



Daffodil International University

INTERNSHIP REPORT

ON

Corporate Governance of Jamuna Bank Ltd.

**A Study on Jamuna Bank Ltd
Lalmatia Branch, Dhaka.**



Jamuna Bank Limited

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Daffodil International University

INTERNSHIP REPORT

ON

Corporate Governance of Jamuna Bank Ltd.

A Study on Jamuna Bank Ltd

PREPARED FOR

M. Mokarrom Hossain

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Batch: 26th

BBA Program

Daffodil International University

Date of Submission: 18/10/2014

PREFACE

After completion of BBA program, I was placed in Lalmatia Branch Of Jamuna Bank Ltd. Bangladesh for my internship program. Theoretical discussion have sometimes differs with practical world and I was put there to have a practical working experience and have an understanding for the real from a close distance. One of the most tried and proven methods of combating the shortcoming in experience are the internship program. This type of curriculum is perhaps the best system yet devised to integrate education and experience.

In the practical field BBA program is targeted to produce skillful “Business Executive” having an absolute professional outlook. So the bachelor graduates of this discipline should be programmatic and should have a firsthand view of the real life business environment. The prime objective of the internship program is to produce learners with practical organizational environment. So that they can tune up themselves for the jobs in future and can get an opportunity to reconcile the theoretical knowledge with real life situation. For this reason internship program is an indispensable part of the BBA program.

Acknowledgement

First of all I like to give the greatest gratitude to my almighty for making me enable to make this report.

I express my heartiest gratitude and deepest respect to my teacher M. MOKARROM HOSSAIN supervisor of my internship program for his brilliant and excellent guidance and assistance to complete this report.

My sincere gratitude go to frist assistant vice president, of The Jamuna Bank Ltd, Lalmatia Branch, Dhaka for giving the excellent opportunity and support me to complete my internship report.

He guided me from the initial conceptualization to planning and designing the report. My faculty advisor guided me in proceeding with the report works. He suggested me with additional directions. For them I could complete my internship along with this report successfully.

I would also like to thank all the officials of Jamuna Bank Ltd., especially the officer in Deposit section, officers in bills and remittance dept. of the branch working with them has been a pleasant experience. From the very beginning they welcomed me cordially, which made my internship and my job much easier and enjoyable. I warmly thank them for their support.

And, lastly I would like to thank all the respondents of my survey at desk of the Branch.

Out of their busy schedule they made time for me and provided me with useful information. I thank all of them for their cooperation.

Letter of Transmittal

Date:

To

M. Mokarrom Hossain

Professor

Department of Business Administration

Faculty of Business and Economics

Daffodil International University

Subject: Submission of Internship report on “An Analysis of Corporate Governance of Jamuna Bank Limited: A Study on Lalmatia Branch, Dhaka”.

Dear Sir,

This is a great pleasure to submit my internship report on "**An Analysis of Corporate Governance of Jamuna Bank Limited: A Study on Lalmatia Branch, Dhaka**". It was a golden opportunity for me to acquire knowledge and practical experiences regarding the procedures and functions while working at the Lalmatia Branch of Jamuna Bank Limited. So, I firmly believe that, these knowledge and experiences will help me in my professional life.

I have tried hard to fulfill your expectations by sharing details of each and every topic and avoiding unnecessary amplification of the topics.

Therefore, I will be very much glad to hear from you for further clarification.

Sincerely yours,

.....

S. M. Monirul Islam

ID: 102-11-1619

Major in Accounting

Department of Business Administration

Faculty of Business and Economics

Daffodil International University

Approval Certificate

This is to certify that S. M. Monirul Islam, ID. 102-11-1619, major in Accounting is a regular student of Bachelor of Business Administration under the department of Business Administration, Daffodil International University. He has successfully completed his internship at Jamuna Bank Ltd, Lalmatia Branch Dhaka and he has prepared his internship report under my supervision. His assigned Internship topic is “**An Analysis of Corporate Governance of Jamuna Bank Limited: A Study on Lalmatia Branch, Dhaka**”. He is permitted to submit the internship report for presentation.

I wish him every success in life and expect a great future.

.....

M. Mokarrom Hossain
Professor
Department of Business Administration
Faculty of Business and Economics
Daffodil International University

Declaration

I, the undersigned, hereby declare that the piece of work has been prepared by me under the guidance of M. Mokarrom Hossain, Professor, Department of Business Administration as a requirement for the accomplishment of BBA degree from the Department of Business Administration, Daffodil International University. It is also declared that, this report has been prepared for academic purpose only and has not been/will not be submitted elsewhere for any other purposes.

S. M. Monirul Islam

ID NO: 102-11-1619

BBA 26st Batch

Department of Business Administration

Daffodil International University

Executive Summary

Jamuna Bank Limited offers to explore the world of progressive Banking in Bangladesh. It is a state owned commercial bank and is catering the need of the mass business people. Jamuna Bank was born with a new concept of purposeful banking sub serving the growing and diversified financial needs of planned economic development of the country.

Jamuna Bank Limited (JBL) is the largest private commercial bank among the other private bank in Bangladesh. The Bank has set up a new standard in financing in the Industrial, Trade, Agriculture and Foreign exchange, business. Its various deposit & credit products have also attracted the clients-both corporate and individuals who feel comfort in doing business with the Bank. Realizing the growing significance of marketing in banking sector to exist successfully in today's competitive banking industry, JBL practices its marketing strategies seriously and adopt proper elements of marketing mix. It targets the customer segments analyzing their financial need and offer highly customized products and services to the target customers. JBL offer a reach portfolio of a bank products including deposit products, loan and advance products, remittance products, cards, international business products, and other services. JBL sets competitive rates of interest and commission for various bank products which in most of the cases are almost same to the competitors. It also attempts to reach its services to the door level of customer by increasing its number of branches and ATM booths, and extending mobile and online banking services. It also performs moderate level of promotional activities. It tries to maintain strong customer relationship and acquire more customer base by proving quality services understanding financial needs of customers and offering services accordingly. The commitment of the bank and people's belief in JBL have given the edge over others to earn this trust about the safe keeping of their money in the right kind of Banking channel.

Acronyms and Elaboration

Serial No:	Acronyms	Elaboration
1	JBL	Jamuna Bank Limited
2	Dept.	Department
3	CFO	Chief financial officer
4	CD	Current deposit
5	STD	Short term deposit
6	SB	Savings Account
7	FD	Fixed Deposit
8	Ltd.	Limited
9	CG	Corporate governance
10	STD	Sort term Deposit
11	SEC	Security and exchange commission
12	PSS	Pension Savings Scheme
13	MSS	Monthly Saving Scheme
14	LDS	Lakhpati Deposit Scheme
15	MDS	Millionaire Deposit Scheme
16	KDS	Kotipati Deposit Scheme
17	BSEC	Bangladesh security and exchange commission
18	MBS	Monthly Deposit Scheme
19	CI&E	Chief Controller of import & Export
20	DGDS	Double Growth Deposit Scheme
21	TGDS	Triple Growth Deposit Scheme
22	PECC	Pacific economic corporation council

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Chapter 1

Introduction



1.1 Introduction

Corporate Governance is concerned with holding the balance between economic and social goals and between individuals and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society” Corporate Governance acts as prerequisite for nurturing transparency, accountability and creating long-term value. In recent years, corporate stakeholders across the globe have become more concerned than ever about the quality of corporate governance (CG) practices and a series of recent corporate collapses in different parts of the world has contributed to their interested concern. Sound CG practices are the foundations upon which the trust of investors (stakeholders, banks, and nonbank financial institutions) and other stakeholders is built; whereas poor CG practices lower the confidence level of a company’s stakeholder, especially that of investors as Sound corporate governance (CG) is a prerequisite to develop a well functioning capital market and it improves access to capital for both public and private entities. The low level of investor confidence, which serves as one of the impediments to increased investments, needs to be addressed for the future growth and development of the capital market of Bangladesh. Taking this into consideration, BSEC has issued the corporate governance guidelines on February 20, 2006. These guidelines have been made mandatory on the listed companies on “comply or explain” basis. The present study aims at examining the extent to which the Bangladeshi companies comply with the corporate governance guidelines issued by the Bangladesh Securities Exchange Commission (BSEC).A good corporate governance system help a bank perform better complying all the rules and regulations. It makes the decisions takers more accountable to respective authorities.



1.2 Background of Study

Knowledge and learning become perfect when it is associated with theory and practice. Theoretical knowledge gets perfection with practical application. As our educational system predominately text based, inclusion practical orientation program, as an academic component is an exception to the norm.

As the parties; educational institution and the organization substantially benefit from such a program, it seems a “win-win situation”. It establishes contracts and networking. Contracts may help to get a job. That is, students can train and prepare themselves for the job market. A developing country like Bangladesh has an overwhelming number of unemployment educated graduates. As they have no internship experience, they have not been able to gain nominal professional experience. So, practical orientation is a positive development in professional arena. The proposed topic is -“Evaluation of Corporate Governance – A Case Study on Jamuna Bank Limited .” assigned by professor M. Mokkarom Hossain.

1.3 Problem definition

With a view to acquire an in-depth knowledge about the practical orientation and experiences of dynamic business world, it is obligatory to undertake an extensive study to prepare a report. As part of the BBA program, I am highly proud to join with Jamuna Bank Limited as Internee and selecting topic “**Evaluation of Corporate Governance – A Case Study on Jamuna Bank Limited**”. I was placed in Jamuna Bank Limited, Lalmatia Branch for a period of three months. This internship is an orientation to the entire working activities of Jamuna Bank Limited, and a study on an overall banking area. Though I had worked there in several departments, but I had to select an area of study in which I can make detail research and present my understanding in the report. This report was an attempt to map out a document, which clearly explains the existing situation in a comprehensive way regarding the overall operations at the JBL. In this context, an in-depth analysis was conducted in order to show the way and to draw up a strategic and effective structure of all sections for the bank.



