



Internship Report
On



**Corporate Governance & Risk Management Structure at
IPDC Finance Limited**

Submitted To
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Letter of Transmittal

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Subject: Submission of internship report on “**Corporate Governance & Risk Management Structure at IPDC Finance Limited**”

Dear Miss,

It is my incredible joy as I remain at the overflow of my graduation with the report of my internship which I unassumingly put before you for assessment and approval. The report is titled “**Corporate Governance & Risk Management Structure at IPDC Finance Limited**” have driven me through numerous useful experience which I have examined to best fit the goal of my report. I am presenting my report which, hopefully you will find to be very much investigated, enlightening and an image of my endeavors and persistence.

While setting up this report, I deliberately took after your and my associations’ guidelines. I endeavored to cover each and every one of the substance with important figures and data to show the compliance and structure of the organization.

I, therefore, express my heartiest thanks to you for your kind supervision, guidance and co-operation for building up this report.

Yours Sincerely,

.....

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Acknowledgement

I, Momota Nahar Tasnim, would like to express my heartiest gratefulness to every one of those people who encouraged me to complete my internship report and provided support regarding the topic, "Corporate Governance & Risk Management Structure at IPDC Finance Limited".

To begin with, I am appreciative to almighty for making this internship report possible. Secondly, I want to offer my thanks to my academic supervisor Tania Akter, Lecturer, BRAC Business School, for helping me with direction and advice to finish my report.

Furthermore, I want to thank my authoritative supervisor Muhammad Sami Ul Hoque, Senior Manager & Head of Credit Administration, IPDC Finance Limited, for giving me all the essential data. Besides, I am additionally grateful to every one of the colleagues who supported and encouraged me all through the span of my job period consistently.

Lastly, I feel fortunate for getting the support, supervision and guidance of my teachers, co-workers and friends who have helped me through my internship period.

Executive Summary

The report conducted is on IPDC Finance Limited which provides financial products and advisory services. It was formed on 28 November 1981 and is the first private sector financial institution in Bangladesh. . It is a public limited company incorporated in Bangladesh under the Company Act 1913 (now the Company Act 1994) and is listed with the Dhaka and Chittagong Stock Exchange Limited since 02 December 2006. The Company has a well-diversified portfolio with a wide range of products and services which are corporate finance and advisory services, SME finance supply chain finance, retail wealth management and retail finances. This report is an integrated analysis of the company's corporate governance and its risk management structure. The report consists of the corporate governance guidelines provided by the Security and Exchange Commissions to ensure IPDC complied with all the conditions and also with the Good Governance guidelines by Bangladesh Bank. It also includes the risk management structure, how the departments are divided and which risk is associated with which department, how the risks are controlled or mitigated and with what measures. For conducting the report the company's annual reports were required. Some analysis and interpretation were made on the company's financial ratios, which showed that the company has 0.38% Non-Performing Loans, which is outstanding and also difficult for other institutions to have.

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1. Company Overview

1.1 Profile of IPDC Finance Limited

IPDC Finance Limited (IPDC, 2016) which was previously named Industrial Promotion & Development Company of Bangladesh Limited was formed on 28 November 1981. It is the first private sector financial institution in Bangladesh which provides financial products and advisory services. It is a public limited company incorporated in Bangladesh under the Company Act 1913 (now the Company Act 1994) and is listed with the Dhaka and Chittagong Stock Exchange Limited since 02 December 2006. The Company has a well-diversified portfolio with a wide range of products and services which are corporate finance and advisory services, SME finance supply chain finance, retail wealth management and retail finances.

The major businesses of the Company are related to finance and finance associated activities which includes deposits mobilization; credit to corporate organizations; Retail and SMEs, factoring finance, project finance; leases; hire purchase; equity/quasi-equity investments and advisory services. The Company operates through its 12 branches including Head Office. There are three branches in Dhaka, located in Motijheel, Dhanmondi and Uttara. Besides these, there are 9 other branches in Chittagong, Sylhet, Narayanganj, Gazipur, Bogra, Jessore, Comilla & Mymensingh. IPDC has 309 employees, 4360 customers, loan portfolio of Taka. 28.97 billion and deposit portfolio of Taka. 24.85 billion as of 05 October, 2017.

The well-diversified nonbanking financial institution provides to Corporate, SME and Individual clienteles for their finance and saving needs. The list of products and services offered by IPDC under the Corporate, SME and Retail business segments is given below:

Corporate Business

The Corporate Financial Services Division of IPDC offers the full spectrum of corporate finance services to large public and private enterprises. Products under corporate finance are as follows:

- Lease Finance – It is provided against industrial machineries, commercial equipment, generators, vehicles, vessels, industrial large engines, etc. that will be newly procured or in use.
- Term Loan - It is provided to meet various capital/fixed expenditures such as balancing of production line, modernization of manufacturing process, expansion of capacity and space, etc.

Corporate Governance & Risk Management Structure at IPDC Finance Limited

- Project Financing – It is provided for setting up of a new unit as addition to the existing product line and capacity, a new concern of an existing group, a new Joint Venture project of an existing company, etc.
- Short Term Financing – It is provided to assist companies in carrying out day-to-day business operations, to meet short term cash requirements.
- Investment in Preference and Common Share - If clients raise funds, IPDC corporate division makes financing by purchasing the preference and common shares. IPDC gets payments usually through redemption of the preferred shares over the tenure and receiving dividend from equity shares.

Small and Medium Enterprises (SME) Business

IPDC Finance Limited with the belief of ‘Jago Uchase’, has focused on SME business and performed well so far. Through the SME Financial Service unit, the company offers various SME products based on the needs of the business. The SME team deals with all sorts of activities- sales, marketing, business promotions, relationship management, customer service, budgeting, target setting and allocation, execution, monitoring and evaluation of sales deals.

The list of products under SME is furnished below:

- Lease Finance
- Long Term Finance
- Short Term Finance
- Financing Women Entrepreneurs
- Factoring
- Work Order Financing

Retail Business

The Individual Financial Service division offers a variety of personal financial services to fulfill the needs of individuals. Liability schemes offers mainly two types of schemes. The schemes are deposit schemes and savings schemes. A short description of products under Retail business segment is given below:

- Saving Schemes - Deposit Premium, Millionaire Deposit, Ultiflex Deposit schemes.
- Deposit Schemes - Annual Profit, Cumulative Profit, Fixed Deposit General, Monthly Profit, Double Money Deposit, and Quarterly Profit Schemes.

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- Home Loan - Home and Mortgage Unit aims to meet the individual needs for housing solutions. IPDC also brings Affordable Home Loan in its portfolio recently.
- Auto Loan - Specializes in car financing for individuals and institutions.
- Personal Loan - Offers any purpose loans for personal need.
- Club Royal - This is a complete package of prerogative services including personal financial advice to the high-value customers.

1.2 Mission

Enabling its customers and communities to rise unbound, love up to their fullest potential by extending innovative financial solutions in a friendly, timely, transparent and cost-effective manner.

1.3 Vision

Be the most passionate financial brand in the country with special focus on youth, women and underserved areas.

1.4 Core Values

IPDC's embracing customer's passions, accepting no limits and relentless pursuit for innovations create the following sets of core values:

- Bring extraordinary customer experience by placing customer at the heart of everything the company does
- Demonstrate the highest level of integrity in the way the business is conducted
- Demonstrate a strong will to win in the market place
- Promote diversity in the work place and community
- Encourage teamwork and collaborative efforts
- Harness the power of technology to deliver better customer experience
- Set standard for the best corporate citizenship in the communities the company works

1.5 Distribution of Shareholding Structure of IPDC

Aga Khan Fund for Economic Development (AKFED) – 11.05%, BRAC – 25%, Ayesha Abed Foundation – 10%, RSA Capital Limited – 5%, Government Peoples Republic of Bangladesh – 21.88%, General Shareholders – 27.07%

1.6 Expanding Milestones

| History | Year |
|---|------|
| IPDC became the first private sector Development Finance Institution (DFI) in Bangladesh | 1981 |
| IPDC started its commercial operation | 1983 |
| IPDC sponsors IDLC, the first leasing company, thereby introduced lease financing in the market | 1985 |
| IPDC gets the license from Bangladesh Bank as a Financial Institution under the Financial Institution Act 1993 | 1995 |
| IPDC starts Lease Financing itself | 1997 |
| IPDC introduces Short Term Working Capital and Bridge Loan Finance | 1999 |
| IPDC introduces the concept of Preference Share Investment in the country by investing in Hyundai Cement Bangladesh (Later on known as Holcim Bangladesh) | 2000 |
| IPDC invests in Preferred Stock of Delta BRAC Housing, the pioneer is Housing Finance in the private sector of the country. | 2000 |
| IPDC introduces Zero Coupon Bond through securitization of receivables with technical assistance from World Bank. | 2004 |
| AKFED takes the majority share of the company through buying the stakes from IFC, DEG and CDC. | 2004 |
| IPDC gets publicly listed. | 2006 |
| IPDC introduces Auto Loan and Club Royal, a High Net Worth Lifestyle product, first in the NBFIs sector. | 2008 |
| IPDC launches first branch in Chittagong. | 2009 |
| IPDC opens its branch in Sylhet. | 2011 |
| IPDC introduces Factoring Finance and Mortgage Finance. | 2012 |
| BRAC (25%), Ayesha Abed Foundation (10%), RSA Capital Limited (5%) acquires 40% shares from AKFED with AKFED retaining 11% of the shares.A16 | 2015 |
| Establishing the five-year Strategic paper by realigning its focus on youth, women and Underserved areas. | 2016 |
| IPDC revamped and rebranded itself to IPDC Finance Limited from Industrial Promotion and Development Company of Bangladesh Limited | |
| IPDC opens its 3 branches in Gazipur, Narayanganj, Bogra | |

