including the services of the secretary who should :

- act as secretary to, or at least attend, the committee meetings;
- coordinate between the board and its committees;
- Ensure that the board and its committees are properly constituted and advised.

1.11 Director’s report:

The annual director’s report is an important communication between shareholders and the board of directors.

1.11.1 It should be a strategic document that explains both past results, board decisions and the future direction of the organisation.

1.11.2 The guideline for inclusion of items in the directors Report should be materiality to the company’s operations and results.

1.12 Code of Conduct

1.12.1 Boards should create a Code of Conduct for directors detailing directors roles, responsibilities and duties .

1.12.2 Every year, directors should review and agree to abide by this Code of conduct.

1.13 Bank secretary/ compliance officer

1.13.1 Banks to employ a qualified company secretary or other qualified compliance officer to advise senior management and the board on their responsibilities and liability with regard to legal and regulatory requirements and compliance with the Code of Corporate Governance.

1.13.2 Bank secretary/compliance officer should provide advice on issues of internal control as well as requirements due to external entities.

1.13.3 Bank secretary/compliance officer should keep an annual record of the company’s compliance/non-compliance with the code of corporate governance, and in the event of non-compliance an explanation should be sought for the record from the board.

1.13.4 In the event that the board cannot justify the cost of a full time in-house Banks -secretary, the functions may be performed by external advisers, provided that these advisers are also not the auditor, bank lawyer, or other adviser to the board.

1.14 Access to senior management, outside professional advice

1.14.1 The board may seek out or invite those in senior management positions, employees and other non-directors or outside professionals to board meetings, as required, for access to any information

<p>deemed appropriate or necessary in order to effectively deliberate on decisions and perform its duties.</p> <p>1.14.2 The board can obtain at bank's expense, outside legal or other professional advice on any matter deemed necessary for it to effectively perform its duties.</p> <p>1.14.3 The MD/CEO shall be informed of all requests for information put to management.</p> <p>1.15 Evaluation of board performance</p> <p>1.15.1 The board should evaluate its own performance both collectively and individually including the performance of the chairman, at least once a year to ensure it is operating effectively and adjust its constitutions and policies accordingly.</p> <p>1.15.2 Boards may also consider using an independent outsider to conduct an external evaluation of the board and its performance, which will make recommendations based on its evaluation.</p> <p>1.16 Employees</p> <p>1.16.1 Develop an Employee Code of Conduct</p> <p>1.16.2 The Code of Conduct should be incorporated into employment contracts and be a requirement of employment.</p> <p>1.16.3 An enforcement programme should identify and punish violations of the Code of Conduct</p> <p>1.17 Disclosures and Reporting</p> <p>1.17.1 Make appropriate changes in auditor appointment guidelines to institute a rotation of audit firms or partners.</p> <p>1.17.2 Expand the annual report to include disclosures as provided in the Sample Contents of an annual report as given in the Appendix of the Code of Conduct booklet.</p>					
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2. <u>Role of Shareholders:</u>	0	1	2	3	4
2.1 Shareholders Handbook					
2.1.1 To educate and inform shareholders of listed banks together with the Securities and Exchange Commission and/or stock exchanges					

should describe and explain those rights and responsibilities in a Shareholders' Handbook that should be available to all shareholders with the notice for the AGM.

2.1.2 The Shareholders' Handbook should also be made available on the websites of the Security, stock exchanges and individual Bank's websites and offices.

2.2 General Meetings

2.2.1 Shareholders should be well –informed regarding general meetings and the meeting should be organised in a manner that allows for maximum shareholders' participation, subject to reasonable limitations and equitable treatment of shareholders.

2.2.2 The outcome and proceedings of general meetings should be recorded and be verifiable.

2.2.3 Shareholders have the right to receive information about bank resolutions, decisions and operations described in a manner that can be understood by a layperson.

2.2.4 Banks should explain disclosures in detail and provide information about the effect of such.

2.3 Voting rights and duties

2.3.1 The principle of one share, one vote, should guide every banks. All shareholders within the same class should have the same voting rights. Information regarding voting rights should be available to potential shareholders.

2.3.2 To enfranchise and facilitate voting by shareholders, proxy voting rules should be simple and easy to follow.

2.3.3 Regardless of the method of voting (proxy or in a meeting) all votes should be counted and the results declared.

2.3.4 All shareholders should exercise their right to vote in a considered and appropriate manner. The decision not to vote should be recognised as an endorsement of the actions of the board and the management.