1.4 Objectives of the study

The objective of the report has two-folds:

1. The main objectives of the report is to assemble knowledge and experience about the corporate governance of Jamuna Bank Ltd.
2. The specific objectives of this report are as follows:
 - To understanding the meaning of good corporate governance.
 - To overview the corporate governance in Bangladesh.
 - To analyze the corporate governance of Jamuna Bank Limited.
 - To put forward some recommendation based on findings.

1.5 Scope of the study

The report is highlighting the major functional area department and procedure of finance and accounting division on due to this short span of time. The report mainly emphasizes the disclosed information in the annual reports of the bank. Besides of this based on some internal information which is not disclosed in the annual reports, an empirical review has been conducted.

1.6 Methodology

The report has been written on the basis of information collected from

Primary Sources of data

- Experience gathered through working at office of the Jamuna Bank Ltd.
- Informal conversation with top management.

Secondary Sources of data

- Annual Report of JBL
- Prospectus & Profile of JBL
- Websites of the Jamuna Bank Ltd.



Data Analysis

This is a descriptive report aiming at evaluating the corporate governance of this bank. The data gathered from both primary and secondary sources were arranged orderly to get a clear picture of the JBL's corporate governance system. The study includes both qualitative and quantitative analysis to evaluate of corporate governance rules as well as the monitoring tools.

1.7 Limitations of the Study

This internship report is my first assignment outside our course curriculum in the practical life. I am the student of “The Department of Bachelors of Business Administration” just have completed our formal education stage. After completing the institutional experience, practical performances in the formal stages become difficult. So in performing this report our lack of proper knowledge greatly influenced in this performance. Besides above, have to face some other limitations are:

- Three months time is not enough for such an extensive study. It is very difficult to collect all the required information in such a short period.
- Relevant papers and documents were not available sufficiently.
- Don't give the data from their source document
- Due to the company policy of Jamuna Bank Ltd, some confidential information might not be presented which could actually precise the report accordingly.



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Chapter 2

The Company profile

Jamuna Bank Limited



2.1 Introduction (an overview of Jamuna Bank)

Jamuna Bank Ltd. is a third generation bank in Bangladesh. It is playing an important role to develop the business sector. The growth of this bank is very good. Its motto is to provide a prompt and quick service to the clients. Jamuna Bank Ltd. has implemented well structured online banking systems that make it easier to provide prompt services to the customer. The Bank is being managed and operated by a group of highly educated and professional team with diversified experience in finance and banking. The Management of the bank constantly focuses on understanding and anticipating customers' needs. The scenario of banking business is changing day by day, so the bank's responsibility is to device strategy and new products to cope with the changing environment. Jamuna Bank Ltd. has already achieved tremendous progress within only eight years. The bank has already ranked as one of top quality service providers & is known for its reputation.

At present the Bank has real-time centralized Online banking branches (Urban & Rural) throughout the Country having smart IT-Backbone. Besides this traditional delivery point, the bank has ATM of its own, sharing with other partner banks & Consortium throughout the Country. The Bank undertakes all types of banking transactions to support the development of trade and commerce of the country. JBL's services are also available for the entrepreneurs to set up new ventures and BMRE of industrial units. Jamuna Bank Ltd., the only Bengali named new generation private commercial bank was established by a group of winning local entrepreneurs conceiving an idea of creating a model banking institution with different outlook to offer the valued customers, a comprehensive range of financial services and innovative products for sustainable mutual growth and prosperity. The sponsors are reputed personalities in the field of trade, commerce and industries.

It can be observed that JBL trying it level best to maintaining the sustain growth level. Although it could not reach the highest position but it growth rate is continuously increasing. Based on the previous performance and the proper utilization of resources, hope that JBL will be able to achieve its goal and would become a finest corporate citizen's in the Banking industry

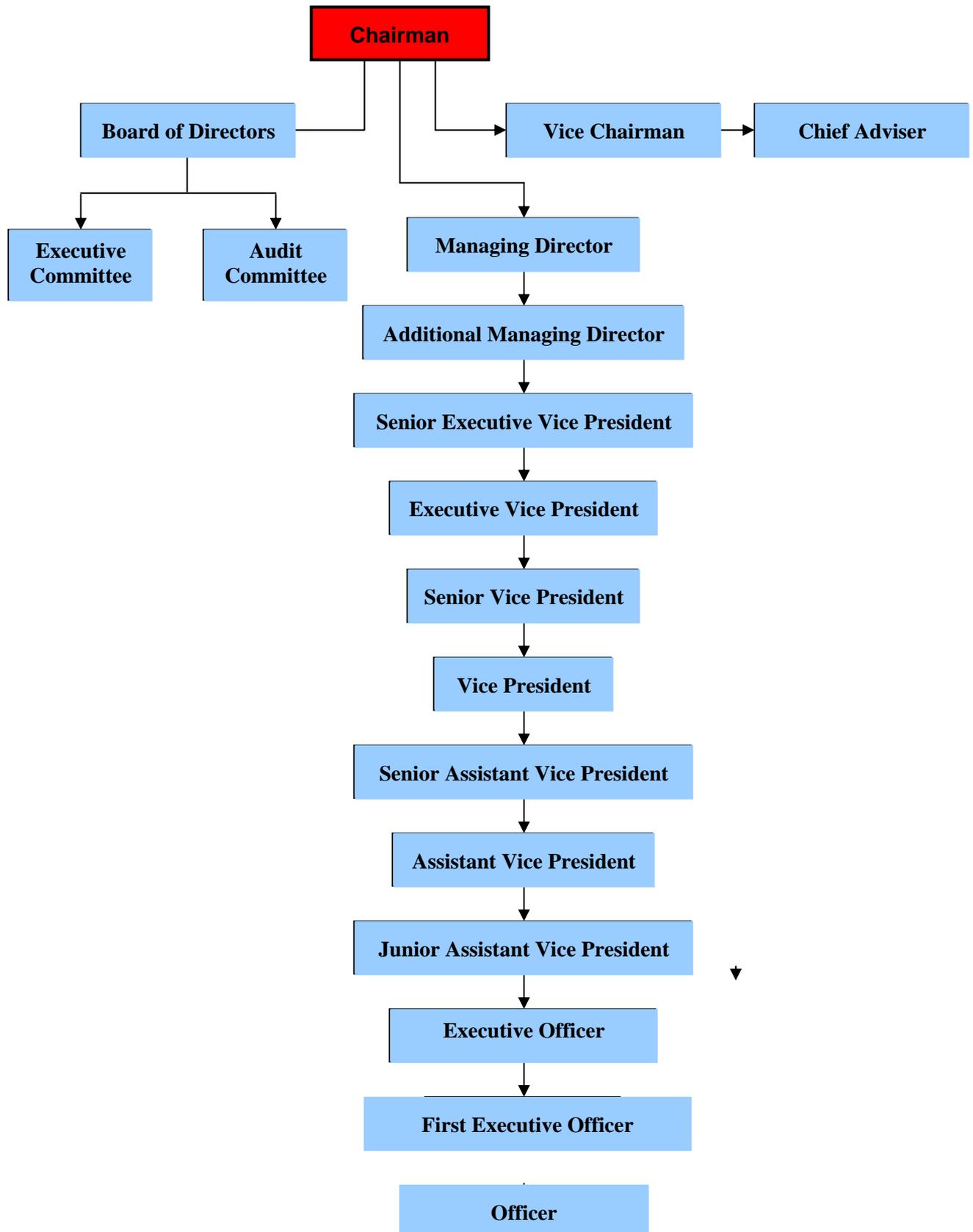


2.2 Corporate information

NAME OF THE BANK	JAMUNA BANK LIMITED
Incorporation Date	April 2,2001
Date of commencement	April 2,2001
Corporate Address	Chini Shilpo Bhaban(2 nd ,3 rd & 8 th floor),3,Motijheel,C/A,Dhaka-1000,Bangladesh
Swift	JAMUBDDH
Chairman	Mr. Khanutosh Majumder
Directors	Engr. A.K.M. Mosharaf Hussain Engr. Md. Atiqur Rahman Al-Haj Nur Mohammad Mr. Md. Tajul Islam Al-Haj Md. Rezaul Karim Ansari Mr. Md. Belal Hossain Mr. Md. Mahmudul Hoque Mr. Farhad Ahmed Akand Mr. Gazi Golam Murtoza Mr. Golam Dastogir Gazi ,MP Mr. Fazlur Rahman Mr. Swakyat ,Abu Khair Mahmad Mr. Sheen Mahmud Mr. Sirajul Islam Vorosha Al-Haj M. A Kayer
Managing Director	Mr. Md. Shofiqul Alam
Secretary	Mr. Md. Malik Muntisir Reza
Deputy Managing Director	Mr. Md. Mozammel Hossain
Auditors	Acnabin,Chartered Accountants, BSRS Bhaban(13 TH Floor), Karwan Bazar, Dhaka
Number of Branches	79 as of 2012
Total number of Employee	1786 as of 2011
Listing Status	Dhaka & Chittagong Stock Exchange Ltd



2.3 Organizational Structure



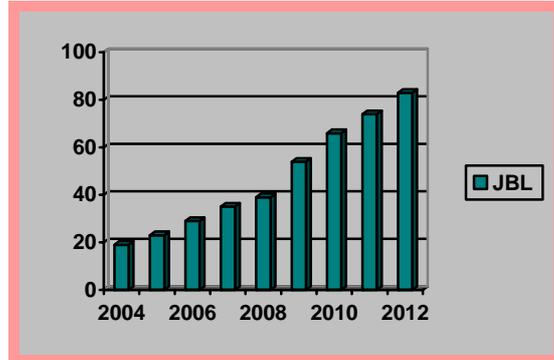


Number of branches

Currently the Jamuna Bank has 83 (eighty three) branches all over Bangladesh.