Note: Data collected from (IPDC Finance Limited, 2016)

Corporate Governance & Risk Management Structure at IPDC Finance Limited

1.7 Company Organogram

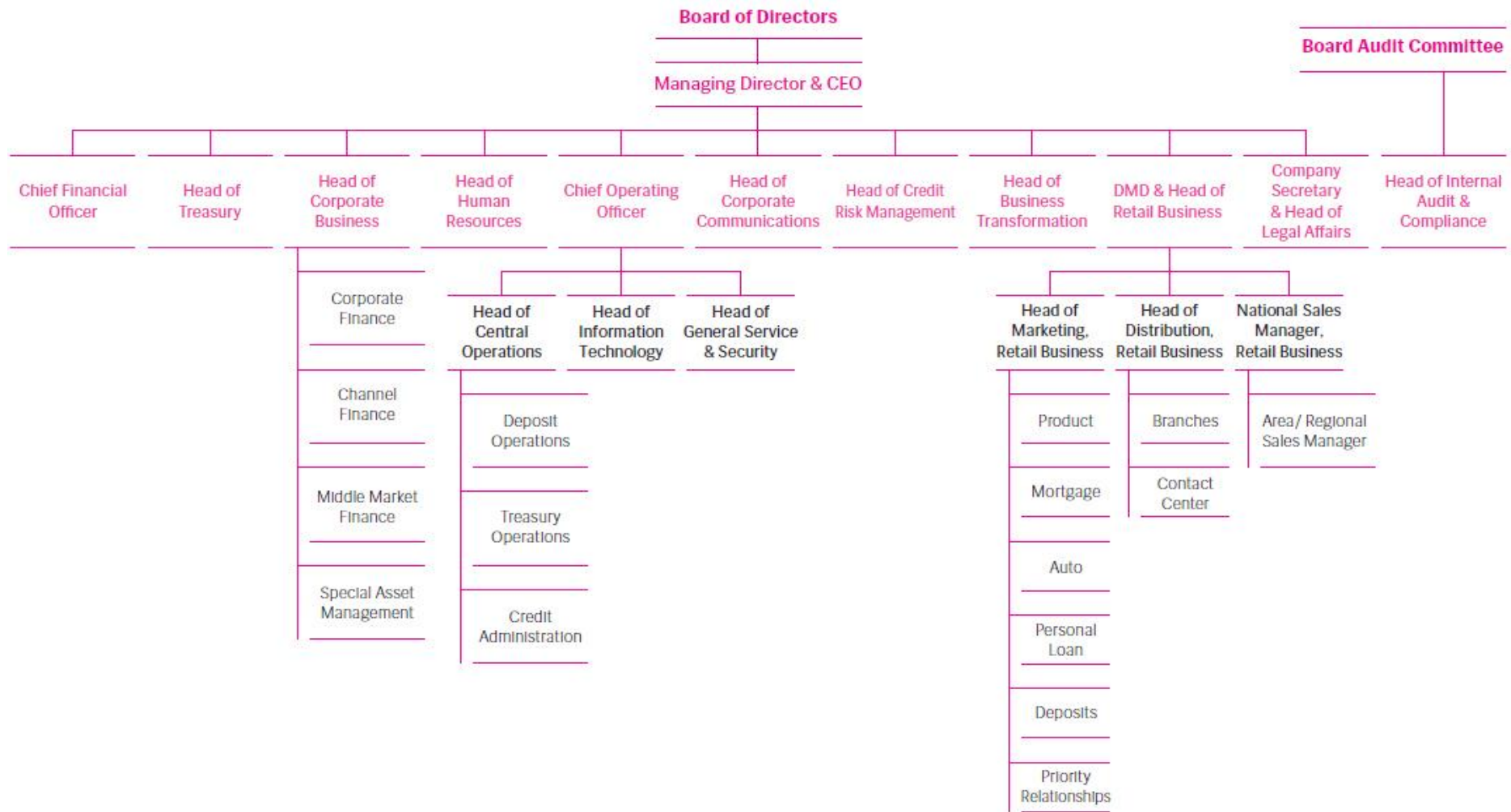


Figure 1: Company Organogram of IPDC Finance Limited
Source: Annual Report 2016

2. Job Responsibilities

During my internship program I have worked with the Custody Management, checked and scanned the loan and deposit files, gave Post Dated Cheques entries in the Bank Ultimus software, confirmed the receipt of AOFs from respective departments, timely delivered the requested AOFs to respective departments and followed up, and have done any other related works assigned by the Management.

3. Introduction

3.1 Rationale of the study

The purpose of this report is to fulfill the requirement for completing my internship program. This report has been prepared from the three months internship period at IPDC Finance Limited and under the supervision of Ms. Tania Akter.

3.2 Scope of the study

The study is done by analyzing the information collected from the organization in the last 3 months and by interacting with the people who are working.

3.3 Objective of the study

- General Objective

This report is created as it is a requirement to complete the graduation of 'Bachelor of Business Administration program of BRAC University' and is the general intention for it as per policy of the university.

- Specific Objective

This report is created in order to understand the corporate governance and risk management structure of IPDC Finance Limited, and to know whether the company complies with the conditions given by the Bangladesh Bank & Security and Exchange Commission's Notifications.

4. Literature Review

According to Kose and Senbet (1998), the board of directors plays a vital role in any corporate governance system and it is viewed as a major means for shareholders to exercise control over top management. The standard approach in empirical finance and in modern corporate America is to view the independence of the board as closely related to its efficiency. It is true that the

outside directors are viewed as superior monitors because they are not tied to the firm's CEO, their career is not tied to the firm, and they are always free to take decisions that will go against them and not be afraid for their positions and future compensation. The outside directors influence to build reputations as expert monitors to obtain additional director appointments. According to Fama, 1980; Fama and Jensen, 1983, the outside directors maintain proper control over the firm's top management. According to Rosenstein and Wyatt (1990), the market has a huge positive reaction after the announcement of outsider board appointments in the Wall Street Journal. According to Weisbach's evidence (1988), CEO turnover is more sensitive to the firm's performance when outside board members are associated compared to boards which are dominated with insider directors. According to Beasley (1996) and Dechow and Sloan (1996), the fraudulent information in the firm's financial statements decreases with a higher level of outside directors, and Klein (2002) found that companies which have independent boards are less likely to manage their earnings by reporting abnormal accruals. However, there is a doubt that the firm and its shareholders perform well with the outside directors on their boards. This is because Fosberg (1989) found that the firms which have a large percentage of outside directors on their board cannot perform higher which was measured by the firm's ROE or sales.

Moreover, there are few papers which have created a link between the board composition and the firm's risk management activity. Borokhovich et al. (2004) showed that there is a proportionate increase in the interest rate derivatives with the outside directors on the board, but Dionne and Triki (2004) and Mardsen and Prevost (2005) found out that there is relation between the firm's risk management policies with its presence of outside directors. Also Mardsen and Prevost (2005) found out there is no effect on the decision to hedge or the extent of hedging by the presence of outside directors on the board. However, it is difficult to know whether firms can perform better with the presence of absence of outside directors.

The role of the audit committee is to check the firm's financial performance and ensure that its financial report is reliable. An investigation took place to know how much it is beneficial to the shareholders with the presence of audit committee independence and financial literacy/expertise. According to Agrawal and Chadha (2005), firms whose audit committees have an independent director, whose background is accounting or finance, have lower probability of earnings restatement, while, Abbott, Parker and Peters (2002) found out that the probability of financial misstatement and financial fraud increases if a firm does not have financial expert on the audit committee. Xie, Davidson, and DaDalt (2003) showed that there

is a lower discretionary accruals in the firm by the presence of investment bankers on the audit committee, and Davidson et al. (2004) found a positive market response for including financial expert to the audit committee.

Moreover, the benefit of having independent directors in the audit committee creates a debate. Hayes, Mehran and Scott (2004) showed no relation between the fraction of outside directors present on the audit committee and the firm's performance measured by the market to book ratio. Also Beasley (1996) found that there is no likelihood of financial statement fraud with the presence of an audit committee and its composition. Agrawal and Chadha (2005) also found no effect on the probability of earnings management due to independent audit committee members. However, Klein (2002) showed that firms which have independent audit committees do not manage their earnings by reporting abnormal accruals than the firms which have insider dominated audit committees. Furthermore, Abbott, Parker and Peters (2002) found that firm's financial misstatement and financial fraud decreases due to presence of audit committees which is composed entirely of independent directors, whereas, Carcello and Neal (2000) reported that receiving a going-concern report and percentage of affiliated directors on the audit committees are inversely related.

