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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF BANKING BUSINESS
Bank Corporate Governance Directives No.SBB/62/2015

Whereas, corporate governance plays a vital role in maintaining the safety and soundness of financial system in general and banking sector in particular;

Whereas, corporate governance gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objective of realizing long term shareholders' value, as well as customers' and other stakeholders' interest;

Whereas, the National Bank of Ethiopia should ensure whether banks are soundly and prudently managed and directed;

Now, therefore, in accordance with articles 13(a), 14(4b-d), and 59(2) of Banking Business proclamation no. 592/2008, the National Bank of Ethiopia hereby issues these directives.

1. Short Title

These directives may be cited as “**Bank Corporate Governance Directives No.SBB/62/2015**”

2. Definitions

For the purpose of these directives, unless the context provides otherwise:

- 2.1. “**board**” means board of directors of a bank;
- 2.2. “**chief executive officer**” means a person, by whatever title that person may be referred to, who is primarily responsible for the day-to-day management of the affairs of a bank;
- 2.3. “**corporate governance**” means the process and structure used to direct and manage the business and affairs of a bank towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long-term shareholders' value, as well as customers' and other stakeholders' interest;
- 2.4. “**director**” means any member of the board of directors of a bank, by whatever title he may be referred to;
- 2.5. “**employee**” means a chief executive officer, a senior executive officer or any other person who is appointed or hired by a bank to carry out its day-to-day operations;
- 2.6. “**financial institution**” means insurance company, bank, micro-financing institution, postal savings or such other similar institution as defined by the National Bank;
- 2.7. “**influential shareholder**” means a person who holds directly or indirectly two percent or more of the total subscribed capital of a bank;
- 2.8. “**National Bank**” means the National Bank of Ethiopia;
- 2.9. “**non-influential shareholder**” means any person who holds directly or indirectly less than two percent of the total subscribed capital of a bank;
- 2.10. “**person**” means any natural or juridical person;
- 2.11. “**related party**” means:
 - 2.11.1. an influential shareholder, a director, a chief executive officer, or a senior executive officer of a bank and/or the spouse or relative in the first degree of consanguinity or affinity of such shareholder, director, chief executive officer, or senior executive officer, or



- 2.11.2. a partnership, an enterprise, a private limited company, a share company, a joint venture, a corporation or any other business organization or an entity in which influential shareholder, director, chief executive officer, senior executive officer of a bank and/or his spouse or relative in the first degree of consanguinity or affinity of such shareholder, director, chief executive officer, senior executive officer:
- a. owns 10% or more interest as shareholder, or
 - b. serves as director, chief executive officer, or senior executive officer;
- 2.12. **“remuneration”** means board compensation and allowance paid to directors;
- 2.13. **“risk management program”** means a program that clearly identifies and measures inherent and significant risks of a bank and draws a strategy, policy and procedure to mitigate such risks;
- 2.14. **“senior executive officer”** means any officer of a bank who, by whatever title he may be referred to, is deputy to the chief executive officer or holds equivalent position to deputy chief executive officer and directly accountable to the board of directors;
- 2.15. **“senior management”** means chief executive officer, senior executive officer, and any other official, as may be defined by individual bank, responsible for day-to-day running of a bank; and
- 2.16. any expression in the masculine gender includes the feminine and/or legal persons.

3. Scope of Application

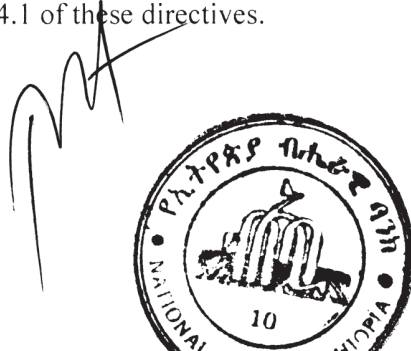
- 3.1. These directives shall be applicable to all banks operating in Ethiopia.
- 3.2. Notwithstanding sub-article 3.1 of this article, application of these directives to a bank owned by the government may be with due consideration of other applicable laws.

4. General Principles

- 4.1 No bank, director, or employee may carry out any transaction that is contrary to the bank's own policies, the regulatory requirements of the National Bank and other applicable laws.
- 4.2 Without prejudice to article 17(1) of proclamation number 592/2008, a director who in any matter transacts or causes to be transacted or an influential shareholder for whom a transaction is concluded in contravention of sub-article 4.1 of this article, depending on the gravity of the violation, shall be:
 - 4.2.1 prohibited from taking any new loans or renewing existing loans and concluding foreign currency related transactions with the bank in which he is an influential shareholder or director for three consecutive years effective from the date of identification of the violation;
 - 4.2.2 suspended or removed from his seat on the board for at least three consecutive years effective from the date of identification of the violation;
 - 4.2.3 prohibited from investing in new shares or buy existing shares in any financial institution for three consecutive years effective from the date of identification of the violation; and
 - 4.2.4 subjected to any other appropriate administrative action the National Bank deems necessary.
- 4.3 Without prejudice to article 17(1) of proclamation number 592/2008, the National Bank, depending on the degree or frequency of incompliance, may suspend or remove chief executive officer or senior executive officer who in any matter transacts or causes to be transacted in contravention of sub-article 4.1 of these directives.

5. Board of Directors' Size and Composition

- 5.1 A bank shall have at least nine directors.



- 5.2 The board may preferably comprise of directors who as a group provide a mixture of gender and core competencies such as banking, finance, accounting, legal, business administration, auditing, information technology and investment management.
- 5.3 The board of a bank shall comprise of non-influential shareholders whose number shall not be less than:
 - 5.3.1 one-third ($1/3^{\text{rd}}$) of the total board members elected separately by such shareholders provided that such shareholders hold at least 30% and above of the subscribed capital of the bank; or
 - 5.3.2 one-fourth ($1/4^{\text{th}}$) of the total board members elected separately by such shareholders provided that such shareholders hold less than 30% of the subscribed capital of the bank no matter what the proportion of their shareholding in the bank is.