Table: 1

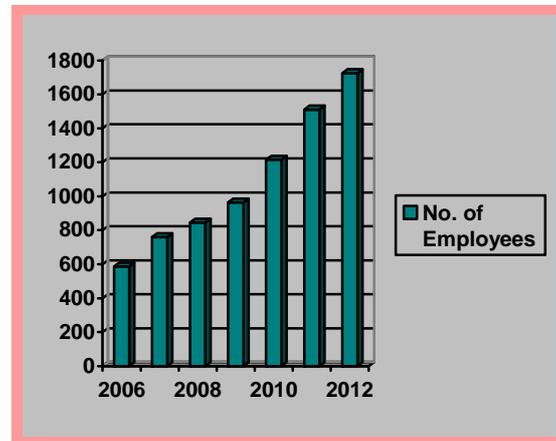
Year	JBL
2004	19
2005	23
2006	29
2007	35
2008	39
2009	54
2010	66
2011	74
2012	83



Source: Annual Report 2012 of JBL

Number of employees

Year	JBL
2005	586
2006	685
2007	759
2008	845
2009	964
2010	1215
2011	1511
2012	1786





2.4 Vision

To become a leading banking institution and to play a significant role in the development of the country.

2.5 Mission Statement

The Bank is committed to satisfying diverse needs of its customers through an array of products at a competitive price by using appropriate technology and providing timely service so that a sustainable growth, reasonable return and contribution to the development of the country can be ensured with a motivated and professional work-force.

2.6 Corporate Slogan

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2.7 Core Values

- Customer Focus
- Integrity
- Quality
- Teamwork
- Respect for the individual
- Harmony
- Fairness
- Courtesy
- Commitment
- Respectable Citizenship
- Business Ethics
- Unique Culture



2.8 Ethical Practices

- We strictly comply with all rules and regulations.
- We provide fair treatment to all stockholder.
- We maintain strict secrecy of customers accounts.
- We listen to our customers and work for their requirement.
- We provide adequate disclosure of corporate information and operation results to shareholder for taking suitable investment decision.
- We ensure work under highly motivated team spirit and fellowship bond.
- We do not encourage projects which are not environment friendly.

2.9 Objectives

- To establish relationship banking and capture a greater pie of the market for different segments through strategic marketing plans.
- To remain one of the best banks in Bangladesh in terms of profitability and assets quality.
- To introduce fully automated systems through integration of information technology.
- To ensure an adequate rate of return on investment.
- To keep risk position at an acceptable range.
- To maintain adequate liquidity to meet matured obligations and commitments.
- To maintain a healthy growth of business through diversified portfolio management.
- To ensure optimum utilization of all available resources.
- To become a compliant bank in all respect like AD ratio, capital adequacy ratio etc.
- To earn and maintain CAMEKS Rating as well as Credit Rating Agency Report for the bank strong.



2.10 Product / Services Scheme

- Corporate Banking
- Personal Banking
- International Trade
- Foreign Remittance
- General credit line
- Shop finance scheme
- Q-Cash
- Lease Financing
- SWIFT
- Securities Trading

2.11 PRINCIPLE ACTIVITIES

General banking

General Banking is the starting point of all banking operation. It is a combination of activities of different sections. General banking has some section in the bank. These sections are as follows:

- ❖ Accounts Opening Section.
- ❖ Cash Section.
- ❖ Clearing Section.
- ❖ Remittance Section.
- ❖ Accounts Section.
- ❖ Others.



Account opening section

It is a customer service section. Here three employees of the bank are always ready to serve their customers. In this section people come to open different kinds of accounts, and schemes. They advise their clients that how can they (clients) open an account and a locker. They are very friendly and cordial to their clients. Here the employees also issue new checkbooks, help customer to open various types of a/c, and help customers about various types of deposit scheme etc. They also use computer for posting purposes.

Types of Account

- ❖ Savings Deposit Account (SB).
- ❖ Current Deposit Account (CD)
- ❖ Short Term Deposit Account (STD).
- ❖ Fixed Deposit Account (FD).

Different Types of special Scheme

The Jamuna Bank Limited (JBL) is containing some Special Deposit Scheme, which are the really profitable for and customer. The Bank maintains transaction with their customer by the different Scheme this are:

- Lakhpati Deposit Receipt (LDS).
- Millionaire Deposit Scheme (MDS).
- Kotipati Deposit Scheme (KDS).
- Education Savings Scheme (ESS).
- Monthly Saving Scheme (MSS).
- Double Growth Deposit Scheme (DGDS).
- Triple Growth Deposit Scheme (TGDS).
- Pension Savings Scheme (PSS).
- Monthly Deposit Scheme (MBS).



2.12 Corporate Banking

The motto of JBL's Corporate Banking services is to provide a personalized solution to our customers. The Bank distinguishes and identifies corporate customers' need and designs tailored solutions accordingly. Jamuna Bank Ltd. offers a complete range of advisory, financing and operational services to its corporate client groups combining trade, treasury, investment and transactional banking activities in one package. Whether it is project finance, term loan, import or export deal, a working capital requirement or a forward cover for a foreign currency transaction, our Corporate Banking Managers will offer you the accurate solution. Our corporate Banking specialists will render high class service for speedy approvals and efficient processing to satisfy customer needs.

Corporate Banking business envelops a broad range of businesses and industries. You can leverage on our know-how in the following sectors mainly:

- Agro processing industry
- Industry (Import Substitute / Export oriented)
 - Textile Spinning, Dyeing
 - Export Oriented Garments, Sweater.
 - Food & Allied
 - Paper & Paper Products etc.
- Telecommunications.
- Information Technology
- Real Estate & Construction ·
- Wholesale trade
- Transport · Hotels, Restaurants ·
- Non Bank Financial Institutions
- Loan Syndication ·
- Project Finance · Investment Banking
- Lease Finance · Hire Purchase · International Banking ·
- Export Finance



2.13 Personal Banking

Personal Banking of Jamuna Bank offers wide-ranging products and services matching the requirement of every customer. Transactional accounts, savings schemes or loan facilities from Jamuna Bank Ltd. make available you a unique mixture of easy and consummate service quality.

We make every endeavor to ensure our clients' satisfaction. Our cooperative & friendly professionals working in the branches will make your visit an enjoyable experience.

- Deposit Accounts
- Q-Cash Round the Clock

2.14 Credit and Risk Management (CRM)

Credit risk is the possibility of failure bank borrower or counterparty to meet its obligations in accordance agreed terms. The major causes of serious banking problems continue to be directly related to lack of credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to change in economic or other attention to change in economic or other circumstances that can lead to deterioration in the credit standing of a bank's counterparties. The goal of credit risk management is to maximize a bank's risk- -- adjusted rate of return by maintaining credit risk exposure within acceptable levels. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long term success of any banking organization. The Basel Committee is encouraging bank to promote sound practices focus on the flowing aspects:

- Establishing an appropriate credit risk monitoring environment.
- Operating under a sound credit- granting process.
- Maintaining an appropriate credit administration, measurement and monitoring process, and
- Ensuring adequate controls over credit risk.



Chapter 3

Corporate Governance: Characterization and Measures



3.1 Introduction

Corporate Governance is the system by which business corporations are directed and controlled. Its structure specifies the distribution of rights and responsibilities among company's different actors such as board, management, share holders and other stake holders. Transparency and accountability are its major attributes. Beyond this there is a growing recognition that a good Corporate Governance system actively adds value to the longrun. Viewed in this context, Corporate Governance is the enhancement of the long term shareholders value while at the same time protecting the interest of other stake holders. Corporate Governance principles had its origins in the 19th century although the term Corporate Governance itself came into vogue in the latter part of the 1980s. The need to focus on good practices of Corporate Governance mainly arose as a response to the separation of ownership and control following the formation of joint stock companies. The owners or shareholders of these joint stock companies, who were not involved in day to day operational issues, required assurances that those in control of the company, the directors and managers, were safeguarding their investments and accurately reporting the financial outcome of their business activities. Thus, directors were the original targets of Corporate Governance, and practices and principles were designed to protect the interests of the shareholders from misdemeanours of directors. However, current thinking recognizes a company's obligations to society more generally in the form of all stakeholders, and it has been this new thinking that has driven the study and practice of good Corporate Governance to the levels it has reached today. Perhaps it is also such thinking that accounts for the hectic pace at which developments have taken place and are taking place in the practice as well.

3.2 Understanding Corporate Governance

The word 'corporate governance' has become a buzzword due to the Asian financial crises in 1997-98, the activities of the corporate sector affected entire economies, and deficiencies in CG endangered the stability of the global financial system. In general, CG deals with laws, procedures, practices and implicit rules that determine company's ability to take managerial decisions vis-à-vis its claimants—in particular, its shareholders, creditors, customers, the State and employees. However, a somewhat broader definition would be to define CG as a set of mechanisms through which a single country or firms within a country operates when ownership is separated from management. Therefore, corporate governance is the system by which companies are directed and



controlled. There is a global consensus about the objective of 'good' corporate governance: maximizing long term shareholder value.⁸ Since shareholders are residual claimants, this objective follows from a premise that, in well performing capital and financial markets, whatever maximizes shareholder value must necessarily maximize corporate prosperity, and best satisfy the claims of creditors, employees, shareholders, and the State. Since the concept of government controlling the economy is gradually eroding, it has made the market a decisive factor in settling economic issues. This has also coincided with the thrust given to globalization because of the setting up of the WTO and every member of the WTO trying to bring down the tariff barriers.