Enterprise-Wide Risk Management (EWRM) is a process that adjusts with the company's strategy, involves employees at all levels of the organization and is an access of risk management by looking at a portfolio view of risks. Through EWRM companies can assess and address all types of risks from all sources within the organization. Full commitment and support from leadership is required. Employees are demanded to be responsible for assessing and responding to risk. It needs a wide range of tools, methodologies and a unifying framework. In EWRM, the risks are being managed in a portfolio based department, rather than being managed in a separate department unit.

The factors that drive the Enterprise-Wide Risk Management are Corporate Governance, Regulation, Technology advancement, Corporate companies' failures, Improve communication, Globalization, Shareholder requirements, Complexity of risks and Good business practices. According to Rosen & Zenios (2001), corporate governance is important for effective EWRM and without corporate governance compliance, none of the EWRM components can be achieved. According to PriceWaterHouseCoopers, (2004), in order to achieve objectives and maximize shareholder value, there has to integration between corporate governance, risk management, and compliance.

Risk management and corporate governance are interrelated and are interdependent. A company's performance is highly dependent on the effective role of both corporate governance and risk management. Companies are effectively implementing risk management programmes due to a series of company failures, corporate scandals, and frauds. Mitton (2002) & Jin (2001) in the East Asian financial crisis said that weak corporate governance and poor risk management are found to be the main factors of companies' failure. Banham (2000) stated that regulators are emphasizing risk management in financial companies and are requiring greater capital adequacy in order to protect the public's default.

In many countries in the world, a risk management initiative has been integrated as on the most vital part of corporate governance code, in order to ensure that EWRM is effectively implemented. Knight (2006) stated that this code of conduct provides guidelines to organizations with the expected standard of behavior regarding fraud, customer service, stakeholders' requirements, and company's performance. Risk management is undoubtedly linked with corporate governance standards and it has been cited as a major responsibility of the board of directors.

5. Methodology of the Study

The topic for this report was selected focusing on the organization I have done my internship on, which is IPDC Finance Limited. After discussing with my on-site supervisor and my faculty supervisor, this topic was approved for the internship report.

There are two ways to collect data and they are:

- Primary Data
- Secondary Data

In this report, both primary and secondary data were used to collect information. For the primary data interviews were taken and questions were asked to 5 people who are working in the company. Relevant books, journals, research papers and websites were used to collect secondary data. Moreover, data were collected from the internal documents of the organization.

6. Analysis & Interpretation of Data

6.1 Corporate Governance

The word 'corporate' means 'an organization which is established according to law' and the word governance means 'monitoring, controlling, leading' etc. So combination of these meanings we can say 'Corporate Governance' means 'monitoring an organization which is established according to law'. There are lots of definitions of corporate governance some of them are 'Corporate governance is the manner of rules and regulation practices and courses by which a company monitored'. According to Cadbury Report (1992, para, 2.5) 'Corporate governance is the way by which companies are directed and controlled'. And definition by Shleifer and Vishnu (1997, p.737) says that 'Corporate governance deals with the way in which suppliers of finance to corporations assure themselves of getting a return on their investment.' After review all these definition we can say that corporate governance is basically a guide line to run a company. The company's board of directors approves and reviews the guidelines which must classify with the company's goal, performance and regulatory practices. Corporate governance specifically states all the rights and responsibilities of stake holders with particular emphasis on the three groups, Shareholders, Board of directors, and management. It also may states the rights of employees, customers, creditors and suppliers. Corporate governance tries to develop agency relationship and reduce agency conflict. Agency conflict and problems arise when there are mismatch of goals among different parties within an organization.

Role of Corporate Governance:

1. To ensure that board of directors or agents of the corporation acts for the shareholders or principals best interest and help attain principal's goal. The board of directors appoints a management team and provides them direction to act in the best interest of the shareholders or owners. The role of corporate governance is to ensure a fair and steady relationship between the agent and its principals in a corporation.
2. To ensure that the elected board of directors of the corporation is eligible, well-qualified and devotes ample amount of time to the board. And that the candidates should be elected in the AGM of the company.

3. To ensure diversity and impartiality in the board of directors. The notification of corporate governance ensures that the board must contain at least (1/5th) of independent directors who hold no relationship with the corporation and should be equally qualified and should act to protect the best interest of the shareholders and other stakeholders of the corporation.
4. To ensure accountability and transparency through full disclosure to the shareholders. Corporate governance guidelines states that the corporation should fully disclose while preparing its books. The corporation must follow international accounting standards (IAS) / Bangladesh accounting standards (BAS) while making its reports. To ensure transparency the corporation must also disclose its remuneration to its directors, independent directors and the CEO.
5. The financial report should reflect the future planning of the organization the future developments of the industry. The reports should reflect future risk and concerns in the industry and should also summarize the key financial data of at least five years.
6. To ensure that a fair and capable audit committee is appointed. The audit committee should consist of at least three members and at least one member must be an independent director. The audit committee must be chaired by an independent director. The audit committee would the financial performance of the corporation and also evaluate different financial decisions. The reports of the audit committee must be disclosed in the annual report of the company.

Mechanisms of Corporate Governance:

The mechanisms of corporate governance are the board size of a company, number of female members, members of the audit committee, number of independent directors, insider ownership, institutional ownership and foreign ownership pattern.

Compliance Report on SEC Notification
Status of Compliance of Corporate Governance

(Report under Condition No. 7.00)

Status of compliance with the conditions imposed by the Bangladesh Security and Exchange Commission's Notification No SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012 issued under section 2CC of the Securities and Exchange Ordinance, 1969 is presented below:

Note: Data collected from (IPDC Finance Limited, 2016)