6. General Meeting of Shareholders

- 6.1. Without prejudice to provisions in the Commercial Code of Ethiopia, the ordinary general meeting of shareholders of a bank shall:
 - 6.1.1. strive in a good faith that only competent and reliable persons who can enrich good corporate governance and add value to the bank are elected or appointed as a board;
 - 6.1.2. decide upon the appointment and service fee of an external auditor as proposed by the board and this power shall not be delegated to any other organ or body in the bank's structure;
 - 6.1.3. ensure that the board is held accountable and responsible for the inefficient and ineffective governance;
 - 6.1.4. establish "Nomination Committee":
 - a. elected from and by shareholders,
 - b. composed of not less than five shareholders,
 - c. that is directly accountable to it,
 - d. independent from the board of the bank, and
 - e. shall not have a seat on the board of the bank;
 - 6.1.5. specify the number of candidates for board membership to be shortlisted by Nomination Committee. However, such number shall not be less than twice the number of board seats in the bank;
 - 6.1.6. where elected Nomination Committee members fail or where the Committee is not yet established to discharge the duties as stipulated in these Directives for any reason, proceed with the election of board by assigning on the spot a new committee that handles board election process on the date the meeting is being conducted; and
 - 6.1.7. approve internal rules and procedures for nomination of potential candidates for the board by the Nomination Committee.
- 6.2. At least two of Nomination Committee members stipulated under 6.1.4 herein above, no matter what the committee's size is, shall be non-influential shareholders.
- 6.3. An employee of a bank shall not be a member of Nomination Committee.
- 6.4. A Nomination Committee shall be established one year prior to the end of the term of outgoing board and its duty shall expire upon election and approval of the new incoming board by the National Bank.
- 6.5. Nomination Committee shall be elected as per the provision set in the commercial code for board mutatis mutandis.



- 6.6. The ordinary general meeting of shareholders may fix a fee to Nomination Committee members; provided that such fees shall not exceed at any time that of the boards' remuneration.
- 6.7. Resolutions of shareholders meeting shall not come into force before completing registration of the minutes of the meeting with appropriate government organ.

7. Representation and Voting by Proxy

Representation by a voter in person and by proxy in any shareholders meeting shall be limited to the aggregate, including the voter's own shares, of a maximum of 10% of the total subscribed capital of a bank.

8. Nomination Committee

- 8.1. The Nomination Committee shall elect its own chairperson and secretary from among its members.
- 8.2. A Nomination Committee shall:
- 8.2.1. be responsible for nominating candidates for board membership;
 - 8.2.2. ensure that all board nominations and appointments pass through the bank's defined process unless over 50% of board members:
 - a. are removed by ordinary shareholders meeting or the National Bank before the expiry of their terms of office;
 - b. have resigned from board seats;
 - c. are unable to seat on the board for any reason; or
 - d. over 50% of the voters fail to accept nominees presented by Nomination Committee.
 - 8.2.3. give an opportunity to every shareholder to nominate a candidate for board membership through the best available convenient means of communication well ahead of the date of the ordinary general meeting of shareholders which shall not be less than three months; and
 - 8.2.4. ensure transparency and make sure that list of all shortlisted candidates be:
 - a. posted at visible places to all visitors of the bank or its branches and sub-branches;
 - b. published on newspapers that have wide circulation; and
 - c. posted on the bank's webpage at least one month before the date of ordinary general meeting of shareholders scheduled to conduct the election;
 - 8.2.5. present the shortlisted candidates to ordinary general meeting of shareholders; and handle the election process in collaboration with the secretariat of the meeting from the beginning to the end in line with applicable laws, regulations, the National Bank directives and the bank's own articles and memorandum of association, policies and procedures;
 - 8.2.6. where requirement set under sub-article 5.3.1 of these directives is fulfilled, ensure that two-third (2/3rd) of the candidates for board memberships are nominated by all participating shareholders and one-third (1/3rd) solely by non-influential shareholders participating in the nomination process; and
 - 8.2.7. where requirement set under sub-article 5.3.1 of these directives is not fulfilled, ensure that three-fourth (3/4th) of the candidates for board memberships are



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nominated by all participating shareholders and one-fourth (1/4th) solely by non-influential shareholders participating in the nomination process.

- 8.3. In case the proportion under 8.2.6 or 8.2.7 is not maintained in the nomination process by shareholders, the Nomination Committee shall be responsible for adjusting and ensuring the existence of the proportion in line with sub-article 5.3.1 or 5.3.2 herein above, as the case may be.
- 8.4. Where potential candidates for board membership to be nominated by shareholders in response to calls made under sub-article 8.2.3 of this article are nonexistent or failed to fulfill requirements set by law, regulation, policy or procedure, the Nomination Committee shall present its own candidates to ordinary general meeting of shareholders with full explanation about the measures taken to ensure fairness, transparency and reliability.
- 8.5. Where a person nominated in line with provisions of this article is a legal person, a natural person who represents such legal person on the board shall be identified during the nomination process so as to ensure that the person representing the shareholder fulfills requirements set by the National Bank for board membership.
- 8.6. A Nomination Committee member shall not present himself as a candidate for board membership.
- 8.7. Where less than fifty percent of the Nomination Committee members have left the Committee before completing their business as stipulated in these directives, the surviving members may appoint others from the waiting list following order of votes obtained during the establishment of the Committee.
- 8.8. Where the surviving Nomination Committee members are less than half of the Committee size, they may not appoint members, but shall report the case to the board and cease their duty.

9. Conduct of Board Election by Authorized Bodies

- 9.1. Where the National Bank, decides to conduct board election, the process shall proceed in line with sub-articles 12(1)(b) and (2) of proclamation number 592/2008.
- 9.2. Where court of law, external auditors or any other organ authorized by law orders to carry out or decides to conduct board election, the process shall proceed in line with applicable laws.

10. Board

10.1. Approval and Term of Office

- 10.1.1. Appointment of directors shall be subject to approval by the National Bank in accordance with the requirements stipulated under Requirements for Persons with Significant Influence in a Bank Directives No. SBB/54/2012 and any amendment thereto.
- 10.1.2. A bank shall submit application to the National Bank for approval of directors within 20 working days from the date of their appointment.
- 10.1.3. The National Bank shall decide on the application for approval within 15 working days from the date of receipt of all documents as required under sub-article 10.1.2 of this article.
- 10.1.4. A person may not serve either on his own behalf or representing any other shareholder as agent, or by whatsoever means, as a director of the bank for more



than six consecutive years. However, he may be re-elected after a lapse of six consecutive years.

- 10.1.5. Notwithstanding sub-article 10.1.4 of this article, if the ordinary general meeting of shareholders of a bank wishes to maintain continuity in the board and re-elect some of the existing board members, it may re-elect such directors for only one more term. The number of board members so re-elected shall, however, be limited to a maximum of one-third of the board seats of the bank.
- 10.1.6. The term of office of the outgoing directors of a bank may not terminate until written approval for appointment of the incoming directors is granted by the National Bank.

10.2. Qualifications and Training

- 10.2.1. Nominated candidates to the board of a bank shall meet Requirements for Persons with Significant Influence in a Bank Directives No. SBB/54/2012 and any amendments to be issued by the National Bank.
- 10.2.2. A bank shall give training, at least once in a year, to directors on priority basis in areas of financial analysis, corporate governance, applicable laws, regulations, directives, risk management and internal control.
- 10.2.3. A bank shall file certificate of training of each member of the board to the National Bank for validation of its compliance with sub-article 10.2.2 of this article.