Globalization involves the movement of four economic parameters namely, physical capital in terms of plant and machinery, financial capital in terms of money invested in capital markets or in FDI, technology, and labor moving across national borders. The pace of movement of financial capital has become greater because of the pervasive impact of information technology and the world having become a global village.⁹ When investments take place in emerging markets, the investors want to be sure that not only are the capital markets or enterprises with which they are investing, run competently but they also have good corporate governance. CG represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard.

Corporate governance therefore calls for three factors:

1. Transparency in decision-making;
2. Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and;
3. The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization

3.3 Importance of Corporate Governance

Governance may be said to be all about effective, transparent and accountable administration of affairs of an institution by its management, while protecting the interests of its stakeholders including shareholders, creditors, regulators and the public. Modern Corporate Governance practices



have evolved over time and different codes of best practice on Corporate Governance have been developed by various organisations. E.g. the OECD code of Corporate Governance, the Basel code of Corporate Governance for banks and financial institutions, etc. At the same time, several fundamental Corporate Governance Principles have now evolved and have received worldwide acceptance, and guidelines under each such principle have been comprehensively developed by Corporate Governance activists, practitioners, researchers, and others. These principles generally relate to the responsibilities of the Board, Directors, Chairmen, CEOs, senior management, Board appointed committees, auditors, shareholders and regulators. Accountability, internal controls, related party transactions, conflicts of interest, information disclosures have also been extensively dealt with and targeted in the formulation of these principles.

The Banking and financial sector is easily distinguishable from the others. A few distinguishing features stand out:

- Unlike normal business entities which are funded mainly through shareholders' funds, banks' business involves funds raised mainly through deposits. The business of raising public deposits places greater fiduciary responsibilities on the institution and its managers, since depositors' funds need to be safeguarded in a special way.
- Banks perform as financial intermediaries by lending and investing the funds mobilized and funding economic activities of others.
- Banks are the agents of the payments system where they facilitate payments domestically and internationally, through various instruments such as bank accounts, fund transfers, credit cards, etc.
- Banks are able to undertake all such business operations as a result of public trust and faith in the stability and soundness of the banks in particular and the system in general. The history on bank failures in many countries indicates that loss of public confidence in banks could be contagious and could easily lead to systemic banking crisis situations.

Overall, the banking business is the key for monetary conditions in a country. Bank deposit and lending business determines the supply, cost and availability of money. Money is created by the banking system through the legal tender issued by the Central Banks and/or Monetary Authorities. Since sight money created is payable by banks at any time through legal tender and technically, the banking system does not have funds adequate for meeting all such created money at any particular point of time. Banking business thus casts a huge responsibility on the monetary authorities to facilitate, regulate, and protect the banking and payments system.



As we all know, the Basel code of Corporate Governance for banks and financial institutions covers 8 principles. These are:

- Principle 1: Board members should be qualified for their positions, have a clear understanding of their role in Corporate Governance and be able to exercise sound judgment about the affairs of the bank.
- Principle 2: The board of directors should approve and oversee the bank’s strategic objectives and corporate values that are communicated throughout the banking organization.
- Principle 3: The board of directors should set and enforce clear lines of responsibility and accountability through the organization.
- Principle 4: The board should ensure that there is appropriate oversight by senior management consistent with board policy.
- Principle 5: The board and senior management should effectively utilize the work conducted by the internal audit function, external auditors, and internal control functions.
- Principle 6: The board should ensure that compensation policies and practices are consistent with the bank’s corporate culture, long-term objectives and strategy, and control environment.
- Principle 7: The bank should be governed in a transparent manner.

Principle 8: The board and senior management should understand the bank’s operational structure, including where the bank operates in jurisdictions, those that may impede transparency (i.e. “know-your-structure”).

It is very clear today, more than ever, that Regulators also have a key role to play in achieving good Corporate Governance. In general, all regulations, in the Banking System, are intended in one way or another, to enforce prudential requirements on key areas of affairs of institutions to mitigate identified risks. Regulations on ownership, related party transactions, fitness and propriety tests for directors are directly based on modern Corporate Governance principles. However, the Basel Committee goes further and describes the role of supervisors in Corporate Governance by adding new parameters as well. These are:



- Supervisors should provide guidance to banks on sound Corporate Governance and the pro- active practices that should be in place.
- Supervisors should consider Corporate Governance as one element of depositor protection.
- Supervisors should determine whether the bank has adopted and effectively implemented sound Corporate Governance policies and practices.
- Supervisors should assess the quality of banks' audit and control functions.
- Supervisors should evaluate the effects of the bank's group structure.
- Supervisors should bring to the board of directors' and management's attention, problems that they detect through their supervisory efforts.
- According to Basel recommendations, Corporate Governance should be promoted by other stakeholders as well. For instance,
 - Shareholders – through the active and informed exercise of shareholder rights;
 - Depositors and other customers – by not conducting business with banks that are operated in an unsound manner;
 - Auditors – through a well-established and qualified audit profession, audit standards and communications to boards of directors, senior management and supervisors;
 - Banking industry associations – through initiatives related to voluntary industry principles and agreement on and publication of sound practices;
 - Professional risk advisory firms and consultancies – through assisting banks in implementing sound Corporate Governance practices;
 - Governments – through laws, regulations, enforcement and an effective judicial framework;
 - Credit rating agencies – through review and assessment of the impact of Corporate Governance practices on a bank's risk profile;
 - Securities regulators, stock exchanges and other self-regulatory organizations – through disclosure and listing requirements; and
 - Employees – through communication of concerns regarding illegal or unethical practices or other Corporate Governance weaknesses.

In a broader sense, mandating the banks and financial institutions to adhere to full disclosures of their operations would not only allow the markets, investors, depositors and others to keep a close



watch on the financial institutions, but also provide an opportunity for other regulators also to be closely involved in supervising these institutions. The regulators, on their part, should initiate action to build capacity in CG at various levels, including the chairmen, the boards of directors and senior management of banks and financial institutions. The legal framework should also provide for disclosure requirements, facilitating the enforcement of the law. The need, significance or importance of corporate governance is listed below.



3.4 OECD Principles

Over the last few years different country groups have been establishing their own common set of benchmarks for corporate governances, for instance, the OECD Council called upon the OECD to develop a set of CG standards and guidelines and published in May 1999 a common set of guiding principles on corporate governance for all OECD member countries. To institutionalize CG practice, OECD has introduced following principles are:

Right of Shareholders

1. Recognition of basic Shareholders rights.
2. Shareholders have the right to participate in decisions concerning
3. fundamental corporate changes
4. Voting rights of shareholders
5. Disclosure of disproportionate voting rights of certain shareholders



6. Shareholders should consider the costs and benefits of exercising

Role of Stakeholder

1. Assure that rights of stakeholders are protected by law
2. Stakeholders should have the opportunity to obtain effectiveness
3. Permit performance-enhancing mechanisms for stakeholder participation.
4. Stakeholders should have access to relevant information in the corporate governance.

Disclosure and transparency

1. Scope of material information to be disclosed
2. Information should be prepared in accordance with high accounting standard.
3. Annual audit should be conducted by an independent auditor
4. Fair, timely and cost-effective means of disseminating information

Responsibilities of the board

1. Board members should act on the best interest of the company with due diligence and care.
2. The board should treat all shareholders fairly
3. The board should ensure compliance with the law and take account the interest of stakeholders.
4. Definition of key functions of the board
5. The board should exercise objectives judgement independent from management
6. Board member should have access to accurate , relevant and timely information.

However, members of APEC considered that the OECD guidelines have the problem of ‘one size cannot fit all’ and some may be applicable to some, but not all. APEC countries therefore called upon the Pacific Economic Cooperation Council (PECC) to develop a set of guidelines which were in line with the OECD principles. The APEC guidelines can be considered as a middle step for emerging markets to achieve a better practice of good corporate governance. This set of guidelines forms the standard for individual Governments, regulatory bodies and professional bodies to develop their agendas and with a view to setting up acceptable codes of practice



3.5 Forces Against and For Corporate Governance

Resistance comes from vested interests (oligopolists, relationship-based investors) who wants to retain status quo. In Bangladesh there is a tendency to make large investments in highly- capital intensive enterprises with an eye to price incentives through relationship. This leads to wastage of scarce capital resources. Many firms now need foreign capital to finance expenses that again can lead to demand for better CG. Political turmoil and vested interests are the key factors to hinder the process of good CG framework in Bangladesh. Thus, policy makers have to focus not only on regular / accurate financial accounts & transparency, but they have to address issues like whether a large business group should also be allowed to own a bank. In brief, following are the issues that hinder the enforcement of CG in Bangladesh.

The Boards of Directors:

- Inadequate examples of role in formulating vision and strategy
- Lack of independent representation
- Lack of power held by CEO
- Absence of accountability structure of management to the board/shareholders
- When the Board Chairman is also a Cabinet Minister there may be a tendency to treat the SOE as a Government department.

Commercial focus:

- Procedures are set and not easy to deviate from
- Price controls are not market driven
- Sometimes face unfair competition from the private sector

Accountability and Monitoring

- Access to accurate information is difficult
- Ample of evidence of management collusion with trade unions
- Control Audits of Internal Audit, Government Commercial Audit, and External Audit
- Commercial Audits results are doubtful and not transparent

Employee incentives

- No genuine incentive for better performance
- Quality people not attracted to SOEs
- Pressure from trade unions.



