



## **ANDHRA BANK**

**Head Office: Dr. Pattabhi Bhavan, 5-9-11, Saifabad, Hyderabad – 500004**

**In terms of Govt. of India, Ministry of Finance, Department of Economic Affairs (Banking Division), New Delhi Circular Letter F.No. 9/17/2000-B.O.I dated 19.09.2002 addressed to Chairman & Managing Directors of all nationalised banks.**

### **Guidelines on the Role and Functions of Non-official Directors on the Boards of Nationalised Banks**

#### **I). Introduction**

Under the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and 1980, the Central Government, after consultation with the Reserve Bank, has made a scheme called the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 & 1980. The general superintendence, direction and management of the affairs and business of the nationalised bank is vested in a Board of Directors which is entitled to exercise all such powers and do all such acts and things as the bank is authorised to exercise and do.

Provisions regarding regulation of all the banks including the nationalised banks are contained in the Banking Regulation Act, 1949. Some of the more important obligations cast on the banks as per the provisions in the Banking Regulation Act are briefly as follows:

- a) Prohibition of employment of managing agents and restrictions on certain forms of employment.
- b) Creation of reserve fund and transfer of amounts out of profit to such reserve fund.
- c) Restriction on the nature of subsidiary companies.

- d) Restrictions on loans and advances
- e) Restrictions on power to remit debts.
- f) Restriction on opening of new and transfer of existing places of business.
- g) Maintenance of percentage of assets, in cash, gold or unencumbered securities.
- h) Submission of a return of unclaimed deposits to Reserve Bank of India.
- i) Preparation of Accounts and Balance-sheets by banks and submission thereof to Reserve Bank.

**II). Powers of the Reserve Bank of India to exercise supervision**

The power vesting in the Reserve Bank of India to exercise supervision over banks including nationalised banks and to issue directions which the banks are bound to follow are:

- a) Power to control advances by banks.
- b) Power to grant licenses for opening new offices and transferring of existing ones.
- c) Power to call returns and information from the banks and power to make public any such information obtained.
- d) Causing an inspection by officers of Reserve Bank of any bank and its books and accounts.
- e) Power to issue directions to a bank, in specified circumstances.
- f) Power to caution or prohibit a bank or all the banks, to enter into particular transaction or class of transactions.
- g) Power to advise a bank generally.
- h) To give assistance by means of the grant of a loan or advance to a bank.

### **III.) Role and Responsibility of Individual Directors.**

- i) A nationalised bank is a separate corporate body created by the Bank Nationalisation Acts. Being a separate corporate body, a nationalised bank though owned by the Government, is juridically different from the Central Government. It is not an actual person but an artificial entity and acts through its 'Board of Directors'.
- ii) As more than 51% of the share capital of a nationalised bank is owned by the Government of India, the share holders, in a sense are comprised of the entire nation. Central Government, on behalf of the shareholders, appoints the directors on the boards of nationalised banks. Though some of the Directors are appointed to represent certain specified interests, they are expected not only to take interest in the banks' activities concerning their own fields of activity but also to deliberate on all matters of general policy affecting the bank's functioning including those concerning their staff. In other words, every director is expected to function in a manner most conducive to the interests of the bank on which he serves and to the welfare of the nation as a whole.
- iii) A Director, other than the Managing Director or a whole-time Director, is not an employee of the bank.
- iv) Every Director of a nationalised bank shall be deemed to be a public servant for the purpose of Chapter-IX of the Indian PenalCode.
- v) A Director other than the Managing Director as an individual, has no power to act on behalf of the bank nor can he give any direction to any employee of the bank on behalf of the management. Unless any power has been specifically delegated to a Director by the Board by way of a resolution, he exercises power only as a member of collective body, sitting alongwith other on the Board of Directors. An individual Director or a Committee of the Board may be authorised by the Board to finally decide a matter or make a recommendation to the Board for its direction.