10.3. Meetings

- 10.3.1. The board shall set up and put in use rules for the “manner of conducting board meetings”.
- 10.3.2. A board meeting shall be held at least once in a month on the date and at the venue fixed in accordance with the rules for manner of conducting the board meetings.
- 10.3.3. The board shall appoint a secretary.
- 10.3.4. The board shall fix regular meeting days and venue. In all regular meetings (excluding urgent meetings), the chairperson or the secretary of the board shall serve formal notice of meeting to each director, together with agenda items, at least three days earlier than the meeting day.
- 10.3.5. A director shall attend in person at least 75% of the board meetings of a bank within a financial year. Failure to do so, unless there is good cause accepted by ordinary general meeting of shareholders, shall result in automatic cancellation of his seat from the board.
- 10.3.6. The board shall ensure that all minutes of its meetings are properly recorded, sequentially numbered and safely kept along with other relevant documents.
- 10.3.7. Board remuneration shall be paid to a director in proportion to his attendance of board meetings during the year.

10.4. Responsibilities

Without prejudice to the duties and responsibilities stated in other applicable laws, regulations, National Bank directives, articles and memorandum of association as well as resolution of shareholders of a bank, the board of the bank shall at least be responsible for:

- 10.4.1. developing and submitting to the ordinary general meeting of shareholders for approval transparent rules and procedures for nomination of potential candidates for the board membership taking due consideration to industry standards and the relevant directives of the National Bank;



- 10.4.2. appointing directors in case one or more of the directors leave the board before completing their term, in accordance with Commercial Code of Ethiopia, within 30 working days from the date of resignation and presenting the case to the next ordinary general meeting of shareholders for its action;
- 10.4.3. proposing external auditors and their service fee to the general meeting of shareholders;
- 10.4.4. selecting and appointing chief executive officer and senior executive officers, who are qualified and competent with integrity, to administer the affairs of the bank effectively and efficiently, or removing the same where they fail to be fit and proper;
- 10.4.5. ensuring that the operation of the bank is run prudently, and in accordance with relevant laws, regulations, policies, and procedures;
- 10.4.6. approving equity investment decisions or agreements related to acquisition and disposal of fixed assets and technology which have material nature, as may be defined by board of directors, concluded by the chief executive officer ;
- 10.4.7. ensuring that the National Bank's examination report is considered as confidential by the directors and/or an employee of the bank;
- 10.4.8. ensuring that appropriate and timely actions are taken to address the regulatory and supervisory concerns and instructions of the National Bank;
- 10.4.9. following up the implementation of findings and recommendations of on-site examination and off-site surveillance reports of the National Bank, external auditor, internal audit and risk management;
- 10.4.10. establishing and ensuring the effective functioning of various board sub-committees including, but not limited to, Audit Committee, Risk and Compliance Committee and Human Resource Affairs Committee (Annex III) which shall have to convene at least once in a month and report their resolution to the full board;
- 10.4.11. assessing semi-annually the effectiveness of the board, its sub-committees, and individual directors in carrying out their responsibilities and reporting the outcomes to the annual ordinary general meeting of shareholders and the National Bank;
- 10.4.12. ensuring the capital adequacy of the bank on an on-going basis;
- 10.4.13. ensuring minutes of the general meetings of shareholders are delivered to the National Bank within 20 working days from the date of such meetings of shareholders for approval and following up timely registration of the same with the appropriate government organ;
- 10.4.14. preventing conflict of interest in the bank by putting in place sound policies and implementing them, where conflict of interest refers to a circumstance where one of a person's activities or interests are advanced at the expense of the bank;
- 10.4.15. establishing clear policies for shareholder's relations with the bank and at least annually reviewing practices, aimed at clearly communicating the goals, strategies and achievements of the bank to the shareholders;
- 10.4.16. reviewing and approving strategies, policies, systems, annual business plans & budgets;
- 10.4.17. monitoring performance in implementing issues indicated under sub-article 10.4.16 of this article by setting key performance indicators as stipulated in Annex I of these directives which is part hereof;
- 10.4.18. reviewing and approving clear lines of responsibilities, delegating authorities, segregating duties and accountabilities for board of directors and senior management members;



- 10.4.19. reviewing and approving code of conduct for the board and senior management which at a minimum covers items listed under Annex II of these directives;
- 10.4.20. ensuring the establishment of code of conduct for the employees of the bank;
- 10.4.21. approving human development strategy and succession plan for chief executive officer and senior executive officers and effectively monitoring their implementation;
- 10.4.22. ensuring that the bank puts in place comprehensive risk management program;
- 10.4.23. ensuring an effective internal audit system, staffed with qualified personnel to perform internal audit functions (covering at least financial, operational, legal, technology and management audit) is put in place;
- 10.4.24. ensuring that appropriate management information system is established to produce accurate, complete, relevant and timely information on the performance of the bank;

10.5. Description of Authority

- 10.5.1. The board shall establish and document a formal description of matters specifically reserved for its decision as provided in the bank's articles and memorandum of association to ensure that the direction and control of the bank is firmly retained in its hands.
- 10.5.2. The description of matters referred to under sub-article 10.5.1 of this article shall at a minimum include the following matters:
 - a. acquisitions and disposals of equity investment, fixed assets and technology of material nature as may be defined by board of directors;
 - b. authority level for core functions of the bank; and
 - c. corporate policies on all matters, at a minimum as listed in Annex IV of these directives.

10.6. Exit Report

- 10.6.1. At the end of its office term, the outgoing board shall prepare a comprehensive exit report and submit to the National Bank and board secretary of the bank at the latest fifteen calendar days before conducting general meeting of shareholders. The exit report shall at a minimum cover the board's performance during its office term, challenges, issues to the attention of the National Bank and/or the incoming new board and the way forward.
- 10.6.2. The bank shall not pay board remuneration for final service year to outgoing board members if the board fails to comply with the requirement set under 10.6.1 herein above.