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|--|--|--------------|------------------|
| | | Complied | Not Complied | |
| 1.1 | Board's size | \checkmark | | |
| 1.2 (i) | Number of independent directors | \checkmark | | |
| 1.2 (ii) a) | The independent director does not hold any share in the company' or holds less than one percent (1%) shares of the total paid-up shares of the company; | \checkmark | | |
| 1.2 (ii) b) | The independent directors not a sponsor of the company and is not connected with the company's any sponsor or director or shareholder who holds one percent (1%) or more shares of the total paid-up shares of the company on the basis of family relationship. His/her family members also should not hold above mentioned shares in the company; | \checkmark | | |
| 1.2 (ii) c) | The independent director does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies; | \checkmark | | |
| 1.2 (ii) d) | The independent director is not a member, director. or officer of any stock exchange; | \checkmark | | |
| 1.2 (ii) e) | The independent director is not a shareholder, director or officer of any member of stock exchange or an intermediary of the capital market; | \checkmark | | |
| 1.2 (ii) f) | The independent director is not a partner or an executive or was not a Partner or an executive during the preceding 3 (three) years of the concerned company's statutory audit firm; | \checkmark | | |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|---|--|--------------|------------------|
| | | Complied | Not Complied | |
| 1.2 (ii) g) | The independent director shall not be an independent director in more than 3 (three) listed companies; | \checkmark | | |
| 1.2 (ii) h) | The independent director has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a bank or a Non-Bank Financial Institution (NBFI); | \checkmark | | |
| 1.2 (ii) i) | The independent director has not been convicted for a criminal offence involving moral turpitude. | \checkmark | | |
| 1.2 (iii) | The independent director(s) shall be appointed by the board of directors and approved by the shareholders in the Annual General Meeting (AGM). | \checkmark | | |
| 1.2 (iv) | The post of independent director(s) cannot remain vacant for more than 90(ninety) days. | \checkmark | | |
| 1.2 (v) | The Board shall lay down, a code of conduct of all Board members and annual compliance of the code to be recorded. | \checkmark | | |
| 1.2 (vi) | The tenure of office of an independent director shall be for a period of 3(three) years, which may be extended for 1(one) term only. | \checkmark | | |
| 1.3 (i) | Independent director shall be a knowledgeable individual with integrity who is able to ensure compliance with financial, regulatory and corporate laws and can make meaningful contribution to business. | \checkmark | | |
| 1.3 (ii) | The person should be a Business Leader/ Corporate Leader/Bureaucrat/University Teacher with Economics or Business Studies or Law background/Professionals like Chartered Accountants, Cost & Management Accountants, and Chartered Secretaries. The independent director must have a least 12(twelve) years of corporate management/professional experiences. | \checkmark | | |
| 1.3 (iii) | In special cases the above qualifications may be relaxed subject to prior approval of the Commission. | \checkmark | | |
| 1.4 | Chairman of the Board and Chief Executive Officer | \checkmark | | |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|---|--|--------------|------------------|
| | | Complied | Not Complied | |
| 1.5 (i) | Industry outlook and possible future developments in the industry. | \checkmark | | |
| 1.5 (ii) | Segment-wise or product-wise performance. | \checkmark | | |
| 1.5 (iii) | Risks and concerns. | \checkmark | | |
| 1.5 (iv) | A discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin. | \checkmark | | |
| 1.5 (v) | Discussion on continuity of any Extra-Ordinary gain or loss. | \checkmark | | |
| 1.5 (vi) | Basis for related party transactions-a statement of all related party transactions should be disclosed in the annual report. | \checkmark | | |
| 1.5 (vii) | Utilization of proceeds from public issues, rights issues and/or through any others instruments. | \checkmark | | |
| 1.5 (viii) | An explanation if the financial results deteriorate after the company goes for Initial Public Offering (IPO), Repeat Public Offering (RPO). Rights Offer, Direct Listing, etc. | \checkmark | | |
| 1.5 (ix) | If significant variance occurs between Quarterly Financial Performance and Annual Financial Statements the management shall explain about the variance on their Annual Report. | \checkmark | | |
| 1.5 (x) | Remuneration to directors including independent directors. | \checkmark | | |
| 1.5 (xi) | 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. | \checkmark | | |
| 1.5 (xii) | Proper books of account of the issuer company have been maintained. | \checkmark | | |
| 1.5 (xiii) | 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. | \checkmark | | |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|--|--|--------------|------------------|
| | | Complied | Not Complied | |
| 1.5 (xiv) | International Accounting Standards (IAS)/Bangladesh Accounting Standards (BAS)/International Financial Reporting Standard (IFRS)/Bangladesh Financial Reporting Standards (BFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there-from has been adequately disclosed. | \checkmark | | |
| 1.5 (xv) | The system of internal control is sound in design and has been effectively implemented and monitored. | \checkmark | | |
| 1.5 (xvi) | 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. | \checkmark | | |
| 1.5 (xvii) | Significant deviations from the last year's operating results of the issuer company shall be highlighted and the reasons thereof should be explained. | \checkmark | | |
| 1.5 (xviii) | Key operating and financial data of at least preceding 5 (five) years shall be summarized. | \checkmark | | |
| 1.5 (xix) | If the issuer company has not declared dividend (cash or stock) for the year, the reasons thereof shall be given. | \checkmark | | |
| 1.5 (xx) | The number of Board meetings held during the year and attendance by each director shall be disclosed. | \checkmark | | |
| 1.5 (xxi) a) | Parent/Subsidiary/Associated Companies and other related parties (name wise details); | \checkmark | | |
| 1.5 (xxi) b) | Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name wise details); | \checkmark | | |
| 1.5 (xxi) c) | Executives; | \checkmark | | |
| 1.5 (xxi) d) | Shareholders holding ten percent (10%) or more voting interest in the company (name wise details). | \checkmark | | |
| 1.5 (xxii) a) | a brief resume of the director; | \checkmark | | |
| 1.5 (xxii) b) | nature of his/her expertise in specific functional areas; | \checkmark | | |
| 1.5 (xxii) c) | Names of companies in which the person also holds the directorship and the membership of committees of the board. | \checkmark | | |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|---|--|--------------|------------------|
| | | Complied | Not Complied | |
| 2.1 | Appointment of CFO, Head of Internal audit & company secretary. | \checkmark | | |
| 2.2 | Requirement to attend Board meeting | \checkmark | | |
| 3 (i) | The company shall have an Audit Committee as a sub-committee of the Board of Directors. | \checkmark | | |
| 3 (ii) | The Audit Committee shall assist the Board of Directors in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business. | \checkmark | | |
| 3 (iii) | The Audit Committee shall be responsible to the Board of Directors. The duties of the Audit Committee shall be clearly set forth in writing. | \checkmark | | |
| 3.1 (i) | Number of member of Audit committee | \checkmark | | |
| 3.1 (ii) | Inclusion of independent director in the audit committee | \checkmark | | |
| 3.1 (iii) | All members of the audit committee should be "financially literate" and at least I (one) member shall have accounting or related financial management experience, | \checkmark | | |
| 3.1 (iv) | 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 shall 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. | \checkmark | | |
| 3.1 (v) | The company secretary shall act as the secretary of the Committee. | \checkmark | | |
| 3.1 (vi) | The quorum of the Audit Committee meeting shall not constitute without at least 1 (one) independent director. | \checkmark | | |
| 3.2 (i) | Selection of the Chairman of audit committee | \checkmark | | |
| 3.2 (ii) | Chairman of the Audit Committee shall remain present in the Annual General Meeting (AGM). | \checkmark | | |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|--|--|--------------|------------------|
| | | Complied | Not Complied | |
| 3.3 (i) | Oversee the financial reporting process. | \checkmark | | |
| 3.3 (ii) | Monitor choice of accounting policies and principles. | \checkmark | | |
| 3.3 (iii) | Monitor Internal Control Risk management process. | \checkmark | | |
| 3.3 (iv) | Oversee hiring and performance of external auditors. | \checkmark | | |
| 3.3 (v) | Review along with the management, the annual financial, statements before submission to the board for approval. | \checkmark | | |
| 3.3 (vi) | Review along with the management, the quarterly and half yearly financial statements before submission to the board for approval. | \checkmark | | |
| 3.3 (vii) | Review the adequacy of internal audit function. | \checkmark | | |
| 3.3 (viii) | Review statement of significant 'related party transactions submitted by the management. | \checkmark | | |
| 3.3 (ix) | Review Management Letters/ Letter of Internal Control weakness issued by statutory auditors. | \checkmark | | |
| 3.3 (x) | When money is raised through Initial Public Offering. (IPO)/Repeat Public Offering (RPO)/Rights Issue the company shall disclose to the Audit Committee about the uses/applications of funds by major category (capital expenditure, sales and marketing expenses, working capital, etc), on a quarterly basis, as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for the purposes other than those stated in the offer document/prospectus. | \checkmark | | |
| 3.4.1 (i) | The Audit Committee shall report on its activities to the Board of Directors. | \checkmark | | |
| 3.4.1 (ii) a) | report on conflicts of interests; | | N/A | |
| 3.4.1 (ii) b) | suspected or presumed fraud or irregularity or material defect in the internal control system; | | N/A | |
| 3.4.1 (ii) c) | suspected infringement of laws, including securities related laws, rules and regulations; | | N/A | |
| 3.4.1 (ii) d) | Any other matter which shall be disclosed to the Board of Directors immediately. | | N/A | |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|--|--|--------------|---|
| | | Complied | Not Complied | |
| 3.4.2 | Reporting to the Authorities (if any material impact on the financial condition & results of operation, unreasonably ignored by the management) | N/A | | |
| 3.5 | Reporting to the Shareholders and General Investors | \checkmark | | |
| 4 (i) | Non-engagement in appraisal or valuation services or fairness opinions. | \checkmark | | |
| 4 (ii) | Non-engagement in design and implementation of financial information system | \checkmark | | |
| 4 (iii) | Non-engagement in Book-keeping or other services related to the accounting records or financial statement | \checkmark | | |
| 4 (iv) | Non-engagement in Broker -dealer services | \checkmark | | |
| 4 (v) | Non-engagement in Actuarial services | \checkmark | | |
| 4 (vi) | Non-engagement in Internal audit services | \checkmark | | |
| 4 (vii) | Non-engagement in any other services that the audit committee determines. | \checkmark | | |
| 4 (viii) | No partner or employees of the external audit firms shall possess any share of the company during the tenure of their audit assignment | \checkmark | | |
| 4 (ix) | No partner or employees of the external audit firms shall possess any share of the company during the tenure of their audit assignment | \checkmark | | |
| 5 (i) | Provisions relating to the composition of the Board of Directors of the holding company shall be made applicable to the composition of the Board of Directors of the subsidiary company. | N/A | | The company does not have any subsidiary. |
| 5 (ii) | At least 1 (one) independent director of the Board of Directors of the holding company shall be a director on the Board of Directors of the subsidiary company. | N/A | | Do |
| 5 (iii) | The minutes of the Board meeting of the subsidiary company shall be placed for review at the following Board meeting of the holding company. | N/A | | Do |
| 5 (iv) | The minutes of the respective Board meeting of the holding company shall state that they have reviewed the affairs of the subsidiary company also. | N/A | | Do |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

| Condition No. | Title | Compliance Status (Put \checkmark in the appropriate column) | | Remarks (if any) |
|---------------|--|--|--------------|------------------|
| | | Complied | Not Complied | |
| 5 (v) | The Audit Committee of the holding company shall also review the financial statements, in particular, the investments made by the subsidiary company. | N/A | Do | |
| 6 (i) a) | These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading; | \checkmark | | |
| 6 (i) b) | These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws. | \checkmark | | |
| 6 (ii) | There are, to the best of knowledge and belief, no transactions entered into by the company during the year which are fraudulent illegal or violation of the company's code of conduct. | \checkmark | | |
| 7 (i) | The company shall obtain a certificate from a practicing Professional Accountant/Secretary (Chartered Accountant/Cost and Management Accountant/Chartered Secretary) regarding compliance of conditions of Corporate Governance Guidelines of the Commission and shall send the same to the shareholders along with the Annual Report on a yearly basis. | \checkmark | | |
| 7 (ii) | 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. | \checkmark | | |

**Statement of Compliance on the Good Governance Guideline Issued by the
Bangladesh Bank**

In terms of DFIM Circular No. 07, dated September 25, 2007 of Bangladesh Bank, Financial Institutions are required to comply with the policy on role and responsibility of the Board of Director and Chief Executive Officer. The Company has implemented those guidelines as per the directives of Bangladesh Bank.

