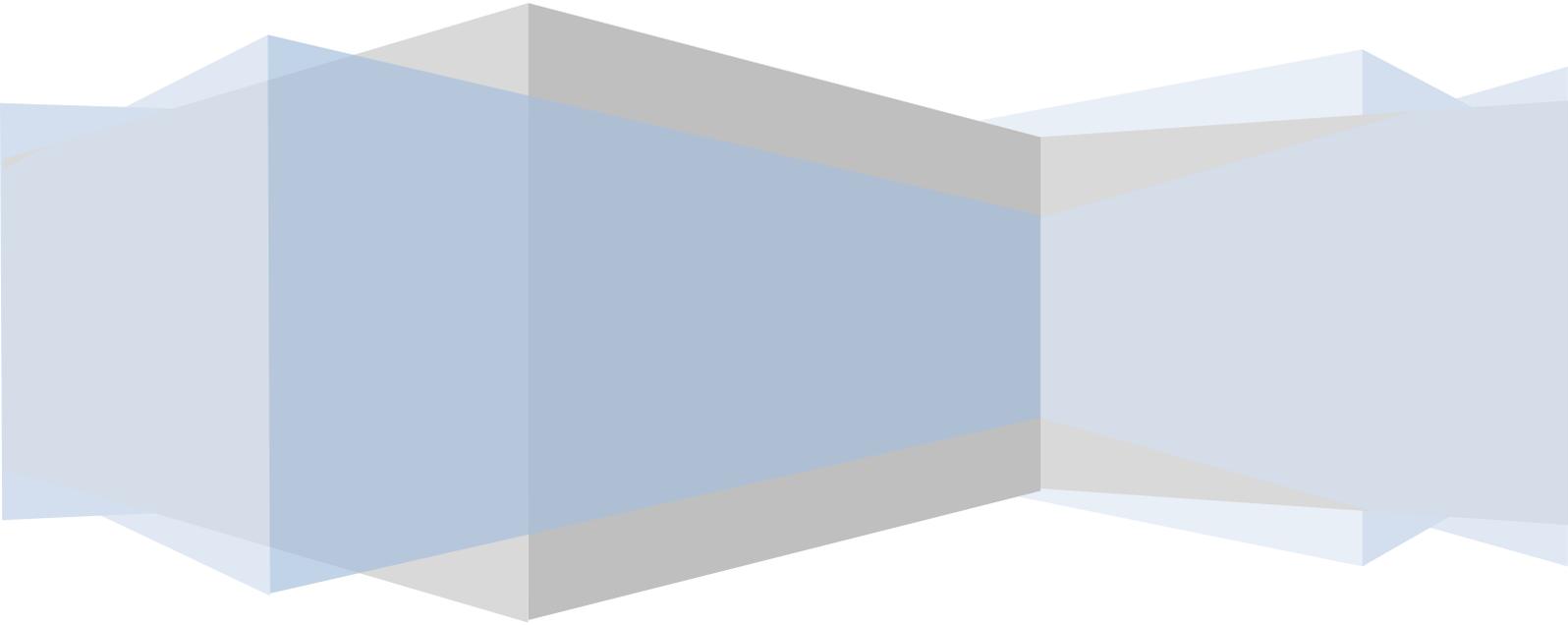




GOVERNANCE FRAMEWORK
for
BANKS' OVERSEAS OPERATIONS

Banking Policy & Regulations Department



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General

1. The Board of Directors and senior management of bank are ultimately responsible for addressing concerns and ensuring compliance with all applicable laws and regulatory instructions of the respective host jurisdiction. Any negative measures taken by the host regulators would have repercussions on the board and senior management of the respective bank. Therefore, the board and senior management shall have clear understanding of relevant important laws and regulations in respective overseas jurisdictions.
2. The culture of accountability shall prevail in the bank at all levels and responsibility shall be fixed on individuals for not complying with the host country regulatory instructions as and when such instances are identified. There shall be a zero tolerance towards regulatory non-compliance.
3. The bank shall, within three months of issuance of this framework, formulate jurisdiction-wise board approved strategic plan, as part of its overall strategy or separately, with well-defined and measurable deliverables. The implementation of strategy and achievement of deliverables shall be monitored periodically at senior management and board level.
4. The controlling office / international division that monitors the overseas operations of a bank shall invariably be based at Head Office (HO) in Pakistan.
5. The bank shall, within six month of issuance of this framework, develop comprehensive risk governance framework for its overseas operations which at minimum shall include the following:
 - i. To maintain a separate system based log/inventory of observations related to its overseas operations (jurisdiction wise and at entity level) that shall record the risks & control deficiencies/gaps identified in bank's overseas branches or subsidiaries by internal or external stakeholder i.e. supervisors, internal and external auditors, compliance department or internal control units and ensure that identified deficiencies /gaps are timely rectified/filled in.
 - ii. The bank shall develop related policy and procedural manuals to keep updating the log/inventory of observation/concerns for its overseas operations on periodic basis (at-least on monthly basis). The policy shall define access levels and shall also include the escalation process whereby critical/high risk issues shall be escalated to bank's board. Senior level management committee shall monitor the implementation of resolution plan of critical/high risk observations with definitive timelines and keep the board updated on periodic basis.
 - iii. Identify the themes from the log/inventory of observations and conduct comprehensive theme based assessments to identify gaps and take necessary corrective actions.
6. The bank shall, within three months of issuance of this framework, develop a mechanism whereby the board shall oversee and regularly evaluate financial and operational performance of its overseas subsidiary/sub-subsidiary/joint venture operations; and that of overall overseas branch operations; and of each jurisdiction (branches & offices), associates and other undertakings against approved strategic & annual business plans; conduct a thorough variance analysis for subsidiaries/JVs and/or branches/jurisdictions; provide strategic guidance on expansion or reduction of operations in any jurisdiction and ensure that such overseas operations are in line with bank's overall business model & strategic plan.
7. The bank with overseas operations assets of over USD 1000 million, shall consider forming a separate sub-committee of board to oversee its overseas operations (the oversight function can