11. Responsibilities of Chief Executive Officer

Without prejudice to the duties and responsibilities stated in any applicable laws, regulations, National Bank directives, and articles and memorandum of association of the bank, a chief executive officer shall at least be responsible for:

- 11.1. developing corporate strategies, policies, business plans and budgets which are subject to approval by the board before implementation;
- 11.2. developing, approving and implementing procedure manuals, guidelines and controls to address compliance with laws and regulations applicable to the bank's business environment and risk profile;
- 11.3. ensuring documents indicated under article 11.2 of this article are communicated to all concerned staff;



- 11.4. preparing organizational structure that clearly and appropriately assigns duties, responsibilities and authorities, and ensures segregation of duties which shall be subject to board approval;
- 11.5. allocating authorities, duties and responsibilities in well-defined* job specification and description;
- 11.6. developing management information system that adequately addresses the bank's business environment and risk profile, getting approval from the board and implementing it;
- 11.7. providing the board with timely, relevant, accurate and complete reports on the plan performance;
- 11.8. implementing an effective internal control system and risk management program of the bank; and
- 11.9. implementing timely corrective action on deficiencies and issues that have been raised or reported by the National Bank, external and internal auditors and risk and compliance managers.

12. Disclosures

- 12.1. Board and senior management of a bank shall be transparent to any shareholder, depositor and any other relevant stakeholders without breaching the law of the country and National Bank directives.
- 12.2. Without prejudice to provisions in other laws and the National Bank directives, a bank shall at a minimum disclose the following.
 - 12.2.1. Submit any related party loan/foreign currency transactions, bank's fixed assets and technology transactions of material nature, as defined by the board, to the National Bank within fifteen working days from the date of the transaction specifying the name, type of transaction and amount involved.
 - 12.2.2. Report the status of the transactions stated under 12.2.1 of this article to the National Bank, at least once in a month; through attestation by the board that such transactions have been carried out at an arm's-length in compliance with the regulatory requirements, the bank's own policies and procedures.
 - 12.2.3. Post on its website :
 - a. the board members, including their qualification, experience and board sub-committees; and
 - b. basic organizational structure, including line business structure.
 - 12.2.4. Exhibit at every one of its place of business, including its branches and sub-branches, in a conspicuous place throughout the year, a copy of its latest audited statement of financial position covering at a minimum balance sheet, a comprehensive income and expense report and cash flow analysis in respect of all of its operations during the period.
 - 12.2.5. Cause such balance sheet position and statement of comprehensive income and expense accounts together with auditors' report to be published in a newspaper of wider circulation and upload on its website.
 - 12.2.6. The exhibition and publishing of financial statements pursuant to sub-articles 12.2.4 and 12.2.5 of this article shall take place within one month after the annual shareholders meeting.

13. Transitional Provisions

- 13.1. Provisions related to board elections, if the shareholders wish so, may not apply until end of office term of board of directors elected before the effective date of these directives or in fiscal year 2015/16.



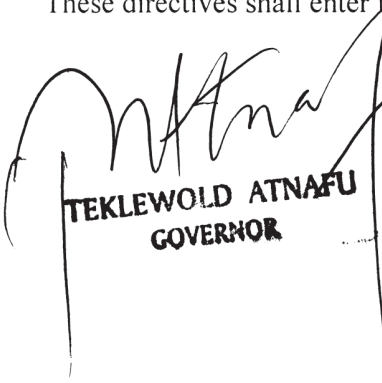
13.2. A bank shall develop plan of action on its compliance with provisions related to development, approval and implementations of policies, strategies, codes of conduct, A bank shall submit application to the National Bank for approval of directors within 20 working days from the date of their appointment guidelines, procedures and similar documents stipulated in these directives and submit to the National Bank within 60 calendar days from the effective date of these directives. The period covered in the plan of action for development, approval and implementation of policies, strategies, codes of conduct, guidelines, procedures and similar systems and controls, however, shall not exceed 12 months from the effective date of these directives.


14. Applicability of Other Laws

- 14.1. Nothing in these directives shall be construed to relieve a bank or any other pertinent person from complying with the provisions of the Commercial Code of Ethiopia, Public Enterprises Proclamation or any other relevant laws.
- 14.2. No directive or established practice may, in so far as it is inconsistent with the provisions of these directives, have effect with respect to matters provided by these directives.

15. Effective date

These directives shall enter into force as of 21st day of September 2015.


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The seal of the National Bank of Ethiopia is circular. It features a central emblem with a building and a flag. The text around the emblem includes 'የኢትዮጵያ ሪፐብሊክ' (Republic of Ethiopia) at the top, '10' in the center, and 'NATIONAL BANK OF ETHIOPIA' at the bottom.

Annexes

Annex –I

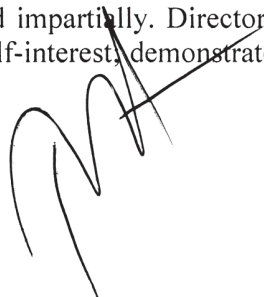
Key performance indicators to monitor the performance of senior management should at least include:-

1. The bank's record of compliance with laws, regulations and board approved policies;
2. Internal audit, external audit, and risk management findings, recommendations and rectifications;
3. Risk profile of the bank against risk tolerance limits;
4. Timely execution of regulatory and supervisory concerns raised by the National Bank;
5. The timeliness, quality, and accuracy of management's recommendations and reports; and
6. Key business and financial performance indicators such as actual versus projected performance, trend performance, peer group comparisons and ratios.

Annex-II

The code of conduct to be established shall at least duly reflect:-

1. compliance with all relevant laws and regulations, the National Bank directives, and corporate values and policies of the bank;
2. importance of evaluating problems in time and be oriented to preventing illegal and unethical actions such as bribery and corruption inside and outside the bank;
3. duty of care to the bank; duty of care refers to duty of directors and senior management to act on an informed and prudent basis in decisions with respect to the bank;
4. duty of loyalty to the bank; duty of loyalty refers to duty of the board and senior management to act in the interest of the bank. Duty of loyalty should prevent individual directors and senior management from acting in their own interest, or the interest of another individual or group, at the expense of the bank;
5. disallows behaviors that could result in the bank in any improper or illegal activities, such as money laundering, fraud, bribery or corruption. It should also discourage excessive risk taking activities and self-dealing and acceptance of gifts or favors;
6. duties to avoid conflict of interest situations. Directors and senior management should not directly or indirectly engage in any action, transaction and business activities that compete or conflict with the interest of the bank. If a conflict of interest arises or may arise, this is to be disclosed by an employee to the line manager, so that it can be dealt appropriately;
7. duty to use position, information and assets properly. Directors and senior management should not use their position, information acquired by virtue of position they hold, to obtain an advantage for themselves or someone else. Directors and senior management should not misuse bank's assets rather in accordance with the terms on which they are provided;
8. confidentiality of bank's and third party's information; confidential information received by a director and a senior manager in the course of the exercise of their duties remains the property of the bank and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorized by responsible organ of the bank. Directors and senior management should maintain the appropriate level of confidentiality at all times with respect to information or data pertaining to the bank's customers, suppliers and employees;
9. act fairly and impartially. Directors and senior management should avoid bias, discrimination, caprice or self-interest, demonstrate respect for others by acting in a professional and courteous manner; and



10. act with honesty and integrity. Directors and senior management should be truthful and transparent in their dealings; use their power responsibly.