Status report on compliance with those guidelines is given below:

Note: Data collected from (IPDC Finance Limited, 2016)

| Sl | Particulars | Compliance Status |
|---|--|-------------------|
| 01. Responsibilities and authorities of Board of Directors | | |
| A. Work Planning and Strategic Management | | |
| i. | The Board shall determine the objectives and goals and to this end shall chalk out strategies and work-plans on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objectives and goal and in the issues relating to structural change and reorganization for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor at quarterly rests the development of implementation of the work-plans. | Complied |
| ii. | The Board shall have its analytical review incorporated in the Annual report as regard the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/recommendations on future plans and strategies. | Complied |
| iii. | The Board will set the Key Performance Indicator (KPI) s for the CEO and other senior executives and will evaluate half yearly / yearly basis. | Complied |
| B. Formation of sub-committee | | |
| | To expedite the process of decision making, (e.g. approval of loan/lease, write off, rescheduling etc.) Board may form Executive Committee with the Director (excluding any alternate director) | Complied |
| C. Financial Management | | |
| i. | Annual budget and statutory financial statements shall be adopted finally with the approval of the Board. | Complied |
| ii. | Board shall review and examine in quarterly basis various statutory financial statements such as statement of income-expenses, statement of loan/lease, statement of liquidity, adequacy of capital, maintenance of provision, legal affairs including actions taken to recovery of overdue loan/lease. | Complied |

Corporate Governance & Risk Management Structure at IPDC Finance Limited

- | | | |
|------|--|----------|
| iii. | Board shall approve the procurement policy and shall accordingly the delegation of power for making such expenditure. The maximum delegation of power shall rest on the CEO and top management. However, decision relating to purchase of land, building and vehicles shall remain with the Board. | Complied |
| iv. | The Board shall adopt the operation of bank accounts. Groups maybe formed among the management to operate bank accounts under joint signatures. | Complied |
-

D. Management of loan/lease/investments

- | | | |
|------|---|----------|
| i. | Policy on evaluation of loan/lease/investment proposal, sanction and disbursement and its regular collection and monitoring shall be adopted and reviewed by the Board regularly based on prevailing laws and regulations. Board shall delegate the authority of loan/lease/investment specifically to management preferably on Managing Director and other top executives. | Complied |
| ii. | No director shall interfere on the approval of loan proposal associated with him. The director concerned shall not give any opinion on that loan proposal. | Complied |
| iii. | Any syndicated loan/lease/investment proposal must be approved by the Board. | Complied |
-

E. Risk Management

| | |
|---|----------|
| Risk Management Guideline framed in the light of Core Risk Management Guideline shall be approved by the Board and reviewed by the Board regularly. | Complied |
|---|----------|

F. Internal Control and Compliance

| | |
|---|----------|
| A regular Audit Committee as approved by the Board shall be formed. Board shall evaluate the reports presented by the Audit Committee on compliance with the recommendation of internal auditor, external auditors and Bangladesh Bank Inspection team. | Complied |
|---|----------|

G. Human Resource Management

- | | | |
|-----|--|----------|
| i. | Board shall approve the policy on Human Resources Management and Service Rule. Chairman and director of the Board shall not interfere on the administrative job in line with the approved Service Rule. | Complied |
| ii. | Only the authority for the appointment and promotion of the Managing Director/Deputy Managing Director/ General Manager and other equivalent position shall lie with the Board in compliance with the policy and Service Rule. No director shall be included in any Executive Committee formed for the purpose of appointment and promotion of others. | Complied |
-

H. Appointment of CEO

| | |
|--|----------|
| The Board shall appoint a competent CEO for the Company with the approval of the Bangladesh Bank and shall approve any increment of his salary and allowances. | Complied |
|--|----------|

I. Benefit to the Chairman

Chairman may be offered an office room, a personal secretary, a telephone at the office, a vehicle in the business-interest of the Company subject to the approval of the Board. Complied

J. Responsibilities and Duties of the Chairman

i. Chairman shall not participate in or interfere into the administrative or operational and routine affairs of the Company as he has no jurisdiction to apply executive power; Complied

ii. The minutes of the Board meetings shall be signed by the Chairman; Complied

iii. Chairman shall sign-off the proposal for appointment of Managing Director and increment of his salaries & allowances; Complied

K. Responsibilities of Managing Director & CEO

i. Managing Director shall discharge his responsibilities on matters relating to financial, business and administration vested by the Board upon him. He is also accountable for achievement of financial and other business targets by means of business plan, efficient implementation of administration and financial management; Complied

ii. Managing Director shall ensure compliance of Financial Institutions Act 1993 and other relevant circulars of Bangladesh Bank and other regulatory authorities; Complied

iii. All recruitment/promotion/training, except recruitment/promotion/training of DMD, shall be vested upon the Managing Director. He shall act such in accordance with the approved HR Policy of the Company; Complied

iv. Managing Director may re-schedule job responsibilities of employees; Complied

v. Managing Director may take disciplinary actions against the employees except DMD and General Manager; Complied

vi. Managing Director shall sign all the letters/statements relating to compliance of polices and guidelines. However, Departmental/Unit Heads may sign daily letters/statements as set out in DFIM circular no. 2 dated 06 January 2009 if so authorized by the Managing Director. Complied

6.2 Risk Management Structure at IPDC Finance Limited

The structure of the risk management has been discussed according to the company (IPDC Finance Limited, 2016). In order to achieve a sound system of risk management and internal control, the Board and the Management of IPDC must ensure that its risk management and control framework is enclosed into the overall corporate governance culture, processes and structure of the company. The framework is reactive to changes in the business environment and clearly communicated to all levels. The governance of Risk Management and internal control system starts with the Board of Directors, who play a vital role on reviewing and approving the policies and they set the internal control functions as part of risk management process. The main objectives of the risk management are to identify potential problematic areas before they occur so that risk-handling strategies might be planned and implored in advance across the life of the product or project to reduce adverse impact on achieving objectives. Added to the best industry practices, IPDC Finance Limited follows the Integrated Risk Management guidelines which are provided by Bangladesh Bank for Financial Institutions issued on January 2016. Continuous risk assessment process, strong team works and collaboration culture within the departments and the guidance of the Board and the senior management are done to establish a good risk management framework within the organization.

6.2.1. Risk Type

The following risk types for the financial institutions are mentioned by Bangladesh Bank in its 'Integrated Risk Management Guidelines' (Bangladesh Bank, 2016).

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Reputation Risk
- Strategic Risk
- Compliance Risk
- Money Laundering Risk
- Environmental Risk Management

Credit Risk:

Credit risk is explicitly the most vital point at IPDC in terms of financial risk management. This risk arises when clients, its counter parties and related parties are unwilling to or do not

have the ability to meet the commitments in relation to lending, trading, settlements and other financial transactions.

Market Risk:

At IPDC, the Market risk is defined as the risk of losses in on and off-balance sheet positions and it arises from adverse movements in the market rates or prices such as equity prices, rates of interest, foreign exchange rates, commodity prices and general spreads.

Liquidity Risk:

This risk arises when the Company's assets are not able to be transformed into cash and cash equivalents in a timely manner to meet the commitments as they fall due.

Operational Risk:

This risk is the most disastrous and the same time most difficult to foresee. It is the risk of financial losses that arise due to breakdown in internal control and corporate governance. The breakdown could be the result of human error, inadequate or failed internal processes and technical systems, frauds, or any other adverse external events.

Reputational Risk:

This risk is the hidden danger that can create a threat to the survival of the biggest and best run companies. It may arise from the negative publicity regarding the Company and its business practices. It can also arise due to failure to meet the applicable regulatory bindings for the protection of consumers of the financial services.

Strategic Risk:

This risk arises from the adverse business decisions, substandard execution and failure to respond to the changes in the business environment properly.

Compliance Risk:

This risk is the material financial loss the Company may suffer if it fails to comply with laws, its own regulations, code of conduct, and standards of the best practices as well as from the possibility of incorrect interpretation of effective laws or regulations. IPDC's compliance risk is protected through strong communications, proper training, signing and declaration of the IPDC's code of conduct, repeated communication of the senior management and of course continuous monitoring.

Money Laundering Risk:

This risk arises when the money obtained is illegal. IPDC uses robust KYC (Know Your Client) procedures and follow them properly. The CCU and its members make sure that these risk issues are raised to the appropriate level of Management on time, while the Internal audit and compliance department perform independent testing to make sure the policy have been accurately followed. IPDC introduced two level of Anti Money Laundering & Terrorist Financing training for the employees, one at the foundation level and other on the advance level so make sure that employees are properly aware of these activities.

Environment Risk:

IPDC believes that handling the environmental issues effectively and managing the natural resources are important for the survival of the humanity. This is why the Company always considers the issues while financing.

6.2.2. Risk Management Process

Integrated Risk Management:

IPDC uses the most integrated and holistic approach of risk management, because determining the risk is difficult to fit in decision making process and it manages the risks which in inherited in different business units in a more integrated manner. At IPDC, Credit Risk Management is involved in managing the credit risk, Treasury department is involved in managing the market risk and liquidity risk, and Operational risk management is involved with Internal Control and Compliance team. All these teams are integrated with the senior management team, corporate affairs and finance department and are responsible to manage the legal, compliance and the strategic risk.

Control Activities:

IPDC's risk management is ensured by putting appropriate control in place and it is important so that it can improve financial and operating performance of the Company. Appropriate risk and return are managed in a control environment by the Company and long-term sustainability if the Company is ensured. Its biggest strength are the independent control functions that monitor the effectiveness of the risk management framework.