- vii) Under section 20 of the Banking Regulation Act, no nationalised bank shall enter into any commitment for granting any loan or advance to or on behalf of -
- (i) Any of its directors,
  - (ii) Any firm in which any of its directors is interested as partner, manager, employee or guarantor, or
  - (iii) Any company (not being a subsidiary of the nationalised bank or a company registered under section 25 of the Companies Act, 1956 or a Government Company) of which any of the directors of the nationalised bank is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or
  - (iv) Any individual in respect of whom any of its directors is a partner or guarantor.
- viii) Again, under section 20A of the Banking Regulation Act, notwithstanding anything to the contrary contained in section 29 of the Companies Act, 1956, a nationalised bank shall not, except with the prior approval of the Reserve Bank, remit in whole or in part any debt due to it by
- (a) Any of its directors, or
  - (b) Any firm or company in which any of its directors is interested as director, partner, managing agent or guarantor or
  - (c) Any individual if any of its directors in his partner or guarantor.

Any remission made in contravention of the provisions of sub-section (1) shall be void and of no effect.

- ix) A director who is directly or indirectly concerned or interested in any contract, loan, arrangement or proposal entered into or proposed to be entered by or on behalf of the nationalised bank shall, as soon as possible after the relevant

circumstances, have come to his knowledge, disclose the nature of his interest to the Board when any such contract, loan, arrangement or proposal is discussed unless his presence is required by the other Directors for the purpose of eliciting information and no Director so required to be present shall vote on any such contract, loan, arrangement or proposal.

- x) Section 13(1) of the "Bank Nationalisation" Acts enjoins on every nationalised bank to observe, except as otherwise required by law, the practices and usages customary among bankers, and, in particular, not to divulge any information relating to or to the affairs of its constituents except in circumstances in which it is, in accordance with law or practices and usages customary among bankers, necessary or appropriate for the nationalised bank to divulge such information.
- xi) According to section 13(2) of the "Banks Nationalisation" Acts, every director of a nationalised bank shall, before, entering upon his duties, make a declaration of fidelity and secrecy in the form prescribed for the purpose.
- xii) Chairman and Managing director is the Chief Executive Officer of the bank and shall exercise such powers and discharge such duties as may be delegated to him by the Board. He is charged with the responsibility for the efficient management of the bank on behalf of the Board. It is through him that the programme, policies and decisions approved by the Board are made effective and again it is through him the Board gets the responses and reactions of those at various levels of the organizations to its deliberations. It is he who interprets the policy decided upon by the Board to the employees of the bank and issues instructions in pursuance of the Board's policies and ensures that these instructions are carried out.
- xiii) In the discharge of their duties, the non - official Directors are expected to observe the following guidelines:
  - (a) Directors are expected to disclose to the Board the nature of interest, if any in any proposal. They shall not be present at the meeting of the Board when such a proposal is discussed.

- (b) Directors shall not sponsor any individual proposal nor would they pressurise the concerned Branch Managers to sanction loans or other facilities to the constituents.
- (c) In the matter of personnel management, Directors are requested not to sponsor individual cases of employees or officers regarding their transfers, promotions, postings and other related matters.
- (d) Directors should desist from sending any instructions to the individual officers of the banks or give directions to such officers on any matter. Such cases, if any, should be routed through the Chairman & Managing Director or the bank.
- (e) Directors are not required to watch the routine of every day's business of the bank. It is the Chief Executive alongwith officers who has to manage the affairs of the bank. The Board has to oversee implementation of policies and performance of the bank at the corporate level.
- (f) Directors are expected to work collectively as a team in the board meetings and not involve themselves in the conduct of the day-to-day affairs of the bank. If any information is required, it should be sought only for the purpose of taking a decision or reviewing the situation at the Board level.

#### IV) Policies of the Government

In the discharge of its functions, the bank shall be guided by such directions in the matter of policy involving public interest as Central Government may, in consultation with the Governor of the Reserve Bank and Chairman & Managing Director of the bank, give to it.

All directions given by the Central Government shall be given through the Reserve Bank and if any question whether a direction relates to a matter of policy involving public interest, the decision of the Central Government thereon shall be final.