Annex –III

Terms of references of board sub-committees

The board shall at a minimum set-up the following sub-committees.

1. AUDIT SUB-COMMITTEE

i. Objective

To provide independent oversight of the bank's financial reporting and internal control system and ensuring checks and balances within the bank.

ii. Composition

The Audit Sub-Committee shall comprise at least three directors. At least one member shall have accounting or auditing expertise or experience in the field of finance.

iii. Roles and Responsibilities

The Audit Sub-Committee shall have an explicit authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The Audit Committee should have full and unrestricted access to information and be able to obtain independent professional advice. Duties of Audit Committee, among others, are as follows:

1. ensure fair and transparent reporting and prompt publication of the financial accounts;
2. oversee the functions of the Internal Audit Unit;
3. review the scope of the internal audit program, internal audit findings and recommend actions to be taken by management;
4. appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor, provided that the full board has no objection;
5. review the effectiveness of internal controls and risk management processes;
6. recommend the appointment and the removal of external auditors;
7. assess objectivity, performance and independence of external auditor;
8. review the external auditor's management letter and response;
9. approve the provision of non-audit service by the external auditor;
10. ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the auditors;
11. regularly review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner;
12. review all related party transactions and keep the board informed of such transactions; and
13. check compliance with the proclamations, regulations, directives, guidelines of National Bank, policies & rules of the bank and other relevant laws.

iv. Meeting

The sub-committee shall hold regular meetings, at least once every month and shall report regularly to the full board.



2. RISK AND COMPLIANCE SUB-COMMITTEE

i. Objective

To oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

ii. Composition

The Risk and Compliance Sub-Committee shall comprise at least three directors.

iii. Roles and Responsibilities

The Risk and Compliance Sub-Committee is responsible at least for:

1. reviewing and recommending risk management strategies, policies and risk tolerance limits for board's approval;
2. reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
3. ensuring infrastructure, resources and systems are in place for risk management;
4. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the bank's risk taking activities; and
5. reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

iv. Meeting

The sub-committee shall hold regular meetings, at least once every month and shall report regularly to the full board.

3. HUMAN RESOURCE AFFAIRS SUB-COMMITTEE

i. Objective

Primary objective of Human Resource Affairs Sub-Committee is to provide formal and transparent proposal on the employment and removal of senior management members if he is ineffective, errant or negligent in discharging his responsibilities and on the overall compensation/benefit systems of the bank.

ii. Composition

The Human Resource Affairs Sub-Committee shall comprise at least three directors.

iii. Roles and Responsibilities

The Human Resource Affairs Sub-Committee is responsible at least for the following.

Based on detailed study:

1. recommending a framework of hiring and replacing members of senior management of the bank;
2. recommending to the whole board on removal of the members of senior management of the bank where they found to be ineffective, errant or negligent in discharging their responsibilities;
3. recommending and monitoring of salaries and benefits for the members of senior management and overall benefit packages (bonus, salary increment etc..) of the bank;
4. overseeing management succession planning and performance evaluation of members of senior management;



5. ensuring that all directors receive an appropriate induction and continuous training in order to keep abreast with the latest developments in the industry; and
6. oversee any major changes on the overall pay and benefit structure of the bank; and
7. considering disciplinary issue related to senior management members.

iv. Meeting

The sub-committee shall hold regular meetings, at least once every quarter and shall report regularly to the full board.

Annex-IV

The minimum required policies, procedure manuals, and guidelines for a bank:

1. credit;
2. human resource management;
3. investment;
4. domestic and foreign banking operation;
5. liquidity management;
6. internal audit/control;
7. management information system/MIS;
8. planning and budgeting;
9. finance;
10. risk management;
11. fixed assets;
12. corporate governance;
13. detection and prevention of criminal activities;
14. outsourcing;
15. disclosure;
16. communication;
17. procurement; and
18. fraud monitoring





LICENSING AND SUPERVISION OF INSURANCE BUSINESS

Corporate Governance Directives No. SIB/.../2015

Whereas, corporate governance plays a vital role in maintaining the safety and soundness of financial system in general and insurance sector in particular;

Whereas, corporate governance gives way to balanced risk taking and enhances business prudence, prosperity and corporate accountability with ultimate objective of realizing long term shareholders value, insurance consumers' and other stakeholders interest;

Whereas, the National Bank of Ethiopia should ensure whether insurers are soundly and prudently managed and directed;

Now, therefore, in accordance with articles 14(1), 15(3), 15(4b-d), 18(1), 33(1c,2&3), and 58(2) of Insurance Business Proclamation No. 746/2012, the National Bank of Ethiopia hereby issues these directives.

1. Short title

These directives may be cited as “**Corporate Governance Directives No. SIB/ ---/2015**”

2. Definitions

For the purpose of these directives, unless the context provides otherwise:

- 2.1. “**chief executive officer**” means a person, by whatever title that person may be referred to, who is primarily responsible for the day-to-day management of the affairs of an insurer;
- 2.2. “**corporate governance**” means the process and structure used to direct and manage the business and affairs of an insurer towards enhancing business prosperity and corporate accountability with ultimate objectives of realizing long term shareholders value, insurance consumers' and other stakeholders interest;
- 2.3. “**director**” means any member of the board of directors of an insurer, by whatever title he/she/it may be referred to;

- 2.4. **“employee”** means a chief executive officer, a senior executive officer or any other person who is appointed or hired by an insurer to carry out its day-to-day operational activities;
- 2.5. **“financial institution”** means an insurance company, a bank, a micro financing institution, postal savings, money transfer institution or such other similar institution as determined by the National Bank;
- 2.6. **“influential shareholder”** means a person who holds directly or indirectly two percent or more of the total subscribed capital of an insurer;
- 2.7. **“National Bank”** means the National Bank of Ethiopia;
- 2.8. **“non-influential shareholder”** means any person who holds directly or indirectly less than two percent of the total subscribed capital of an insurer;
- 2.9. **“person”** means any natural or juridical person;
- 2.10. **“related party** means:
on the one hand, an influential shareholder, a director, a chief executive officer, or a senior executive officer of that insurer and/or the spouse or relation in the first degree of consanguinity or affinity of such shareholder, director, chief executive officer, or senior executive officer; and
on the other, a partnership, a common enterprises, a private limited company, a share company, a joint venture, a corporation or any other business organizations in which the shareholder, director, chief executive officer, senior executive officer of the insurer and/or the spouse or relation in the first degree of consanguinity or affinity of such shareholder, director, chief executive officer, senior executive officer has 10% or more interest as shareholder, director, chief executive officer, or senior executive officer, owner or partner;
- 2.11. **“risk management program”** means a program that clearly identifies and measures inherent and significant risks of an insurer together with strategy, policy and procedure for mitigation of such risks;
- 2.12. **“remuneration”** means board compensation and allowance paid to each director;
- 2.13. **“senior executive officer”** means any officer of an insurer who, by whatever title he/she may be referred to, who is deputy to the chief executive officer or is directly accountable to the board of directors;
- 2.14. **“senior management”** means chief executive officer, senior executive officers, and any other official, as may be defined by individual insurer’s, responsible for day-to-day running of an insurer.