Periodic review of policies and guidelines:

The company's policies and procedures are being reviewed on intervals and necessary modifications are done on the policies based on the market practices and the changes in the regulations are dependent on the approval of the Board of Directors. Management approaches the changes which are made in the policies and they are forwarded to the sub-committee of the Board (Executive Committee & Audit Committee) for review. Then the management shows the justifications of the changes to the sub-committee of the Board. The Board ultimately approves the policies or the revision of the policies depending on the recommendations of the sub-committee. The company's Product Program Guidelines (PPGs) for different products are being analyzed every year to form the changes in the market dynamics, as a result it helps the company to adopt the best practices and changes in the industry. Also a monthly overdue meeting is being held between the Credit Risk Management, Special Assets Management and business units to identify the problem of the clients and highlight the learning. As a result it helps to formulate the better policies to improve the quality of the assets and provides the early warnings to the Company.

Monitoring and Review:

Monitoring and reviewing is the essential part of the risk management decision making process and it binds the whole of the risk management process together and makes sure that it continues to function and is continuous to add value to the organization. IPDC has a strong monitoring and review process that binds all aspects of the risk management process to:

- ensure that controls are effective and efficient in both design and operation,
- obtain further information to improve risk assessment,
- analyze and learning lessons from risk events, including success and failures,
- detect changes in the external and internal context, including changes to risk criteria and to the risks, which may require revision of risk treatments and priorities
- identify the emerging risks

The company's risk management committee identifies the organizational wide risks and suggests relevant control to reduce those risks considering the risk criteria, magnitude and appetite of the risk management that is adjusted with the overall organizational strategy.

6.2.3. Credit Risk Management

Credit Risk Management Framework:

Credit Risk Management is the most critical process which is applied with the assessment of the quality of the assets, adequacy of provisions and reserves and disclosures of credit risk.

Credit Risk Management framework includes the following:

- a. Establishing an appropriate credit risk environment
- b. Setting up the organizational structure for credit risk management
- c. Formulating policies and procedures
- d. Monitoring credit performance
- e. Reporting of credit exposures to the senior management and the Board of Directors
- f. Measuring of credit risk

a) Establishing the appropriate Credit Risk environment:

It is the responsibility of the Board of Directors at IPDC to approve and periodically review the credit risk strategy and credit risk policy of IPDC considering the risk appetite and the level of profitability it expects to achieve over the periods. The statement of willingness to grant credit based on the exposure type, economic sector, geographical location, maturity and anticipated profitability are included in the strategy. Also, it is the responsibility of the Senior Management to implement the credit risk strategy which is approved by the Board and develop the policies for identifying, Measuring, monitoring and controlling the credit risk in all activities along with individual borrower and portfolio as a whole. The company's Management always focuses on establishing the internal controls and setting clear lines of accountability and authority. It is also the responsibility of the respective business units for identifying and managing credit risk included in the products and activities. The products introduced to the business units are always ensured by the Management by ensuring adequate risk management procedures and controls that had been appropriately reviewed and approved by the Board of Directors.

b) Organizational Structure:

IPDC has designed its organizational structure for Credit Risk Management by considering the size, complexity and diversification of its credit activities. For effective management oversight and proper execution of Credit Risk Management control process, the company has the following committees and departments:

Credit Risk Management Committee:

The credit risk management committee of IPDC is empowered to oversee overall credit risk taking activities and overall credit risk management function. This committee reports to the risk management committee on regular interval. It is responsible for implementation of the credit risk strategy approved by the Board and also for monitoring the credit risk throughout the Company and ensure compliance.

Credit Risk Management Department:

IPDC has a separate functional unit independent of loan origination functions to maintain credit discipline and outline credit risk management and credit process. It is responsible on formulating the credit policy, credit limit setting and monitoring the credit exceptions/exposures and review/monitoring the required documentations, and also to ensure that business lines comply with the risk parameters and prudential limits established by the Board.

Credit Administration:

The function of credit administration at IPDC is difficult to ensure that proper documentation and approvals are in place before the disbursement of financial facilities. This department ensures the completeness of the documentation in accordance with the approved terms and conditions, and monitors the borrower's compliance with covenants and agreed terms and conditions and monitor the performance of the client.

Special Asset Management Department:

Special Asset Management (SAM) department is the recovery department which directly manage accounts with sustained deterioration. An account is transferred to the SAM department to ensure the recovery of the loan account, when there is a sustained deterioration. This department determines the specific strategy for the particular loan for its recovery, and pursues all options to maximize the recovery, including placing customers into receivership or liquidation as appropriate.

Reporting of credit exposures:

An established powerful credit policy and monitoring process help IPDC to manage the credit risk. Detailed reporting of the systems to the Board and the Senior Managements help the company to formulate the decision timely. The company maintains a robust group of MIS on performing and non-performing loans, daily disbursement, overdue reporting, overdue reporting, classification status, geographical performance of the credit etc. These reports help

the senior management and the Board in taking credit decisions based on the performance as well as the risk appetite of the Company.

Formulating policies and procedures:

The company has a separate credit policy as part of its overall risk management framework which is approved by the Board of Directors, and it clearly defines the Company's view of business development priorities along with the terms and conditions appropriate for credit decisions. It includes the detailed and formalized credit evaluation and approval process, credit origination, administration and documentation procedures, formal credit approval process, risk identification, measurement/monitoring process, risk acceptance criteria, etc.

Monitoring credit performance:

Credit monitoring is the fundamental part of credit risk management. Credit Manual at IPDC properly defines the criteria and other transactions to ensure that they are subject to more frequent monitoring as well as possible corrective actions, classifications and provisioning. Effective monitoring system in the company helps senior management to monitor the overall quality of the credit portfolio & its trends, and also helps to reassess credit strategy/policy accordingly before encountering any major setback at IPDC.

Measurement of Risk:

IPDC used several methods that had been evolved over time, to serve the purpose of credit risk measurement. The result of the evaluation process is generally a rating/grading/scores that represents the degree of credit risk associated with the borrower. Continuous updating of these grades help the company to focus attention on deteriorating credits well before they become impaired. This assessment is done in both pre-sanction and post-sanction stages. The company uses Credit Risk Grading system and Internal Risk Rating systems as pre-sanction assessment tool. In the post-sanction stage, it performs several analysis both in micro and macro level. In the micro level IPDC performs risk analysis on sector wise, product wise, region wise as well as concentration metrics, large loans etc.

Stress Testing:

There are always uncertainties in the calculated risk, and that is due to the fact that risk calculation is an estimation that requires certain prerequisites, and that is why stress test is a good tool to deal with these uncertainties. The company sets stress test in a way of evaluating the sufficiency of portfolio management policy and financial strength against a certain assumed but probable stress situation. The stress scenario includes a fall in credit growth, a drop in stock

prices, deterioration in the business condition of large borrowers, and large fluctuations in risk components. The stress tests are regularly conducted jointly with the firm's market and liquidity risk functions and are reported quarterly to Bangladesh Bank, and then the suggested recommendation from the test are in implementations and are monitored regularly.

6.2.4. Liquidity Risk Management

Assessing future funding requirement is an important aspect of liquidity risk management, and by ensuring effective liquidity risk management system IPDC reduces the probability of an adverse situation. The company uses both the top-down and bottom-up approach for liquidity risk management. The principles and objectives are set at Board and senior management levels but the data necessary to feed the risk dashboard and analytics has to be obtained from funding desk. Particularly, intra-day liquidity management is an essential part of an improved liquidity risk management. The measurement reports are prepared by the funding desk on daily fund management and associated money market dealings for further use in an agreed format to support the strategic liquidity risk metrics. When calculating the expected cash inflows and outflows, treasury department of the company also estimates future liquidity needs and prospective investment decisions both in the short and long run. Asset Liquidity Management (ALM)'s desk plays a vital role in this regard. It tracks, analyzes and reports balance sheet movements of the company, and also monitors the economic outlooks and market movement. It reports and recommends policies and procedures and provides all elements for decision making purposes in the Asset Liability Committee (ALCO) meeting. The company has a very organized ALCO with the combinations of treasury, business units, finance, credit risk departments, and Liquidity risk management is the main responsibility of the ALCO.

6.2.5. Operational Risk Management

The company believes that complete and accurate information as well as strong culture is the prerequisite of managing operational risk, and IPDC pursues to manage operational risk through:

- Ensuring effective and integrated operational risk management procedures;
- Through training, supervision and developments;
- Proactive communication between the cross functional department groups
- Independent control and support functions that monitor operational risk on daily basis;

Corporate Governance & Risk Management Structure at IPDC Finance Limited

- Well segregated dual control mechanism (maker and checker) to minimize the error and prevent the fraud;
- Building a network of systems throughout the company to facilitate the collection of information of data on analyzing and assessing its operational risk exposure.

From the Quarter 4 of 2016, the company has started to implement operational risk management framework, where separate forum at mid-management and senior management level have been created for discussion and resolution of operational level risks. Under this new framework, Internal Compliance will act as a separate line of defense against operational risks and is responsible for the following:

- a. Assessing the compliance with applicable laws and regulations, code and guidelines, internal procedures and policies;
- b. Acting as a contact point with IPDC and deliver timely advice in relation to compliance queries within the company;
- c. Performing health checking of the compliance procedure and notifying the non-compliance to the senior manager on a monthly basis;
- d. Advising the best practices in the market in terms of policy formation and regulatory compliance.