**V). Facilities and Perks which non-official directors of the Bank may avail of:**

Non-Official Directors are entitled to the following facilities:

- I. Sitting Fees (vide GOI communication dated 20.07.2015)  
Board Meetings: Rs. 20,000/- per meeting  
Committee Meetings: Rs. 10,000/- per meeting

**VI). General**

The important policies laid down by Government / RBI and/or instructions issued by them will normally be placed before the Board. The directors are expected to address themselves to policy formulations and performance appraisal leaving other operational aspects to be handled by the Chairman and senior executives of banks under powers delegated to them by the Board. Some of the important areas on which the directors may bestow particular attention are compliance with monetary and credit policy of RBI/Government, observance of cash reserve and statutory liquidity ratio, efficient management of personnel, funds and branch control, profitability, overall sectoral deployment of funds, loans to sick units, performance budgeting and house keeping particularly in regard to reconciliation of interbranch accounts and customer service including vigilance and avoidance of frauds. Emphasis should be on policy formulation, management information and monitoring.

**VII). A statement indicating DO's and DON'Ts is also annexed herewith.**

**STATEMENT INDICATING DOs AND DON'Ts FOR  
NON-OFFICIAL DIRECTORS ON THE BOARD OF  
PUBLIC SECTOR BANKS**

**DO'S**

- (i) Attend the Board meetings regularly and effectively.
- (ii) Study the Board papers thoroughly and was the good offices of the Chiefexecutive for eliciting any information at the Board meeting.
- (iii) Ask the Chairman & Managing Director to furnish you with the Board papers and follow-up reports on definite time schedule.
- (iv) Involve yourself as Directors on the Board thoroughly in the matter of formulation of general policy and also ensure that performance of the bank is monitored adequately at Board level.
- (v) Be familiar with the board objectives of the bank and the policy laid down by the Government and the Reserve Bank.
- (vi) All constructive ideas for the better management of the bank and for making valuable contribution would be welcome.
- (vii) You must work as a team and not sponsor or be prejudiced against individual proposals. Management on its part is supposed to furnish full facts and complete papers in advance.



- (viii) Try to give as much of your wisdom, guidance and knowledge as possible to the management.
- (ix) Try to analyse the trends of economy, assist in the discharge of management's responsibility to public and formulation of measures to improve customer service and be generally of constructive assistance to the bank management.

### **DON'T's**

- (i) Do not send any instruction to any individual officer of the bank or give direction to individual officer in any matter.
- (ii) Do not involve yourself in any matter relating to personnel administration - whether it is appointment/sponsoring or transfer / posting/ promotion/redressal of individual grievances of any employee.
- (iii) Do not interfere in the day-to-day functioning of the bank.
- (iv) Do not approach or influence for sanction of any kind of facility from an individual Branch Manager or any other official.
- (v) Do not involve yourself in the routine of every day business and in the management functions.
- (vi) Do not participate in the Board discussion if a proposal in which you are directly or indirectly interested comes up for discussion. Disclose your interest well in advance to the chief executive.
- (vii) Do not reveal any information relating to any constituent of the bank to anyone as you are under oath of secrecy and fidelity.

- (viii) Directors should not send for individual officers of the bank or give directions to such officers on any matter.
- (ix) You should discourage the individual employee or unions approaching you in any matter.
- (x) You may indicate your directorship of the bank on your visiting card or letter heads, but the logos or distinctive design of the bank should not, however, be displayed on the visiting card/letter head.
- (xi) Directors should not directly call for papers/ files / notes recorded by various departments for scrutiny etc. in respect of agenda items to be discussed in the meetings. All information/clarification that they may require for taking a decision will be made available by the executives.
- (xii) Directors are expected to ensure confidentiality of the Bank's agenda papers/notes. Ordinarily, it is suggested that by way of abundant precaution, the Board papers may be returned to the bank after the meeting.
- (xiii) Do not sponsor any loan proposal, buildings and sites for bank's premises, enlistment or empanelment of contractor, architects, doctors, lawyers etc. Do not do anything which will interfere with and/or be subversive of maintenance of discipline, good conduct and integrity of the staff.