3. Scope of application

These directives shall be applicable to all insurers.

4. General requirements

- 4.1 No insurer shall carry out any transaction that is contrary to its own policies, the regulatory requirement of the National Bank and other applicable laws.
- 4.2 A director who in any matter transacts or causes to transact or an influential shareholder for whom a transaction is concluded in contravention of sub-article 4.1 herein above shall be:
 - 4.2.1 suspended or removed from his/her/its seat on the board for at least three consecutive years effective from the date of identification of the violation;
 - 4.2.2 prohibited from investing in new shares or buy existing shares in any financial institution for three consecutive years effective from the date of identification of the violation;
 - 4.2.3 subjected to any other appropriate action the National Bank deems necessary depending on the degree of violation.
- 4.3 The National Bank depending on the degree or frequency of incompliance may suspend or remove chief executive officers or senior executive officers who in any matter transact in contravention of Sub-Article 4.1 of these Directives.
- 4.4 Voting by proxy by a person in any shareholders meeting shall be limited to:
 - 4.4.1 one person for influential shareholders; or
 - 4.4.2 an aggregate of 5% of the total subscribed capital for non-influential shareholders.

5. Board of directors size and composition

- 5.1 An insurer shall have at least nine directors.
- 5.2 The board may preferably comprise of directors who as a group provide a mixture of core competencies such as finance, insurance, accounting, legal, business administration, auditing, information technology and investment management.
- 5.3 The board of an insurer shall comprise of non-influential shareholders whose number shall not be less than one third of the total board members elected

separately by such shareholders provided that such shareholders hold at least 10% of the subscribed capital of the insurer.

6. Ordinary general meeting of shareholders

- 6.1. The ordinary general meeting of shareholders of private insurers shall:
 - 6.1.1. ensure that only competent and reliable persons who can enrich and add value to the company are elected or appointed to the board of directors;
 - 6.1.2. be responsible for the appointment of an external auditor; this power of shareholders and the amount of service fee payable to external auditors shall not be delegated to any other organ or body in the company's structure;
 - 6.1.3. ensure that the board is held accountable and responsible for the inefficient and ineffective governance;
 - 6.1.4. establish "Nomination Committee" elected from and by shareholders that is directly accountable to it, independent from board of directors and shall not have a seat on the board of the insurer;
 - 6.1.5. specify the number of candidates for board membership to be shortlisted by Nomination Committee. However, such number shall not be less than twice the number of board seats in the company; and
 - 6.1.6. approve rules and procedures for nomination of potential candidates for the board by the Nomination Committee.
- 6.2. The ordinary general meeting of shareholders may fix fees payable by the insurer to Nomination Committee members, however, such fees shall not exceed at any time that of the board of directors' remuneration.

7. Nomination Committee

- 7.1. The number of Nomination Committee members' shall not be less than five and the Committee shall select its own chairperson and secretary.
- 7.2. Nomination Committee shall be selected and appointed one year prior to the end of the term of outgoing board of directors and its duty shall be completed upon election of board of directors.
- 7.3. An employee of an insurer shall not be member of Nomination Committee.

- 7.4. A Nomination Committee member shall not present himself/herself/itself as a candidate for board membership.
- 7.5. Nomination Committee shall:
- 7.5.1 be responsible for nominating candidates for board membership;
 - 7.5.2 ensure that all board nominations and appointments pass through the insurer's defined process unless over 50% of board members are removed by shareholders or the National Bank before their terms of office; or unless over 50% of board members resign from board seat or are unable to seat on the board for any reason;
 - 7.5.3 give an opportunity to every shareholder to nominate a candidate for board membership by convenient means of communication well ahead of the date of the ordinary general meeting of shareholders which shall not be less than three months;
 - 7.5.4 Where potential board members nominated by shareholders in response to calls made under sub-article 7.5.3 herein above are none or fail to fulfill requirements set by law, policy or procedures the Nomination Committee shall present its own candidates to the ordinary general meeting of shareholders with full explanation;
 - 7.5.5 ensure transparency and make sure that list of all shortlisted candidates be :
 - a) posted at visible places to all visitors of an insurer or its branches;
 - b) published on newspapers that have wide circulation; and
 - c) posted on the company's webpageat least one month before the date of ordinary general meeting of shareholders scheduled to conduct the election;
 - 7.5.6 present the shortlisted candidates to ordinary general meeting of shareholders and handle the election process from the beginning to the end in line with applicable laws; regulations; the National Bank directives and the insurer's own articles and memorandum of association, policies and procedures;
 - 7.5.7 ensure that two-third of the candidates for board memberships are nominated by all participating shareholders and one-third solely by non-influential participating shareholders as stipulated under sub-article 5.3 of article 5 of these directives. Notwithstanding what is stated under sub-article 5.3 of article 5 of these directives, in case this proportion is not maintained in the nomination process by shareholders, the Nomination

Committee shall be responsible for the adjustment and ensuring the existence of the proportion.

8. Board of Directors

8.1. Appointment, approval and office term

- 8.1.1. An insurer shall submit application to the National Bank for approval of directors within 20 working days from the date of their appointment.
- 8.1.2. Appointment of directors shall be subject to approval by the National Bank in accordance with the requirements stipulated under Requirements for Persons with Significant Influence in an Insurer Directives No. SIB/32/2012.
- 8.1.3. The National Bank shall approve board of directors within 30 working days from the date of receipts of all documents as required under sub-article 8.1.2 herein above.
- 8.1.4. A person shall not serve on his own behalf or representing any other shareholder as a director of insurer for more than six consecutive years. However, he/she may be re-elected after a lapse of six years.
- 8.1.5. Notwithstanding sub-article 8.1.4, herein above, if the shareholders of an insurer wish to maintain continuity in the board and re-elect some of the existing board members, they may re-elect such persons for only one more term. The number of board members so re-elected shall, however, be limited to a maximum of one-third of the outgoing board members; and
- 8.1.6. The term of office of the outgoing directors of an insurer may not terminate until written approval for the incoming directors is granted by the National Bank.