Proper credit administration is in place to make sure that the effective and efficient operations related to the monitoring, documentation, contractual requirements, legal covenants and collateral among others; accurate and timely report to the management and compliance with management policies and procedures in accordance with applicable laws and regulations.

Corporate Governance & Risk Management Structure at IPDC Finance Limited

The following framework has been designed after studying the risk management structure of the company.

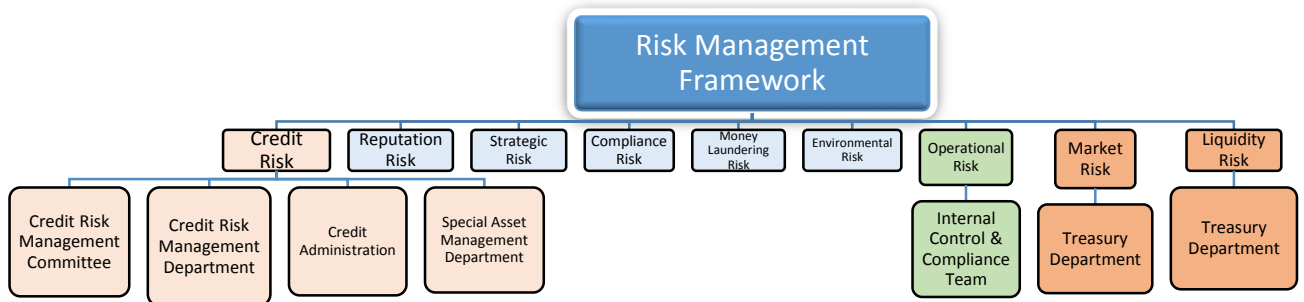


Figure 2: Risk Management Framework at IPDC Finance Limited
Source: Annual Report 2016

7. Interpretation of Financial Ratios

| Particulars | 2012 | 2013 | 2014 | 2015 | 2016 | Growth (%) |
|---------------------------------|-------|-------|-------|-------|-------|------------|
| Current Ratio (Times) | 1.39 | 1.18 | 1.25 | 1.21 | 1.01 | (0.20) |
| Debt Equity Ratio (Times) | 0.23 | 0.20 | 0.17 | 0.09 | 0.41 | 0.32 |
| Interest Coverage Ratio (Times) | 7.00 | 11.68 | 28.50 | 17.27 | 14.94 | (2.33) |
| Return on Asset | 1.85% | 1.91% | 2.14% | 3.01% | 1.97% | (1.04) |
| Price Earnings Ratio (Times) | 21.20 | 21.34 | 16.66 | 16.84 | 21.34 | 4.50 |
| Rate of NPL | 9.66% | 5.95% | 3.39% | 1.98% | 0.71% | (1.27) |

Table 1: Analysis of Financial Ratios
Source: Annual Report 2016

The table above represents the financial ratios of IPDC Finance Limited for the years 2012-2016.

The current ratio in 2016 was 1.01 times, which means the company had liquid money to pay its short term liabilities. It also shows that this ratio has fallen by 0.20% in the last 5 years.

The debt equity ratio in 2016 was 0.41, which means the company's debt is 0.41 times of its equity, and it has increased by 0.32% in the last 5 years.

The interest coverage ratio in 2016 was 14.94 times, which means IPDC could cover its interest expense 14.94 times with its Earnings before Interest and Tax. Although this ratio fell by 2.33%, but it has doubled compared to 2012.

The return on assets in 2016 was 1.97%, which means every Taka. 100 of company's assets generated Taka. 1.97, and it increased compared to 2012.

The price earnings ratio in 2016 was 21.34 times, which means that shareholders of IPDC were willing to pay Taka. 21.34 for every taka of reported earnings, and the ratio is almost same compared to 2012.

The rate of non-performing loan in 2016 was 0.71% which means the company's borrowers who are unlikely to pay back the debts is only 0.71% and it has fallen significantly in the last 5 years, which enhances the reputation of IPDC.

8. Findings of Study

The study is done to know the Corporate Governance and the Risk Management Structure at IPDC Finance Limited. Also some financial ratio of the company has been found and interpreted. First of all, IPDC Finance Limited has complied with all the conditions which are imposed by the Bangladesh Security and Exchange Commission's Notification No SEC/CMRRCD/2006-158/134/Admin/44 dated 07 August 2012 issued under section 2CC of the Securities and Exchange Ordinance, 1969, and some of the conditions were not applicable for the company and it does not have any subsidiary. Secondly IPDC Finance Limited has complied with all the conditions of the Good Governance Guideline issued by the Bangladesh Bank in terms of Department of Financial Institutions and Markets (DFIM) Circular No. 07, dated September 25, 2007 of Bangladesh Bank. Thirdly, the risk management structure of the company is well formed and the Board of Directors and the Management ensures that the risk management and control framework is well installed into the overall corporate governance culture, processes and structures of the company. Finally the financial ratios portray a well performance of the company. The unique thing about IPDC Finance Limited is its Rate of Non-Performing Loans, which is 0.38% as of July 31, 2017.

9. Recommendations

From the analysis and findings it could be said that IPDC Finance Limited has fully complied with the conditions and followed the guidelines. The company's risk management structure is well built. The management should continue following the guidelines and complying with the conditions to maintain the good performance of the company. They should maintain the risk management structure in order to get rid of future defaults, minimize the risks and maintain the good NPL rate.

The company's current ratio is close to 1, which is not good for a company, since it might fail to pay its short term debts as they arise. So the company should keep enough liquid money to reduce the probability of taking more debts.

10. Conclusion

IPDC Finance Limited, being the first private financial institution has the strongest balance sheet in the industry, with Taka. 29 billion loan portfolio, 0.38% classified loan ratio, 282.3% classified loan coverage, Taka. 2.91 billion shareholders' equity, 15.1% capital adequacy ratio, Taka. 8.22 billion market capitalization and AA1 credit rating. This report includes the Corporate Governance & the Risk Management Structure at IPDC Finance Limited.

The company has complied with all the conditions of the Corporate Governance & Good Governance, provided by the Bangladesh Bank & Security and Exchange Commissions, and has a well risk management framework with robust teams and departments. So it is a good company for the shareholders to invest.

Interviews were taken for the primary data collection of the research and the questionnaire has been attached in the Appendix, along with the guidelines and conditions under the Security and Exchange Commission Notification.

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12. Appendix

Questionnaire

- Does the management fully considers risks in determining the best course in action
- Are the existence of risks and management's recognition appropriately communicated to employees?
- Does the company's organizational structure defines key areas of responsibility and establishes accountability?
- What are the processes for the disbursement of loans?
- What documents are kept for the security of the company's assets?
- What steps are taken when clients do not pay the loans back?
- Does the company follow the guidelines of Bangladesh Bank & Security and Exchange Commissions?

NOTIFICATION

07 August 2012

No. SEC/CMRRCD/2006-158/134/Admin/44: Whereas, the Securities and Exchange Commission (herein after referred to as the “Commission”) deems it fit that the consent already accorded by the Commission, or deemed to have been accorded by it, or to be accorded by it in future, to the issue of capital by the companies listed with any stock exchange in Bangladesh, shall be subject to certain further conditions, on 'comply' basis, in order to enhance corporate governance in the interest of investors and the capital market;

Now, therefore, in exercise of the power conferred by section 2CC of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Commission hereby supersedes its earlier Notification No. SEC/CMRRCD/2006-158/Admin/02-08 dated 20th February, 2006 and imposes the following further conditions to the consent already accorded by it, or deemed to have been accorded by it, or to be accorded by it in future, to the issue of capital by the companies listed with any stock exchange in Bangladesh:

Provided, however, that these conditions are imposed on 'comply' basis. The companies listed with any stock exchange in Bangladesh shall comply with these conditions in accordance with the condition No. 7.

The Conditions:

1. BOARD OF DIRECTORS:

1.1. Board's Size

The number of the board members of the company shall not be less than 5 (five) and more than 20 (twenty):

Provided, however, that in case of banks and non-bank financial institutions, insurance companies and statutory bodies for which separate primary regulators like Bangladesh Bank, Insurance Development and Regulatory Authority, etc. exist, the Boards of those companies shall 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 Directors

All companies shall encourage effective representation of independent directors on their Board 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 shall comply with the following:-

- (i) At least one fifth (1/5) of the total number of directors in the company's board shall be independent directors.
- (ii) For the purpose of this clause "independent director" means a director
 - a) who either does not hold any share in the company or holds less than one percent (1%) shares of the total paid-up shares of the company;
 - b) who is not a sponsor of the company and is not connected with the company's any sponsor or director or shareholder who holds one percent (1%) or more shares of the total paid-up shares of the company on the basis of family relationship. His/her family members also should not hold above mentioned shares in the company:
Provided that spouse, son, daughter, father, mother, brother, sister, son-in-law and daughter-in-law shall be considered as family members;
 - c) who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary/associated companies;
 - d) who is not a member, director or officer of any stock exchange;
 - e) who is not a shareholder, director or officer of any member of stock exchange or an intermediary of the capital market;
 - f) who is not a partner or an executive or was not a partner or an executive during the preceding 3 (three) years of the concerned company's statutory audit firm;
 - g) who shall not be an independent director in more than 3 (three) listed companies;
 - h) who has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a bank or a Non-Bank Financial Institution (NBFI);
 - i) who has not been convicted for a criminal offence involving moral turpitude.
- (iii) the independent director(s) shall be appointed by the board of directors and approved by the shareholders in the Annual General Meeting (AGM).
- (iv) the post of independent director(s) can not remain vacant for more than 90 (ninety) days.
- (v) the Board shall lay down a code of conduct of all Board members and annual compliance of the code to be recorded.