F.No.15/1/2011-BO.I  
Government of India  
Ministry of Finance.  
Department of Financial Services

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'Jeevan Deep Building'  
Parliament Street, New Delhi  
Dated, the 10<sup>th</sup> July, 2015

The Chief Executives of  
all Nationalised Banks

**Subject: - Entitlement of sitting fees of Directors on the Board of Nationalised Banks for attending meetings of the Board or of any Committee of the Board etc. – revision thereof**

Sir,

I am directed to refer to this Department's letter No.15/1/2011-BO.I dated 18.10.2011 on the above cited subject. The sitting fees payable to the Directors nominated under clauses (e), (f), (g), (h) and (i) of sub-section (3) of section 9 of the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970/1980 on the Board of Nationalized Banks were prescribed vide the said letter.

2. The matter has been considered by the Government in consultation with Reserve Bank of India and it has now been decided to further revise the rates of sitting fees payable to the Directors referred in para 1 as under:-

- i) For attending the Board Meeting - Rs.20,000/- per meeting
- ii) For attending the Committee Meeting - Rs.10,000/- per meeting

3. The above revised rates of sitting fees shall take effect from the date of issue of this communication

4. The receipt of this communication may kindly be acknowledged.

Yours faithfully,

  
(Vijay Malhotra)

Under Secretary to the Government of India

**Criteria laid down by the Government for consideration as non-official Director  
in Public Sector Banks/FIs/RBI/Insurance Companies**

**A) Criteria of experience**

The following categories of persons will be considered for appointment of Part-Time Non-Official Director on the Boards of Public Sector Banks/Reserve Bank of India/Financial Institutions/Public Sector Insurance Companies:

- a. Persons of eminence with special academic training or practical experience in the fields of agriculture, rural economy banking, cooperation, economics, business management, human resources, finance, corporate law, Risk Management, industry and IT will ordinarily be considered. 20 years of industry experience at a senior position, established expertise in respective areas (successfully led a reputed organization, brought turnaround in a failing organization) would be preferred.
- b. Retired senior Government officials with total experience of 20 years and minimum 10 years of experience at Joint secretary and above level. Retired CMDs/EDs of Public Sector Banks after one year of retirement. The ex-CMDs/EDs will not be considered for appointment as NoD on the Board of the PSB from which they have retired. Serving CMDs/EDs of a PSB will not be considered for appointment as NoD on the Board of any other PSB.
- c. Academicians/ Directors of premier Management/ Banking Institutes and Professors having more than 20 years experience.
- d. Chartered Accountants with 20 years experience (excluding audit experience) would also be preferred.

**B. Criteria of Educational Qualification**

An NoD should at least be a graduate in any stream preferably with specialization in Business Management, Risk Management, Finance, Human Resources and IT.

**C. Criteria of age**

The age of the Director, on the date of recommendation by Search Committee should not be more than 67 years.

**D. Criteria of Work Experience**

Professionals/ academicians should ordinarily have 20 years of work experience in their particular field.

**E. Criteria of Disqualification**

- (a) A Director already on a Bank/Financial Institution(FIs)/ RBI/Insurance Company, under any category, may not be considered for nomination as NoD in any other Bank/FI/RBI/Insurance Company.
- (b) Persons connected with hire purchase, financing investment, leasing and other para-banking activities, MPs MLAs, MLCs and Stock Brokers will not be appointed as non-official directors on the boards of Banks/FIs/RBI/Insurance Companies. Investors in a hire purchase, financing investment, leasing and other para banking activities would not be disqualified for appointment as NOD, if they are not having any managerial control in such companies.
- (c) No person may be re-nominated as an NOD on the Board of a Bank/FI/RBI/Insurance Company on which he/she has served as Director in the past under any category for two terms or six years whichever is longer.

**F. Criteria of Tenure**

An NoD would not be considered for nomination as a Director on the Board of a Bank/FI/RBI/Insurance Company if such Director has already been a NoD/Shareholder Director on the board of any other Bank/FI/RBI/Insurance company for six years, whether continuously or intermittently.