8.2. Qualifications and trainings

- 8.2.1. Nominated candidates to the board of an insurer shall meet Requirements for Persons with Significant Influence in an Insurer Directives No. SIB/32/2012.
- 8.2.2. An insurer shall at least give one training in a year to directors on priority basis on areas of financial analysis, corporate governance, applicable laws, regulations and directives and risk management and internal control.

- 8.2.3. The insurer shall file certificate of training of directors with the National Bank.

8.3. **Meetings**

- 8.3.1. The board shall set up and put in use rules for the “manner of conducting board meetings”.
- 8.3.2. Board meetings shall be held at least once in a month.
- 8.3.3. The board shall appoint a secretary.
- 8.3.4. The board shall fix meeting days and venue. The chairperson or the secretary of the board shall serve formal notice of meeting to each director, together with agenda items, at least three days earlier than the meeting day.
- 8.3.5. A director shall attend in person at least 75% of the board meetings of an insurer within a year. Failure to do so, unless adequately justified and accepted by ordinary general meeting of shareholders, will render automatic cancellation of his/her/its seat on the board.
- 8.3.6. The board shall keep minutes of every meeting, sequentially numbered and signed by the members present.
- 8.3.7. The board shall ensure that its secretary shall maintain clear and comprehensive minutes and other relevant documents of any action deliberated during board meetings.
- 8.3.8. Board remuneration shall be paid to a director in proportion to his/her attendance of board meeting during the year.

8.4. **Responsibilities**

In addition to duties and responsibilities stated in laws, regulations, National Bank directives and articles and memorandum of association of an insurer, the board of an insurer shall at least be responsible for:

- 8.4.1 developing transparent rules and procedures for nomination of potential candidates for the board membership taking due consideration to the relevant directives of the National Bank;
- 8.4.2 where during the term of board of directors, if one or more of the directors have left the board, the surviving directors may appoint other persons to complete the period for which the directors who have left the board were appointed within 30 working days from the date of

resignation. Their appointments shall be submitted to the next ordinary general meeting of shareholders for confirmation and same meeting may confirm their appointments or appoint other directors in their place;

- 8.4.3 establishing clear policies for shareholder relations with the insurer and at least annually reviewing practices, aimed at clearly communicating the goals, strategies and achievements of the insurer;
- 8.4.4 reviewing and approving strategies, policies, systems, annual business plans & budgets;
- 8.4.5 monitoring performance in implementing issues indicated under sub-article 8.4.4 hereinabove by setting key performance indicators (KPI); (Annex I)
- 8.4.6 reviewing and approving clear lines of responsibilities, delegation of authorities, segregation of duties and accountabilities for board of directors and senior management members;
- 8.4.7 reviewing and approving code of conduct for the board and senior management which at a minimum covers items listed under (Annex II);
- 8.4.8 ensuring the establishment of code of conduct for the employees of the insurer;
- 8.4.9 selecting and appointing chief executive officer and approving senior executive officers who are qualified and competent to administer the affairs of the insurer effectively and efficiently;
- 8.4.10 approving succession plan policy for chief executive officer and senior executive officers and effectively monitor its implementation;
- 8.4.11 ensuring that the operation of the insurer is run prudently, and in accordance with relevant laws, regulations, policies, and procedures;
- 8.4.12 ensuring that the insurer puts in place comprehensive risk management program;
- 8.4.13 ensuring an effective internal audit system, staffed with qualified personnel to perform internal audit functions, covering financial, operational and management audit is put in place;
- 8.4.14 approving equity investments, fixed assets and technology which have material nature, as may be defined by board of directors, concluded by the chief executive officer and senior executive officer of an insurer;

- 8.4.15 approving policies aiming at avoiding self-serving practices and conflicts of interest including dealings of any form with related parties and monitoring their executions;
- 8.4.16 ensuring that the National Bank's examination report is considered as confidential by the directors and employees of the insurer;
- 8.4.17 ensuring that appropriate and timely actions are taken to address the regulatory and supervisory concerns and instructions;
- 8.4.18 following up the implementation of findings and recommendations of on-site examination and off-site surveillance reports of the National Bank, external auditor, internal audit and risk management;
- 8.4.19 establishing and ensuring the effective functioning of various board sub-committees including, but not limited to, Audit Committee, Risk Management and Compliance Committee and Human Resource Affairs Committee (Annex III) which shall convene at least once in a month and report their resolution to the board of directors;
- 8.4.20 assessing semi-annually the effectiveness of the board, its committees, and individual directors in carrying out their responsibilities and reporting the outcomes annually to the ordinary general meeting of shareholders and the National Bank;
- 8.4.21 ensuring that appropriate management information systems (MIS) is established to produce reliable and timely information on the performance of the insurer;
- 8.4.22 ensuring the solvency of insurers on on-going basis; and
- 8.4.23 ensuring minutes of the general meetings of shareholders are delivered to the National Bank within 20 working days from the date of the general meetings of shareholders and the timely registration with the appropriate government organ.

8.5 **Authority**

- 8.5.1 The board shall establish and document a formal schedule of matters specifically reserved for its decision as provided in the company's Articles and Memorandum of Association to ensure that the direction and control of the insurer is firmly retained in its hands; and
- 8.5.2 The schedule referred under sub-article 8.5.1 hereinabove shall at a minimum include the following matters.

- a) Acquisitions and disposals of equity investment, fixed assets and technology of material nature as may be defined by board of directors;
- b) Authority level for core functions of the insurer; and
- c) Corporate policies on all matters (Annex IV).

9. Responsibilities of the chief executive officer

In addition to duties and responsibilities stated in laws, regulations, National Bank directives, and articles and memorandum of association of the insurer, the chief executive officer shall at least be responsible for:

- 9.1 developing corporate strategies, policies, business plans & budgets which are subject to approval by the board before implementation (Annex IV);
- 9.2 developing, approving and implementing procedure manuals, guidelines and controls to address compliance with laws and regulations applicable to the insurer's business environment and risk profile;
- 9.3 ensuring documents indicated under article 9.2 hereinabove are communicated to all concerned staff;
- 9.4 preparing organizational structure that clearly and appropriately assigns duties, responsibilities & authorities, and ensures segregation of duties which shall be subject to board approval;
- 9.5 allocating authorities, duties and responsibilities in well-defined job analysis;
- 9.6 providing the board with timely, relevant, and complete reports on the execution of plan performance;
- 9.7 preventing conflicts of interest in the insurer;
- 9.8 developing management information system that adequately addresses the insurer's business environment and risk profile, getting approval from the board and implementing it;
- 9.9 implementing an effective internal control system and risk management program of the insurer; and
- 9.10 implementing timely corrective action on deficiencies and issues that have been raised or reported by the National Bank, external and internal auditors and risk managers.