3.6 Corporate Governance in the Financial Institutions (FIs):

- The need for a competent financial sector is important to stimulate and support economic growth through efficient resource allocation. Good CG practices are essential to the effectiveness, competitiveness and safety and soundness of financial institutions.
- **Streamlining the Guidelines with the Code of Corporate Governance:** A Code of CG has been published by BEI can be streamlined to reduce duplication and resources to comply with CG requirements for the FIs.
- **Protection of depositors:** Given the special nature of banking institutions, a broad view of CG where regulation of banking activities is required to protect depositors. In developed economies, protection of depositors in a deregulated environment is typically provided by a system of prudential regulation, but in developing economies such protection is undermined by the lack of well-trained supervisors, inadequate disclosure requirements, the cost of raising bank capital and the presence of distributional cartels.
- **Improvements in prudential regulation:** Liberalization policies need to be gradual, and should be dependent upon improvements in prudential regulation. Bangladesh needs to expend resources enhancing the quality of their financial reporting systems, as well as the quantity and quality of bank supervisors. 50 Given that bank capital plays such an important role in prudential regulatory systems, it is necessary to improve investor protection laws, increase financial disclosure and impose fiduciary duties upon bank directors so that banks can raise the equity capital required for regulatory purposes. A further reason as to why this policy needs implemented is the growing recognition that the CG of banks has an important role to play in assisting supervisory institutions to perform their tasks, allowing supervisors to have a working relationship with bank management, rather than adversarial one.
- **Political determinants of Corporate Governance:** CG of financial institutions, particularly banking sector, in Bangladesh is severely affected by political considerations. Given the trend towards privatization of government-owned banks in Bangladesh, there is a need for the managers of such banks to be granted autonomy and be gradually introduced to the CG practices of the private sector prior to divestment.
- **Role of the shareholders:** Where there has only been partial divestment and governments have not relinquished any control to other shareholders, it may prove very difficult to divest further ownership stakes unless CG is strengthened.



Chapter 4

Overview of Corporate Governance in Bangladesh



Chapter 4.1: Corporate Governance in Bangladesh: How Best to Institutionalize it, Critical Practices and Procedures

Since the early 1990s, CG has been receiving increasing attention from regulatory bodies and practitioners worldwide. Corporate sectors are still in its initial stage; nevertheless awareness of the importance of CG is growing. Bangladesh's small size and lack of natural resources have necessitated an open trade policy. Bangladesh also has a liberal policy towards foreign direct investment (FDI). However, when compared to those of the India, Sri Lanka, Pakistan, Thailand and Malaysia, CG in practice and philosophy have up till now remained relatively under-developed in Bangladesh. Further, there appears to be a lack of either market or structural governance mechanisms to discipline errant managers. To govern the corporate environment in Bangladesh, following legal measures are in practice:

- Securities and Exchange Ordinance 1969
- Bangladesh Bank Order 1972
- Bank Companies Act 1991
- Financial Institutions Act 1993
- Securities and Exchange Commission Act 1993
- Companies Act 1994
- Bankruptcy Act 1997

However, to institutionalize the practice of CG in Bangladesh, first initiative was undertaken by the Securities and Exchange Commission (SEC). SEC issued a notification on Corporate Governance Guidelines (CG Guidelines) for the publicly listed companies of Bangladesh under the power vested on the Commission by Section 2CC of the Securities and Exchange Ordinance, 1969. The CG Guidelines were issued on a 'comply or explain' basis, providing some 'breathing space' for the companies to implement on the basis of their capabilities. Nevertheless, the overall framework for investor protection and CG has a number of important weaknesses that have hindered the capital market development. Most of the companies depend on the banks as their major source of financing. Capital market in Bangladesh is still at an emerging stage with market capitalization amounting to only 6.5% of GDP with low investor confidence on corporate governance and financial disclosure practices in many companies listed in the stock exchanges.¹ The neighbouring countries are well ahead vis-à-vis Bangladesh in terms of depth of capital market. For example, in India, Pakistan and Sri Lanka, the market capitalization is 56%, 30% and 18% of their GDP respectively.



4.2 Issues in Corporate Governance in Bangladesh

Most of the companies in Bangladesh depend on the banks as their major source of financing. Capital market in Bangladesh is still at an emerging stage with market capitalization amounting to only 6.5% of GDP with low investor confidence on corporate governance and financial disclosure practices in many companies listed in the stock exchanges.¹⁹ The neighbouring countries are well ahead vis -à-vis Bangladesh in terms of depth of capital market. For example, in India, Pakistan and Sri Lanka, the market capitalization is 56%, 30% and 18% of their GDP respectively. Nevertheless, the past few years have witnessed a silent inclination towards CG due to a variety of forces that are acting today and would become stronger in years to come:

·**Deregulation:** Economic reforms have not only increased growth prospects, but they have also made markets more competitive. This means that in order to survive companies will need to invest continuously on a large scale.

·**Disintermediation:** Meanwhile, financial sector reforms have made it imperative for firms to rely on capital markets to a greater degree for their needs of additional capital.

·**Institutionalization:** Simultaneously, the increasing institutionalization of the capital markets has enhanced the disciplining power of the market.

·**Globalization:** Globalization of Bangladesh's markets has exposed issuers, investors and intermediaries to the higher standards of disclosure and CG that prevail in more developed capital markets.

While these factors will make the markets more effective in disciplining the dominant shareholder, there are many things that the government and the regulators are yet to do to enhance this ability. Ahmed and Yusuf (2005) argue that there has been failure in most of the elements of CG. ²⁰ Some of these individual elements can be portrayed with a view to seeing their weaknesses in implementing CG:

Corporate ownership structures: All corporate governance systems revolve around four core principles: Fairness, accountability, responsibility and transparency. The specific challenges of upholding these principles depend on the ownership structure of the corporate sector. However, in Bangladesh, general practice is that the corporate structure is dominated by family members. Such practice hinders the level of fairness, accountability and transparency.



Inadequate Bankruptcy Laws: Bankruptcy laws and processes are inadequate in terms of provisions and not strong in terms of enforcement in Bangladesh. No country can have good CG standards with poor bankruptcy laws and processes. Besides, inefficient foreclosures and securitization processes have compounded the problems in Bangladesh. 22

Lack of initiatives to drive for CG from the International Investor Community: Most companies in Bangladesh have a pessimist approach in attracting foreign investment. As a result, there is a lack of drive from the international investor community for better corporate governance. Level of penetration of Bangladeshi companies in the foreign stock exchanges is also very low. Lately though, BEXIMCO Pharmaceutical Company has been given with the clearance by SEC for listing with the London Stock Exchange.

Accounting standards, audit and disclosure: The scenario of internal audit; accounting standards and disclosure and its impacts on CG and management practices in Bangladesh are mixed. There are now elements of both positive scopes and new challenges and risk for the corporations in these areas. Following the tradition of English law, Bangladesh accounting standards are not based on codified law, but rely on Generally Accepted Accounting Principles (GAAP) developed by accounting profession. These principles are primarily shareholder oriented and are independent of tax considerations. In Bangladesh the companies have to make disclosure of information required by law. Disclosure requirements for Initial Public Offerings are defined by the Companies Act and the orders under the Securities and Exchange Ordinance, 1969. Periodic disclosure requirements are mentioned in the Securities and Exchange Rules, 1987.23

Inconsistency between Companies Act, BAS and SEC Requirements: The companies Act, 1994 provides, among others, provisions regarding preparation and publication of financial statements, disclosures and auditing. However, in many cases, the Act lacks clarity with regard to statutory requirements on disclosures in the financial statements of listed companies. Moreover some accounting requirements mentioned in the Act are incompatible with International Accounting Standards (IAS) which is required by the SEC. For example, contrary to IAS, the Companies Act requires capitalization of gains and losses arising from changes in foreign exchange rates under all circumstances. Another inconsistency is that the Companies Act does not require a consolidated balance sheet for a holding company but it is required under the IAS. Inconsistencies between IAS and the Companies Act need to be eliminated. 25



Limited or No Disclosure regarding Related Party Transactions: Related party transactions are not disclosed properly in the financial statements. It is an impediment towards achieving good CG in Bangladesh. 26

Weak Regulatory System: Bangladesh still follows the hybrid system of legal system inherited from the British administration. Currently, the Companies Act of 1994 is the law that governs the incorporated domestic corporations and institutions. The other significant laws which has important role in governing the corporate sectors are: Securities and Exchange Ordinance 1969, Bangladesh Bank Order 1972, Bank Companies Act 1991, Financial Institutions Act 1993, Securities and Exchange Commission Act 1993 and Bankruptcy Act, 1997. There fore, weak regulatory system along with board interference with the management retards the improvement of CG in the country.

Capital Market Role: Capital market facilitates good governance through information production and monitoring. 28 The capital market of Bangladesh consists of two stock exchanges: Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Bangladesh does not have depth in its equity market. The capital market of Bangladesh is still a weak link in the movement towards strengthening CG. The overall performance measures of its stock market show low trading volume, intermittent bumps, not many new offerings and unsteady valuations more on the declining side than otherwise.²⁹ The stock market scandals in 1996 have seriously eroded investor confidence in the stock market.³⁰ One vital aspect is that capital market in Bangladesh does not react significantly to corporate performance in terms of higher stock valuation for accurate disclosure and poor stock price for failure of accurate and full disclosure. There is little incentive in becoming a public company and listing on the stock exchange in Bangladesh. Companies with good reputations can get bank financing relatively easily than through share issue. Moreover, there are no bonds, fixed income or debt instruments in the capital market. This means there are no pressure groups³¹ for enforcing CG principles.³² Unlike the private mutual funds, the state- owned investment company – Investment Corporation of Bangladesh (ICB) – has not, until recently, been required to publish the net asset value of its mutual funds or submit performance reports to the SEC.³³

General Meeting Scenario: General meetings of a company, in particular the Annual General Meeting (AGM) are the primary platform where shareholders can raise their concerns and make their influence felt over the management towards attaining good governance. Although a good number of provisions in the Act provided sufficient leverage to allow shareholders a voice in companies, most companies in Bangladesh, are closely held. Small groups of shareholders own or control the majority of shares, and by using that majority, control the decision making processes of



the companies. In number of studies it has been found that there is a negative correlation exists between good CG and defaulting in holding annual general meetings in due time.