also be assigned to appropriate existing committee). Besides, all high-risk internal/external audit observations and supervisory concerns of overseas operations shall invariably be reported to the Board Audit Committee (BAC).

8. The senior management of the bank shall conduct a comprehensive performance evaluation of its overseas operations (branches, subsidiaries, sub subsidiaries, joint ventures and associates-where banks have controlling interest) in each jurisdiction on periodic basis (at-least quarterly) in MANCOM meetings. The evaluation shall be made against clearly set Key Performance Indicators (KPIs) in each jurisdiction and shall be properly documented. The bank may also consider forming a dedicated management committee under the chair of President for its overseas operations.
9. The management shall present a detailed 'review report' on the financial and operational performance of bank's overseas operations in each jurisdiction to board/board committee on periodic basis (preferably twice a year).
10. The bank shall ensure that all its transactions/dealings/contracts with its foreign branches/subsidiaries/sub subsidiaries/joint venture and that of foreign branches among themselves are made in a transparent manner under a board-approved policy.

OVERSEAS SUBSIDIARY OPERATIONS

11. The bank shall ensure that the confirmed minutes of subsidiary's board meetings are submitted to bank's company secretary immediately after confirmation and presented to bank's board in its upcoming meeting. The board shall review the minutes to remain aware of the issues being faced by subsidiary as well as evaluate the performance of its board and take necessary actions/decisions to address deficiencies.
12. The bank shall, within three months of issuance of this framework, develop criteria for nomination of directors on the board of its overseas subsidiary / JV Company.
13. The bank shall, within three months of issuance of this framework, devise a mechanism whereby the 'nominee directors' on the board of bank's overseas subsidiary/ JV companies shall submit their performance reports on annual basis to company secretary of bank for submission to bank's board.
14. The bank shall, within three months of issuance of this framework, devise a mechanism to maintain - preferably through a system-based application - the details of action points of board, board committees' and management committees' minutes of meetings of overseas subsidiaries to monitor progress/compliance.

OVERSEAS BRANCH OPERATIONS

15. The bank shall, in line with the requirements of SBP's Guidelines on Remuneration Practices and subject to host country regulatory instructions, develop a remuneration policy for executives/officers of bank's overseas operations based on the financial & operational performance of the respective jurisdiction. Besides, the payment of performance bonuses to

executives appointed at overseas jurisdictions shall always be linked with the financial & operational performance of respective jurisdictions.

16. The bank shall not be allowed to expand their branch operations in a jurisdiction(s) where SBP is unable to conduct on-site examination / inspection by itself or through a third party due to host country laws/regulations. In jurisdictions where no such bar is in place, the bank will bear the cost if SBP decides to conduct an inspection of bank's existing operations through a third party.
17. The risk management, internal audit and compliance head at overseas jurisdictions shall functionally report to its respective functional heads at HO with administrative reporting to relevant country head. The controlling functions at HO with respect to overseas operations such as compliance, audit and risk management shall be properly equipped with required systems, policies, procedures, authority and human resources to carry out their functions. Besides, the administrative reporting to country head, shall, in no way hamper the functional independence of these functions.
18. The bank shall assess home and host regulators / supervisors policies/regulations pertaining to AML, CFT & KYC and implement the stricter of the two in each respective jurisdiction.
19. The chief internal auditor (CIA) shall ensure that the function specific internal audit observations in an overseas jurisdiction are forwarded to all concerned departments at HO.
20. The chief compliance officer (CCO) at HO shall immediately report to SBP, any material information / supervisory actions taken by the host country regulators against the bank in any jurisdiction.
21. Keeping in view the nature and size of operations in each jurisdiction, the board of bank shall ensure that comprehensive policies, procedural manuals/ SOPs, competent staff and proper system support are put in place in all critical areas of operations in such jurisdictions including i) Risk Management, ii) Credit approval, documentation & disbursements, iii) Investments, iv) Internal Controls v) IT security, vi) AML &CFT vii) Internal Audit, viii) compliance, and ix) Human Resource. The bank with overseas operations shall, within six month of issuance of this framework, adopt a universal approach for formulation/alignment of policies in all-important areas of operations as given below:
 - i. All policies shall be for whole bank considering domestic and overseas operations of the bank.
 - ii. Each jurisdiction shall identify the conflict in group level policies with statutory / regulatory framework of host country.
 - iii. The final policy framework of each jurisdiction shall then be approved by bank board/management in line with host country regulations.
 - iv. The same process shall be followed for any amendment in the policy framework. The compliance function shall maintain details of all policies of all jurisdictions where bank has operations in line with requirements of SBP's guidelines on compliance risk management.
22. The bank shall implement an effective governance, risk management, internal control and compliance functions in each jurisdiction in line with the local regulatory requirements.
23. The board of the bank shall ensure that appropriate and clear business powers are given (and