- (vi) the tenure of office of an independent director shall be for a period of 3 (three) years, which may be extended for 1 (one) term only.

1.3 Qualification of Independent Director (ID)

- (i) Independent Director shall be a knowledgeable individual with integrity who is able to ensure compliance with financial, regulatory and corporate laws and can make meaningful contribution to business.
- (ii) The person should be a Business Leader/Corporate Leader/Bureaucrat/University Teacher with Economics or Business Studies or Law background/Professionals like Chartered Accountants, Cost & Management Accountants, Chartered Secretaries. The independent director must have at least 12 (twelve) years of corporate management/professional experiences.
- (iii) In special cases the above qualifications may be relaxed subject to prior approval of the Commission.

1.4 Chairman of the Board and Chief Executive Officer

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

1.5 The Directors' Report to Shareholders

The directors of the companies shall include the following additional statements in the Directors' Report prepared under section 184 of the Companies Act, 1994 (Act No. XVIII of 1994):-

- (i) Industry outlook and possible future developments in the industry.
- (ii) Segment-wise or product-wise performance.
- (iii) Risks and concerns.
- (iv) A discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin.
- (v) Discussion on continuity of any Extra-Ordinary gain or loss.

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- (vi) Basis for related party transactions- a statement of all related party transactions should be disclosed in the annual report.
- (vii) Utilization of proceeds from public issues, rights issues and/or through any others instruments.
- (viii) An explanation if the financial results deteriorate after the company goes for Initial Public Offering (IPO), Repeat Public Offering (RPO), Rights Offer, Direct Listing, etc.
- (ix) If significant variance occurs between Quarterly Financial performance and Annual Financial Statements the management shall explain about the variance on their Annual Report.
- (x) Remuneration to directors including independent directors.
- (xi) 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.
- (xii) Proper books of account of the issuer company have been maintained.
- (xiii) 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.
- (xiv) International Accounting Standards (IAS)/Bangladesh Accounting Standards (BAS)/International Financial Reporting Standards (IFRS)/Bangladesh Financial Reporting Standards (BFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there-from has been adequately disclosed.
- (xv) The system of internal control is sound in design and has been effectively implemented and monitored.
- (xvi) 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.
- (xvii) Significant deviations from the last year's operating results of the issuer company shall be highlighted and the reasons thereof should be explained.
- (xviii) Key operating and financial data of at least preceding 5 (five) years shall be summarized.
- (xix) If the issuer company has not declared dividend (cash or stock) for the year, the reasons thereof shall be given.

- (xx) The number of Board meetings held during the year and attendance by each director shall be disclosed.
- (xxi) The pattern of shareholding shall be reported to disclose the aggregate number of shares (along with name wise details where stated below) held by:
 - a) Parent/Subsidiary/Associated Companies and other related parties (name wise details);
 - b) Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name wise details);
 - c) Executives;
 - d) Shareholders holding ten percent (10%) or more voting interest in the company (name wise details).

Explanation: For the purpose of this clause, the expression “executive” means top 5 (five) salaried employees of the company, other than the Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer and Head of Internal Audit.

(xxii) In case of the appointment/re-appointment of a director the company shall disclose the following information to the shareholders:-

- a) a brief resume of the director;
- b) nature of his/her expertise in specific functional areas;
- c) names of companies in which the person also holds the directorship and the membership of committees of the board.

2. CHIEF FINANCIAL OFFICER (CFO), HEAD OF INTERNAL AUDIT AND COMPANY SECRETARY (CS):

2.1 Appointment

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

2.2 Requirement to attend the Board Meetings

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

3. AUDIT COMMITTEE:

- (i) The company shall have an Audit Committee as a sub-committee of the Board of Directors.
- (ii) The Audit Committee shall assist the Board of Directors in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business.
- (iii) The Audit Committee shall be responsible to the Board of Directors. The duties of the Audit Committee shall be clearly set forth in writing.

3.1 Constitution of the Audit Committee

- (i) The Audit Committee shall be composed of at least 3 (three) members.
- (ii) The Board of Directors shall appoint members of the Audit Committee who shall be directors of the company and shall include at least 1 (one) independent director.
- (iii) All members of the audit committee should be “financially literate” and at least 1 (one) member shall have accounting or related financial management experience.

Explanation: The term “financially literate” means the ability to read and understand the financial statements like Balance Sheet, Income Statement and Cash Flow Statement and a person will be considered to have accounting or related financial management expertise if (s)he possesses professional qualification or Accounting/Finance graduate with at least 12 (twelve) years of corporate management/professional experiences.

- (iv) 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 shall 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.
- (v) The company secretary shall act as the secretary of the Committee.

- (vi) The quorum of the Audit Committee meeting shall not constitute without at least 1 (one) independent director.

3.2 Chairman of the Audit Committee

- (i) The Board of Directors shall select 1 (one) member of the Audit Committee to be Chairman of the Audit Committee, who shall be an independent director.
- (ii) Chairman of the audit committee shall remain present in the Annual General Meeting (AGM).

3.3 Role of Audit Committee

Role of audit committee shall include the following:-

- (i) Oversee the financial reporting process.
- (ii) Monitor choice of accounting policies and principles.
- (iii) Monitor Internal Control Risk management process.
- (iv) Oversee hiring and performance of external auditors.
- (v) Review along with the management, the annual financial statements before submission to the board for approval.
- (vi) Review along with the management, the quarterly and half yearly financial statements before submission to the board for approval.
- (vii) Review the adequacy of internal audit function.
- (viii) Review statement of significant related party transactions submitted by the management.
- (ix) Review Management Letters/ Letter of Internal Control weakness issued by statutory auditors.
- (x) When money is raised through Initial Public Offering (IPO)/Repeat Public Offering (RPO)/Rights Issue the company shall disclose to the Audit Committee about the uses/applications of funds by major category (capital expenditure, sales and marketing expenses, working capital, etc), on a quarterly basis, as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for the purposes other than those stated in the offer document/prospectus.

3.4 Reporting of the Audit Committee

3.4.1 Reporting to the Board of Directors

- (i) The Audit Committee shall report on its activities to the Board of Directors.
- (ii) The Audit Committee shall 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 shall be disclosed to the Board of Directors immediately.

3.4.2 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 and if the Audit Committee finds that such rectification has been unreasonably ignored, the Audit Committee shall report such finding to the Commission, upon reporting of such matters to the Board of Directors for three times or completion of a period of 6 (six) months from the date of first reporting to the Board of Directors, whichever is earlier.

3.5 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 3.4.1 (ii) above during the year, shall be signed by the Chairman of the Audit Committee and disclosed in the annual report of the issuer company.

4. EXTERNAL/STATUTORY AUDITORS:

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

- (i) Appraisal or valuation services or fairness opinions.

- (ii) Financial information systems design and implementation.
- (iii) Book-keeping 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.
- (viii) No partner or employees of the external audit firms shall possess any share of the company they audit at least during the tenure of their audit assignment of that company.

5. SUBSIDIARY COMPANY:

- (i) Provisions relating to the composition of the Board of Directors of the holding company shall be made applicable to the composition of the Board of Directors of the subsidiary company.
- (ii) At least 1 (one) independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of the subsidiary company.
- (iii) The minutes of the Board meeting of the subsidiary company shall be placed for review at the following Board meeting of the holding company.
- (iv) The minutes of the respective Board meeting of the holding company shall state that they have reviewed the affairs of the subsidiary company also.
- (v) The Audit Committee of the holding company shall also review the financial statements, in particular the investments made by the subsidiary company.

6. DUTIES OF CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER (CFO):

The CEO and CFO shall certify to the Board that:-

- (i) They have reviewed financial statements for the year and that to the best of their knowledge and belief:
 - a) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

- b) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws.
- (ii) There are, to the best of knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violation of the company's code of conduct.

7. REPORTING AND COMPLIANCE OF CORPORATE GOVERNANCE:

- i. The company shall obtain a certificate from a practicing Professional Accountant/Secretary (Chartered Accountant/Cost and Management Accountant/Chartered Secretary) regarding compliance of conditions of Corporate Governance Guidelines of the Commission and shall send the same to the shareholders along with the Annual Report on a yearly basis. **Explanation:** Chartered Accountant means Chartered Accountant as defined in the Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949); Cost and Management Accountant means Cost and Management Accountant as defined in the Cost and Management Accountants Ordinance, 1977 (Ordinance No. LIII of 1977); Chartered Secretary means Chartered Secretary as defined in the PvU©vW© †m‡µUvixR AvBb, 2010 (2010 m‡bi 25 bs AvBb).
- ii. 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.