Board Committees: Board committees (audit, remuneration and nomination) are of critical importance in CG. Audit Committee is now being treated as a principal player in ensuring good CG and rebuilding public confidence in financial reporting. The role of Audit Committee, among others are: monitoring integrity of financial statements, reviewing internal financial controls, recommending appointment of external auditor and reviewing auditor independence and objectivity and audit effectiveness. The Remuneration Committee's responsibilities include establishment and review of the Managing Director's remuneration package and senior management salary packages. Remuneration Committee assists the Board to attract, retain and motivate high caliber executives and director through proposing remuneration that commensurate to their performance. Despite significant importance of the board committees (as described), few boards (except for banks) has Audit Committees and almost none have nomination or Remuneration Committees in Bangladesh.

The Boards of Directors: The Companies Act, 1994 provides for many stringent rules in respect of any negligence, default, breach of duty or trust on the part of director, manager or officer of a company. However, experience suggests that these are more honored in the breach than observance. In an overwhelming majority of the non-bank listed companies, the board is heavily dominated by sponsor shareholders who generally belong to a single family. The boards are actively involved in management. Most independent directors represent current or former government officials or bureaucrats. They are appointed directors to assist company in getting licenses or as payback for previous favors. In the context of Bangladesh, independent directors do not act as an advocate for minority shareholders or as a source of innovative ideas.

Lack of Shareholder Activism: Shareholder rights are today recognized in countries across the globe as relevant to efforts for improving and strengthening CG. The average non-controlling or minority shareholders do not possess significant level of education, understanding and sophistication required to exert pressure on a company to change behavior. The number of shareholders with sufficient knowledge and skills to understand company operations and to hold management and the board of directors accountable is very low. Moreover, general shareholders do not pay attention on issues of performance, business strategy, future business plans, disclosures and processes that could give them a greater voice in the policy decisions of a company. In fact, there is very little awareness about shareholders' rights and responsibilities. Shareholders' activism is still an illusion in Bangladesh.



No Market for Corporate Control: A market for corporate control plays an important monitoring function in CG, as poorly managed companies will become takeover targets. In Bangladesh, there seems to have no market for corporate control.

Weak Pressure Groups: Shareholders, investor associations, institutional investors and the financial press can play significant role in ensuring better CG. Each of these potential pressure groups is weak in Bangladesh. The numbers of journalists who possess knowledge on financial reporting are limited and there are lacks of investigative reports. Similarly public shareholders are not organized under a common platform (such as shareholder associations) to demand better corporate governance. Unlike institutional investors in most capital markets across the globe, the few State -owned Enterprises (SOEs) lack performance spirit and motivation to force companies to improve CG as well as performance.

Lack of Auditor Independence: Auditors in Bangladesh are not considered independent or sufficiently qualified to attest to the validity of the financial statements of corporate entities.⁴¹ A study shows that 64.4 percent of the companies conduct regular audit for effective implementation of the core labor policies. Of the companies which audit the implementation of core labor policies, 91.1 percent meet their labor policy objectives. Only 2.2 percent of the companies confessed that they make unfair dismissals and 4.4 percent of the companies confessed that they violated labor laws in last 5 years. Around 67 percent of companies have a formal policy to ensure clean, healthy and safe working conditions. Procedures to implement policy and specific assignment to senior management for implementation are found only in 26.7 percent of the companies.

Poor Audit Report: Audited financial reports are rarely reliable and free from the control of the owners. Despite irregularities (in respect of non compliance with the applicable IASs) in the audit report, the auditors issue unqualified audit report on the financial statements

4.3 Corporate Governance measure in Bangladesh

Above scenarios suggest that for effective CG in Bangladesh; it requires a clear understanding of the respective roles of the board and of senior management and their relationships with others in the corporate structure. Removing these weaknesses requires appropriate reform and implementation thereof are highly necessary in Bangladesh. ⁴⁴ Following policy is intended to clarify these relationships and responsibilities and to promote effective CG:



- Disclosure of information should be the pre-requisite for the shareholders or for the capital market to act against errant managements. The regulator can enhance the scope, frequency, quality and reliability of the information that is disclosed.
- Regulatory measures that promote an efficient market for corporate control would create an effective threat to some classes of dominant shareholders as discussed earlier.
- Reforms in bankruptcy and related laws would bring the disciplining power of the debt holders to bear upon recalcitrant managements.
- Large blocks of shares in corporate Bangladesh are held by public sector financial institutions who have proved to be passive spectators. These shareholdings could be transferred to other investors who could exercise more effective discipline on the company managements. Alternatively, these institutions could be restructured and privatized to make them more vigilant guardians of the wealth that they control.

4.4: Corporate Governance Guidelines by Securities and Exchange Commission

1.00 BOARD OF DIRECTORS:

1.1. Board's Size

The number of the board members of the company should not be less than 5 (five) and more than 20 (twenty) with a view to enabling access to diverse expertise and meaningful discussion:

Provided, however, that in the case of banks and non-bank financial institutions, insurance companies and statutory bodies for which separate primary regulators like Bangladesh Bank, Department of Insurance etc. exist, the Board of those companies should be constituted as may be prescribed by such primary regulators in so far as those prescriptions are not inconsistent with the aforesaid condition.

1.2. Independent non-shareholder Directors

All companies should encourage effective representation of independent non-shareholder directors on their Boards of Directors so that the Board as a group includes core competencies considered relevant in the context of each company. For this purpose, the companies should comply with the following:-



i. At least one fifth (1/5) of the total number of the company's board of directors should be independent non-shareholder directors;

Explanation: For the purpose of this clause, the expression "independent non-shareholder director" means a director who is not connected with the company or its promoters or directors on the basis of family relationship; who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies; who is not a member, director or officer of any stock exchange; and who is not a shareholder, director or officer of any member of stock exchange or an intermediary of the capital market.

ii. The independent non-shareholder directors should be appointed by the elected directors

1.3. Chairman of the Board and Chief Executive

The positions of the Chairman of the Board and the Chief Executive Officer of the companies should be filled by different individuals. The Chairman of the company should be elected from among the directors of the company. The Board of Directors should clearly define respective roles and responsibilities of the Chairman and the Chief Executive Officer.

1.4 The Directors' Report to Shareholders

The directors of the companies should include following additional statements in the Directors' Report prepared under section 184 of the Companies Act, 1994:

- (a) The financial statements prepared by the management of the issuer company present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- (b) Proper books of account of the issuer company have been maintained;
- (c) Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment;
- (d) International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure therefrom has been adequately disclosed;



- (e) The system of internal control is sound in design and has been effectively implemented and monitored;
- (f) There are no significant doubts upon the issuer company's ability to continue as a going concern. If the issuer company is not considered to be a going concern, the fact along with reasons thereof should be disclosed;
- (g) Significant deviations from last year in operating results of the issuer company should be highlighted and reasons thereof should be explained;
- (h) Key operating and financial data of at least immediately preceding three years should be summarised;
- (i) If the issuer company has not declared dividend (cash or stock) for the year, the reasons thereof should be given;
- (j) Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, should be outlined along with future prospects, risks and uncertainties surrounding the company;
- (k) The number of Board meetings held during the year and attendance by each director should be disclosed;
- (l) The pattern of shareholding should be reported to disclose the aggregate number of shares (along with name wise details as stated below) held by:
 - I. Parent/Subsidiary/Associated companies and other related parties (name wise details);
 - II. Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name wise details)
 - III. Executives and
 - IV. Shareholders holding ten percent or more voting interest in the company (name wise details).



Explanation: For the purpose of this clause, the expression “executive” means top five salaried employees of the company, other than the Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer and Head of Internal Audit.

2.00 CHIEF FINANCIAL OFFICER (CFO), HEAD OF INTERNAL AUDIT AND COMPANY SECRETARY:

2.1. Appointment

The company should appoint a Chief Financial Officer (CFO), a Head of Internal Audit and a Company Secretary. The Board of Directors should clearly define respective roles, responsibilities and duties of the CFO, the Head of Internal Audit and the Company Secretary.

2.2. Requirement to Attend Board Meetings

The CFO and the Company Secretary of the companies should attend meetings of the Board of Directors, Provided that the CFO and/or the Company Secretary should not attend such part of a meeting of the Board of Directors which involves consideration of an agenda item relating to the CFO and/or the Company Secretary.

3.00 AUDIT COMMITTEE:

The company should have an Audit Committee as a sub-committee of the Board of Directors.

The Audit Committee should assist the Board of Directors in handling the issues which might be overlooked and should ensure a good monitoring system within the business.

The aims of the establishment of an Audit Committee should be to create efficiency in the operations and to add value to the organization. The Audit Committee should be responsible to the Board of Directors according to the duties and responsibilities assigned by the Board of Directors. The duties of the Audit Committee should be clearly set forth in writing.