- documented) at each branch/jurisdiction keeping in view their respective risk profile.
24. The board of the bank, through its BAC shall ensure that comprehensive audit and risk reviews of each jurisdiction are conducted by HO audit and risk review functions on a set frequency as given in bank's internal audit policy. However, this frequency shall be at least once a year.
 25. The board of the bank shall ensure that the External Auditors hired for audit of overseas jurisdictions' financial statements is one of the reputable audit firms of that jurisdiction. The board, on recommendation of BAC must approve the appointment, renewal and remuneration of external auditors for overseas operations.
 26. The bank shall ensure that all correspondent banking relationships by bank's overseas branch operations are established after prior approval of relevant approving authority at HO.
 27. The bank shall implement the concept of global treasury whereby all treasuries operating in different jurisdictions shall functionally report to head of global treasury at HO.
 28. The bank shall prepare a Business Continuity Plan (BCP) for its operations in all overseas jurisdictions in line with the host country regulatory requirements. In cases where there is no such host country regulatory requirement, the bank may follow SBP guidelines/instructions for developing a BCP.
 29. The board shall ensure that proper human resource (HR) rotation policy is developed and implemented in letter and spirit on employees posted at overseas branches/jurisdictions at all hierarchical levels. The head HR shall report implementation status of rotation policy to board's HR Committee on annual basis.
 30. The bank shall identify the critical position holders (at senior & middle management level) in each jurisdiction and shall have a clear and comprehensive policy and procedure for suspension/repatriation or removal of staff working at critical positions in overseas branch operations who are involved in frauds / forgeries / major policy violations, till satisfactory closure of enquiries against them. The bank shall also formulate & implement proper succession planning policy for such positions in overseas operations.
 31. The bank shall formulate & implement board-approved transparent and merit-based criteria for appointment of employees for overseas operations as well as overseas posting of their employees and strictly abide by the same. Besides, the bank shall carry out periodic workload assessment exercises at all jurisdictions and ensure rationalization of staff.
 32. The CCO at HO shall submit a 'compliance report' to bank's board or its relevant sub-committee on six monthly basis providing complete details of bank's compliance status (in each jurisdiction) to host country's regulatory requirements, inspection reports etc. and gaps there-in and the action plan to be adopted by the bank to bridge such gaps. The report shall also be discussed in bank's Compliance Committee of Management.
 33. The bank shall conduct a cost benefit analysis of its overseas Representative Offices on periodic basis and shall consider closing those offices that do not provide any net financial benefit to bank. In cases where bank wants to continue those offices despite the fact that they do not provide any net financial benefit to bank, proper reasons & justifications should be recorded for such a decision at board level.

34. The board or its subcommittee shall periodically review 1) major litigations of overseas operations, 2) host regulator inspection reports and resolution of outstanding critical issues, 3) conflicts of interest (if any) in organizational structure of overseas operations and their removal.
35. The bank shall, where applicable, make a comprehensive time bound action plan to reduce reliance of overseas branches on head office funds and deposits of Pakistani branches and must focus on mobilization of local market deposit.

PROFIT REPATRIATION, PERFORMANCE MONITORING & REGULATORY REPORTING OF OVERSEAS BRANCH OPERATIONS (ON JURISDICTION BASIS)

36. The bank shall, subject to laws & regulations in the host country and after meeting the minimum capital requirements of host country regulator, repatriate at least 50% of its profit after tax (PAT) of each jurisdiction to their HO in Pakistan on annual basis starting financial year 2018. The bank shall report this information in 'performance report on overseas operations (PROP)' report as already being submitted by bank under BPRD Circular No. 5 of 2009.
37. The bank is expected to maintain Return on Equity (ROE - profit after tax/total capital) in each jurisdiction at least equivalent to industry or peer average of that particular jurisdiction. In jurisdictions where bank incurs losses for two consecutive years or its ROE falls below average ROE of bank's peer group, a revised board approved business plan/strategic plan shall be submitted to Offsite Supervision and Enforcement Department SBP, providing, inter alia, reasons of losses/falling ROE and actions taken/planned to be taken to reverse the trend.