2.4 Review procedures for nomination of directors and external auditors to ensure adequate and appropriate opportunities for

shareholder participation.					
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<p>3. Financial Reporting, auditing and non-financial disclosures:</p> <p>3.1 Accounting Standards: Banks should ensure that their accounts conform with all BD accounting standards (BAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and the implementation time frame given by ICAB.</p> <p>3.2 Preparation of Accounts: Banks must employ qualified personnel with professional accounting qualifications to prepare financial statements and accounts.</p> <p>3.3 External Auditors:</p> <p>3.3.1 External Auditors should be independent, well-qualified to carry out their duties and free of conflicts of interest.</p> <p>3.3.2 Auditors should be appointed by the shareholders. Shareholders should be provided an opportunity to nominate audit firms prior to the Notice for the AGM.</p> <p>3.4 Internal Audit:</p> <p>3.4.1 All listed banks must have an internal audit function within the organisation. Private companies should consider establishing a system of internal controls if they do not have an internal audit department.</p> <p>3.4.2 The internal audit department should have a broad scope of work to investigate all levels of the organisation and be independent from management, with direct access to the Board of Directors and the Audit Committee.</p> <p>3.4.3 Directors must take adequate action to protect the bank and shareholders based on internal audit reports.</p> <p>3.5 Disclosures</p> <p>3.5.1 The board of Directors should present a balanced assessment of the bank’s position and prospects that may be understood by</p>	0	1	2	3	4
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<p>shareholders.</p> <p>3.5.2 All disclosures listed in this section should be disclosed in a public announcement and made available to the public and to shareholders.</p> <p>3.5.3 Make appropriate changes in auditor appointment guidelines to institute a rotation of audit firms or partners.</p> <p>3.5.4 Expand the annual report to include disclosures as provided in the Sample Contents of an Annual Report.</p>					
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4. Financial Institutions (FI) checklist:	0	1	2	3	4
<p>4.1 Develop and publish a Code of Best Practice for Customers.</p> <p>4.2 Develop and publish a Code of Corporate Social and Environmental Responsibility.</p> <p>4.3 Expand disclosures in the annual report and other public documents to comply with the Code of Corporate Governance.</p> <p>4.4 Initiate a risk management review, if such a review is not already practised.</p> <p>4.5. Review credit assessment process to incorporate corporate governance into credit decisions.</p> <p>4.6. Develop and affirm an attestation from the CEO/MD that material risks are being effectively identified, monitored and managed.</p> <p>4.7. Develop and assign personnel to a Corporate Governance compliance program.</p> <p>4.8 Duties to depositors and customers:</p> <p>4.8.1 observe the highest standard of care and due diligence in assessing and monitoring risk, including credit risk; interest rate risk, operational risk, political risk etc.</p> <p>4.8.2 obligation to observe the highest standard of customer care and efficiency while ensuring their own commercial competitiveness.</p> <p>4.8.3 Info to be provided to depositors, customers and the public to enable them to adequately judge the strength and health of the bank directors and managers are adequately safeguarding depositors funds;</p> <p>4.8.4 FIs to publish a Code of Best Practice for</p>					

<p>customers and a Code of Social and Environmental responsibility</p> <p>4.8.5 system of handling complaints to be disclosed to customers and potential customers;</p> <p>4.9 Disclosures:</p> <p>4.9.1 FIs must provide transparent comprehensive disclosures to the public, depositors and shareholders.</p> <p>4.9.2 Disclosure information must be made available to shareholders, depositors and the public in a standardised format on the bank’s website, branches and head office and upon request;</p> <p>The types of info that needs to be disclosed are:</p> <ol style="list-style-type: none"> 1. type and percent of capital relative to credit exposure; 2. Institutions credit rating if any; 3. exposure to concentration relative to institutions’ capital; 4. maturity grouping of assets and liabilities based on the remaining period; 5. Info on market risk; 6. nature and extent of exposure to and transactions with related parties and affiliates; 7. Publication of a Code of Best Practice for customers; 8. Publication of a Code of corporate social and environmental responsibility; 9. disclosure of system of handling complaints; 10. nature of conflicts of interest with directors or senior managers and rules for handling these; 11. structure of board, senior management, and organisation 12. info about the incentive structure of bank. <p>4.10 Board of directors:</p> <p>4.10.1 The Board should set the policy and strategic direction for the FI. Committees and senior management should then carry out theses policies and monitor their implementation.</p> <p>4.10.2. Directors must be fit, proper and competent to carry out their duties.</p> <p>4.10.3 The board of FIs must have an audit committee which oversees the internal and the external audit process.</p> <p>4.11 Credit Assessment and Asset monitoring:</p>					
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<p>4.11.1 Good business practices to be observed by FIs:</p> <p>4.11.2 borrowers to have a business plan and strategy for use of funds borrowed;</p> <p>4.11.3 The credit assessment and loan approval process should be isolated from personal conflict of interest and political influence;</p> <p>4.11.4 Risk assessment for groups of banks should use a total risk assessment of the whole bank.</p> <p>4.11.5 FIs should use their position and influence as suppliers of financing to actively encourage their customers to conform to the Code of Corporate Governance by using the Code in credit decisions.</p> <p>4.11.6 FIs should consider the application of advantageous banking facilities to their corporate customers who maintain high standards of corporate governance, risk management and business strategy management.</p> <p>4.12 Debt Recovery: There should be a separation of personnel and reporting responsibility between loan origination/marketing, credit approval, and transaction processing and loan recovery.</p> <p>4.13 Risk Management: Corporate Governance arrangements in FIs should include systems and procedures that identify, monitor and manage business risks.</p> <p>4.14 Corporate Governance compliance: FIs should have an officer assigned to monitor and report on corporate governance compliance. The Compliance officer should make regular reports to the board on the adequacy of corporate governance arrangements.</p>					
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