3.1. Constitution of Audit Committee

- I. The audit committee should be composed of at least 3 (three) members;
- ii. The Board of Directors should appoint members of the Audit Committee who should be directors of the company and should include at least one independent non-shareholder director;
- iii. When the term of service of the committee members expires or there is any circumstance causing any committee member to be unable to hold office until expiration of the term of service, thus making the number of the committee members to be lower than the prescribed number of 3 (three) persons, the Board of Directors should appoint the new committee member(s) to fill up the vacancy(ies) immediately or not later than 1 (one) month from the date of vacancy(ies) in the Committee to ensure continuity of the performance of work of the Audit Committee.

3.2. Chairman of the Audit Committee

- I .The Board of Directors should select 1 (one) member of the Audit Committee to be Chairman of the Audit Committee;
- ii .The Chairman of the audit committee should have a professional qualification and must have knowledge, understanding or experience in accounting or finance.

3.3. Reporting of the Audit Committee

3.3.1 Reporting to the Board of Directors

- i. The Audit Committee should report on its activities to the Board of Directors;
- ii. The Audit Committee should immediately report to the Board of Directors on the following findings, if any:-
 - (a) Report on conflicts of interests;
 - (b) Suspected or presumed fraud or irregularity or material defect in the internal control system;
 - (c) Suspected infringement of laws, including securities related laws, rules and regulations;
 - (d) Any other matter which should be disclosed to the Board of Directors immediately.



3.3.2. Reporting to the Authorities

If the Audit Committee has reported to the Board of Directors about anything which has material impact on the financial condition and results of operation and has discussed with the Board of Directors and the management that any rectification is necessary, upon completion of the period of time mutually fixed, if the Audit Committee finds that such rectification has been unreasonably ignored, the Audit Committee or its members should report such finding to the Commission.

3.4. Reporting to the Shareholders and General Investors

Report on activities carried out by the audit committee, including any report made to the board of directors under condition 3.3.1 (ii) above during the year, should be signed by the Chairman of the Audit Committee and disclosed in the annual report of the issuer company.

4.00. EXTERNAL/STATUTORY AUDITORS

The company should not engage its external/statutory auditors to perform the following services of the company:

- i. Appraisal or valuation services or fairness opinions;
- ii. Financial information systems design and implementation;
- iii. Bookkeeping or other services related to the accounting records or financial statements;
- iv. Broker-dealer services;
- v. Actuarial services;
- vi. Internal audit services;
- vii. Any other service that the Audit Committee determines.

5.00 REPORTING THE COMPLIANCE IN THE DIRECTOR'S REPORT

The directors of the company shall state, in accordance with the annexure attached, in the directors' report whether the company has complied with these conditions.



Chapter 5

Analysis of Corporate Governance of Jamuna Bank Limited



5.0 From Listing year 2006 to 2011

The Jamuna Bank Ltd. was listed in the Dhaka Stock Exchange in 2006. In the year 2006 & 2007 there were 14 members subsequently in the board of directors. In the year 2005 there were also 14 members in the board of directors but there were some changes. Mr. Md. Tajul Islam was the chairman of the board of directors. At that time there was little explanation on corporate governance. I have focused on four corporate governance mechanisms –board size, board meeting, audit committee and affiliation of directors with other companies

Name of the Directors	% of Attendance				
	2007 (N=18)	2008 (N=18)	2009 (N=21)	2010 (N=28)	2011 (N=31)
Al Haj Nur Mohammad	100	100	95	100	100
Mr. MD. Sirajul Islam Vorosha	88.89		52.38	78.57	80.89
Mr.Kanutosh Mojumder	22.23			92.86	90.43
Eng. A.K.M. Mosharrf Hossain	94.44	80	80.9	85.71	87.09
Mr. Fazlur Rahman	88.89		66.67	50	38.7
Mr. Md. Tajul Islam	83.33	85	71	75	77.42
Mr. Sakhawat Abu Khair	22.23	55	76.19	71.42	64.51
Al HajMd.Rezaul Karim Ansari	22.23	95	85.7	96.43	96.74
Mr. Md. Irshad Karim	33.33				
Mr. Shaheen Mahmud	55.56		4.76	14.29	51.56
Mr. Md. Ismail Hossain Siraji	22.23	80	100	96.43	90.32
Mr. Gazi golam Murtoza	22.23	55		57.14	51.6
Mr. Md. Nurul Alam	83.33	75			
Mr. MD. Lakitullah	55.56				
Md. Bellal Hossain		20	52.38	50	93.55
Mr. Md. Mahamudul Haque		20	47.6	53.57	64.51
Mr. farhad Ahmed Akond		20	42.8	67.87	83.87
Mr. Md. Motiur Rahman		15			
Al Haj M A Kayer			47.6	100	74.19
Eng. Atiquer Rahman			80.9	82.14	90.32
Mr. Golam Moula Dastagir (MP)			28.57	28.57	48.38
A.S.M Abdul Halim			85	89.29	87.88
Overall attendance of the Director	56.74%	67.94%	62.96%	71.63%	75.52%

Here N represents number of meeting held.

In the financial year 2007 there were 13 members in the board of directors and Mr. Sakhawat Abu Khair Mahmud was the chairman of the board of directors . The detailed board meeting were disclosed in annual report of 2008. Total 18 board meeting were held.In



the financial year 2008 there were 18 members in the board of directors and Mr. Al Haj Rezaul Karim Ansari was the chairman of the board of directors . The detailed board meeting were disclosed in annual report of 2009. Total 21 board meeting were held. In the financial year 2009 there were 18 members in the board of directors and Mr. Md. Bellal Hossain was the chairman of the board of directors . The detailed board meeting were disclosed in annual report of 2010. Total 28 board meeting were held . In this table we can see that two or three members attended less than one fourth of total meeting held. In the financial year 2010 there were 18 members in the board of directors and Mr. Md. Mahmudul Haque was the chairman of the board of directors . The detailed board meeting were disclosed in annual report of 2011. Total 31 board meeting were held . In this table we can see that two or three members attended less than one fourth of total meeting held.



Total % of Share and no of company's involvement of the Director

The shareholder pattern of the directors was following in some cases it changes and in some cases it remain same .In 2007 total percentage of share of the director was 23.6% but in 2008 it decrease at 22.85% but in 2009 to 2011 the total percentage of the share of the director increased substantially, number of director was 13 in 2007 but from 2009 it comes at 18 member so the total percentage of share of the director increased substantially. The annual report reveals that information in more organized way. The shareholding pattern of the director was following

Name of the Directors	Total % of Share of the Director				
	2007	2008	2009	2010	2011
Al Haj Nur Mohammad	2.97	2.97	2.97	2.97	2.96
Mr. MD. Sirajul Islam Vorosha	0.99	-	0.99	0.98	0.99
Mr.Kanutosh Mojumder	0.99	0.99	1.61	1.40	1.39
Eng. A.K.M. Mosharrf Hossain	1.45	1.45	1.45	1.48	1.48
Mr. Fazlur Rahman	1.46		1.46	1.62	1.61
Mr. Md. Tajul Islam	2.27	2.27	2.27	2.27	2.26
Mr. Sakhawat Abu Khair	2.05	2.05	1.99	1.98	1.98
Al Haj Md. Rezaul Karim Ansari	1.05	1.05	1.05	1.05	1.24
Mr. Md. Irshad Karim	1.59				
Mr. Shaheen Mahmud	2.80		4.30	4.77	4.74
Mr. Md. Ismail Hossain Siraji	1.86		1.44	1.44	1.43
Mr. Gazi golam Murtoza	2.56	2.56	2.56	2.56	2.56
Mr. Md. Nurul Alam	0.23	0.23			
Mr. MD. Lakitullah	0.33				
Md. Bellal Hossain		1.98	1.98	1.98	1.97
Mr. Md. Mahamudul Haque		1.97	1.97	1.97	1.96
Mr. farhad Ahmed Akond		1.48	1.67	1.66	1.72
Mr. Md. Motiur Rahman					
Al Haj M A Kayar			0.62	0.27	0.27
Eng. Atiquer Rahman		3.85	3.85	3.88	3.86
Mr. Golam Moula Dastagir (MP)			1.98	1.98	1.97
A.S.M Abdul Halim			4.95	3.61	2.22
Overall % of Share	23.6%	22.85%	38.74%	37.87%	36.61%

The directors of the board of directors were related with many organizations. Such kind of affiliation may be harmful for some instances. Directors might remain busy with many



organization also most of the directors remained absent continuously in some cases their participation was less than thirty percents. The directors of the board of directors were related with many organizations. Such kind of affiliation may be harmful for some instances. The annual report disclosed the information in organized way. Eng. A.K.M. Mosharrf Hossain and Mr. Fazlur Rahman involved more than twenty companies. Later Eng. Atiquer Rahman initially started thirteen company later involved more than twenty companies.

Name of the Directors	No. of companies involvement				
	2007	2008	2009	2010	2011
Al Haj Nur Mohammad	3	3	3	3	3
Mr. MD. Sirajul Islam Vorosha	6		8	6	6
Mr. Kanutosh Mojumder	5	6	2	2	2
Eng. A.K.M. Mosharrf Hossain	22	6	26	26	26
Mr. Fazlur Rahman	14		22	14	14
Mr. Md. Tajul Islam	7	7	9	9	9
Mr. Sakhawat Abu Khair	6	6	6	6	6
Al Haj Md. Rezaul Karim Ansari	3	3	4	4	4
Mr. Md. Irshad Karim	4		4	4	4
Mr. Shaheen Mahmud	1		5	1	1
Mr. Md. Ismail Hossain Siraji	1	1	1	1	1
Mr. Gazi golam Murtoza	6	6	2	1	1
Mr. Md. Nurul Alam	3	3			
Mr. MD. Lakitullah	6		6	6	6
Md. Bellal Hossain		2	2	2	2
Mr. Md. Mahamudul Haque			2	2	2
Mr. farhad Ahmed Akond		5	4	4	4
Mr. Md. Motiur Rahman		2			
Al Haj M A Kayer	-		2	2	2
Eng. Atiquer Rahman	-	13	25	25	28
Mr. Golam Moula Dastagir (MP)	-		6	8	6
A.S.M Abdul Halim	-	-	-	-	-

The Jamuna Bank Ltd. was listed in the Dhaka Stock Exchange in 2006. In the year 2006 & 2007 there were 14 members subsequently in the board of directors. In the year 2005 there were also 14 members in the board of directors but there were some changes. Mr. Md. Tajul Islam was the chairman of the board of directors. At that time there was little explanation on corporate governance. The shareholding pattern of the directors was not given in annual report. The status of Bangladesh bank's guidelines for corporate governance was not complied with.



	2007	2008	2009	2010	2011
Chairman	Mr. Fazlur Rahman	Al Haj Nur Mohammad (B.A)	Mr. Md. Tajul Islam (B.A)	Mr. Md. Tajul Islam (B.A)	Mr. Md. Tajul Islam (B.A)
Member	Mr.Kanutosh Mojumder (M.Com)	Mr.Kanutosh Mojumder (M.Com)	Eng. Md. Atiqur Rahman B.S.C(Civil)	Eng. Md. Atiqur Rahman B.S.C(Civil)	Eng. Md. Atiqur Rahman B.S.C(Civil)
Member	Mr. Md. Nurul Alam B.A.(Hons)	Mr. Md. Nurul Alam B.A.(Hons)	A.S.M. Abdul Halim (M.Com)	A.S.M. Abdul Halim (M.Com)	A.S.M. Abdul Halim (M.Com)

In 2007 the audit committee was formed placing Mr Fazlur Rahman as the chairman of the board of audit committee and in 2008 was Al Haj nur Mohammad. And Mr. tajul Islam was the chairmen of Audit Committee remain unchanged for all the three years 2009 to 2011. Detailed educational background of the audit committee members was not given to the annual report.



Related Party Transaction over the up to 2011

The annual report reveals the information related with inter party transaction. Associated companies of four directors were related such kind of transaction.

Name of the members	2007	2008	2009	2010	2011
Mr. Gazi golam Murtoza	-	-	3	3	3
Mr. Md. Tajul Islam (Parliament Member)	-	-	2	1	2
Al Haj Md. Rezaul Karim Ansari	-	-	1	2	2
Mr. Farhad Ahmed Akond	-	-	2	2	2

In the above chart we have seen that in 2007 and 2008 we wont find related part transaction it its started from 2009 in 2010 was 8 related party transaction in 2011 there were 11 related party transaction though it is not clear about the annual report.



Chapter 6

Finding, Recommendations & conclusion



6.1 Findings

In case of banking industries there are several guidelines regarding the corporate governance. There are special emphases for this sector runs their business with the money of their depositors .Before the year 2003 there were little guidelines on corporate governance. In the year 2003 the Bangladesh Bank brought the BRPD circular no. 16 to ensure the highest the corporate governance of the banking sector.The Jamuna Bank Ltd always tries to ensure the highest level of corporate governance. The board of directors was formed according to the law and the provision of independent or but the director from the depositors was not maintained at the same time. The shareholding pattern of Directors was per the regulations of the banking Act 1991 and the BSEC regulations as well as other act. The detailed about the number of meeting was mentioned clearly though there are some members who regularly absent in the meeting. Same person was the chairmen of Audit Committee remain unchanged for all the three years 2009 to 2011. There was some related party transaction in which, in most of the case, one or two particular Directors had interests. The risk management issue were not given elaborately during that time. The Jamuna Bank used to mention different types of risks also there was special emphasis on the issue of corporate social responsibility like today. Disclosure specially related with CSR activities was found in that years like previous year.

In the year Securities and Exchange Commission issued the guidelines on corporate governance. They Started to comply the guidelines on corporate governance. The Bank started to comply the guidelines on corporate governance with the very beginning in 2006 when the Bank was enlisted in 2006 and in the year 2007 and 2008 there were some sections which were not applicable for the bank.i.e. Independent director or appointment of director form depositors. Actually this provision was not introduced by the regulatory authority by that time. but the bank develop the tradition to set goals which was not introduced before 2005,Bank did not show the core risk at the beginning but gradually Bank started to show the different sorts of risks. Since as guided by Central Bank, a separate Division has been formed at its Head Office which has been functioning under the guidance of a Deputy Managing Director, who acts as the Chief Compliance Officer (CAMLCO) of the Bank. A responsible officer has also been nominated at each branch who is named as



Branch Compliance officer. Adherence to the Jamuna Bank Anti Money Laundering program is the responsibility of all employees of the Bank. In 2011 Company has decided to placement as part of the Tier-II Regulatory Capital following 'Guideline of Risk Based Capital Adequacy' of Bangladesh Bank in lieu of earlier issue subject to approval of Regulatory bodies and by the shareholders. The green banking report was also introduced separately in the year 2010. The Jamuna Bank Ltd always selected Chairman who was prominent in the business arena of the country also engaged every year. The Audit Committee was formed according to the regulation but in some years such as 2009 to 2011 the chairman of the audit committee was from business studies but other than related background.

The directors of the board of directors were related with many organizations. Such kind of affiliation may be harmful for some instances. Directors might remain busy with many organization also most of the directors remained absent continuously in some cases their participation was less than twenty percents which was not good in the long run.

The following table shows the overall compliance with BSEC notification on corporate governance.

	2007	2008	2009	2010	2011
Total number of Conditions	40	40	40	40	40
Number of Complied items	40	38	40	38	38
Number of Complied items in %	100%	95%	100%	95%	95%
Number of Non Complied items	0	2	0	0	0
Number of Non Complied items in %	0	5%	0	0	0
Explanation Provided for Non Complied items					
Number	0	2	0	2	2
Number of Complied items in %	0	100%	0	100%	100%
N/A	0	0	0	0	0



This summary table shows that Jamuna Bank Ltd. complies almost all of the condition of BSEC notification. In 2008 appointment of CFO and attendance during board meeting which was not complied. In 2010 and 2011 appointment of independent directors one tenth was not maintained by Bank also given explanation regarding those issues, which was under process also in 2011 constitution of board meeting including one independent director was also under process. The board of the Bank already appointed one in 2012 in the Jamuna bank ltd already given required information. In the audit committee as per the rule bank have to maintain one independent non shareholder director but initially it was not maintain but later it was adopted though enough explanation given regarding those issues. So the overall compliance act of The Jamuna bank Ltd. of corporate governance is very satisfactory and the level of compliance is increasing day by day.



6.2 Recommendation

Since the rules and regulations for the financial sector especially for the very strict, there exists very little deviation from the standards now a days . There is continuous process of coming new guideline of regulatory banking industry are recent updates there of include some of important issues not covered by the companies act 1994, like qualifications of independent directors, some additional specifications of audit committee's functions, control issues of subsidiary company and duties of Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are essential for ensuring sound corporate governance..

The Jamuna bank ltd. always follows the guidelines of regulatory but following recommendations will help it to stand in a supreme position in the field of corporate governance.

- ❖ Rules to protect minority shareholder should be strengthened.
- ❖ The Board also should be ethically strong to have a value-driven mindset to perform duty and review the operation of management
- ❖ Member of the board of directors should present in the board meeting regularly.
- ❖ Disclosure relating to related party transaction should be more elaborated.
- ❖ Intensive Care should be given to the internal audit
- ❖ The risk related issue should disclosed more elaborately
- ❖ Implementation of Code of CG and introduction of guidelines for best practices, training of directors, and transparent recruitment of the board members should be ensured.
- ❖ Chairman as well as the member of the audit committee should have business studies background.



6.3 Conclusion

Corporate governance is mainly to protect the interest of different stakeholders of the organization. Since the board of directors work as the agent of the stockholders so all the responsibilities lie to them to protect their interests. In case banking sector Bangladesh Bank and BSEC is the key regulator for these issue. In this study I have found that Jamuna Bank Ltd. gives the disclosure according to the BSEC notification. This report aiming at the evaluating of the corporate governance of Jmauna bank Ltd. The data gathered from mainly secondary sources were arranged orderly to get a clear picture of the JBL's corporate governance system. To achieve the objective the study includes both qualitative and quantitative analysis to evaluate of corporate governance rules as well as the monitoring tools also five years annual report of Jamuna Bank Ltd. consider based on four corporate governance mechanisms –board size, board meeting, audit committee and affiliation of directors. In the board meeting the attendances of director has been improved and board size also according to the law not more than twenty. The board of directors were related with many organization such kind of affiliation still remain problem in the long run and the percentage of the share of the board member increased significantly except in 2008 that we have seen over in the annual report. Finally Chairman and the member of the audit committee should have business studies backgrounds but in the annual report we have seen that Chairman and most of member was not business background that also might problem for efficient decision making issue in the long run. There are also some problem exist are not against the laws. If this problems can be solved or better compliance can be ensured it will be effective for the organization Apart from this by effective corporate practices of Jamuna Bank Ltd. has improved significantly over the year to enhance corporate image, improve reputation and ability to enlarge market share and enhancement of customer true worthiness, profitability and sustainable development. So hopefully they will try their best to bring a dynamic corporate governance environment in their organization. So far we have found that overall compliance act of The Jamuna bank Ltd. to corporate governance is very good and the level of compliance is increasing day by day.



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