10. Disclosures

10.1 The board and senior management shall be transparent to shareholders, policyholders and other relevant stakeholders without breaching lawful and necessary confidentiality. To this end, an insurer at a minimum shall disclose the following.

10.1.1 Each related party claims transactions, insurer's fixed asset and technology transactions of material nature, as defined by board of directors, to the National Bank within fifteen working days from the date of the transactions specifying the name, type of transactions and amount involved; and

10.1.2 Report the status of the transactions stated under 10.1.1 herein above at least once in a month;

through attestation by the board that the transactions have been carried out at an arm's-length, in compliance with the regulatory requirements, the Company's own policies and procedures.

10.1.3 The following in its website:

a) the board members, including their qualification, experience and board sub-committees'; and

b) basic organizational structure, including line business structure.

10.1.4 Exhibit at every one of its places of business, including its branches, in a conspicuous place throughout the year, a copy of the last audited statement of financial position and statement of comprehensive income in respect of all of its operations.

10.1.5 Cause such statement of financial position and statement of comprehensive income together with auditors' report to be published in a newspaper of wider circulation and upload in its website.

10.1.6 The exhibition and publishing of financial statements pursuant to sub-articles 10.1.4 and 10.1.5 of herein above shall occur within two weeks after the annual shareholders meeting.

11. Transitional provisions

11.1 Insurers shall comply with the provisions of sub-articles 5.1, 5.3, 6.1.4, 8.4.4, 8.4.19 and 9.2 of these directives that require transitional arrangements latest within 365 days from the effective date of these directives.

11.2 Insurers shall submit plan of action to the National Bank for compliance to the provisions that require transitional arrangements within 60 days from the effective date of these directives. Such plan of action shall be approved by the National Bank.

11.3 Insurers shall comply with all requirements of these directives not included in transitional arrangements under sub-article 11.1 of this article starting from the effective date of these directives.

12. Applicability of other laws

Nothing in these directives shall be construed to relieve an insurer from complying with the provisions of the Commercial Code, Public Enterprises Proclamation or any other relevant laws where applicable.

13. Effective date

These directives shall enter into force as of _____/2015.

Annexes

Annex -I

Key performance indicators to monitor the performance of senior management should at least include:-

1. The insurer's record of compliance with laws, regulations and board approved policies;
2. Internal audit, external audit, risk management findings, recommendations and rectifications;
3. Risk profile of the insurer's against risk tolerance limits;
4. Timely execution of regulatory and supervisory concerns raised by the National Bank;
5. The timeliness, quality, and accuracy of management's recommendations and reports; and
6. Key business and financial performance indicators such as actual versus projected performance, trend performance, peer group comparisons and ratios.

Annex-II

The code of conduct to be established shall at least duly reflect:-

1. compliance with corporate values and policies of the insurer and all relevant laws and regulations;
2. importance of evaluating problems in time and be oriented to preventing illegal and unethical actions such as bribery and corruption inside and outside the company;
3. duty of care to the insurer; duty of care refers to duty of directors and senior management to act on an informed and prudent basis in decisions with respect to the company;
4. duty of loyalty to the insurer; duty of loyalty refers to duty of the board and senior management to act in the interest of the company. Duty of loyalty should prevent individual directors and senior management from acting in their own interest, or the interest of another individual or group, at the expense of the company;
5. disallows behaviors that could result in the insurer's in any improper or illegal activities, such as money laundering, fraud, bribery or corruption. It should also discourage excessive risk taking activities and self-dealing and acceptance of gifts or favors;
6. duties to avoid conflict of interest situations. Directors and senior management should not directly or indirectly engage in any action, transaction and business activities that competes or conflicts with the interest of the insurer. If a conflict of interest arises or may arise, this is to be disclosed by an employee to the line manager, so that it can be dealt appropriately;
7. duty to use position, information and assets properly. Directors and senior management should not use their position, information acquired by virtue of position they hold, to obtain an advantage for themselves or someone else. Directors and senior management should not misuse insurer's assets rather in accordance with the terms on which they are provided;

8. confidentiality of insurer's and third party information; confidential information received by a director and a senior manager in the course of the exercise of their duties remains the property of the insurer and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorized by responsible organ of the insurer. Directors and senior management should maintain the appropriate level of confidentiality at all times with respect to information or data pertaining to the insurer's customers, suppliers and employees;
9. act fairly and impartially. Directors and senior management should avoid bias, discrimination, caprice or self-interest; demonstrate respect for others by acting in a professional and courteous manner; and
10. act with honesty and integrity. Directors and senior management should be truthful and transparent in their dealings; use their power responsibly.

Annex –III

Terms of references of board sub-committees

The board shall at a minimum set-up the following sub-committees.

1. AUDIT COMMITTEE

i. Objective

To provide independent oversight of the insurer's financial reporting and internal control system and ensuring checks and balances within the company.

ii. Composition

The Audit Committee shall comprise at least three directors. At least one member shall have accounting or auditing expertise or experience in the field of finance.

iii. Roles and Responsibilities

The Audit Committee shall have an explicit authority to investigate any matter within its terms of reference, full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly. The Audit Committee should have full and unrestricted access to information and be able to obtain independent professional advice. Duties of Audit Committee, among others, are as follows:

1. ensure fair and transparent reporting and prompt publication of the financial accounts;
2. oversee the functions of the Internal Audit Unit;
3. review the scope of the internal audit program, internal audit findings and recommend actions to be taken by management;
4. appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor;
5. review the effectiveness of internal controls and risk management processes;
6. recommend the appointment and the removal of external auditors;
7. assess objectivity, performance and independence of external auditor;
8. review the external auditor's management letter and response;
9. approve the provision of non-audit service by the external auditor;

10. ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the auditors;
11. regularly review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner;
12. review all related party transactions and keep the board informed of such transactions; and
13. check compliance to the policies & rules of the company and proclamations, regulations, directives, guidelines of the National Bank and other relevant laws.

iv. Meeting

The committee shall hold regular meetings, at least once every month and shall report regularly to the full board.

2. RISK MANAGEMENT AND COMPLIANCE COMMITTEE

i. Objective

To oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

ii. Composition

The Risk Management and Compliance Committee shall comprise at least three directors.

iii. Roles and Responsibilities

The Risk Management and Compliance Committee is responsible at least for:

1. reviewing and recommending risk management strategies, policies and risk tolerance limits for board's approval;
2. reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
3. ensuring infrastructure, resources and systems are in place for risk management;
4. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the insurer's risk taking activities; and
5. reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

iv. Meeting

The committee shall hold regular meetings, at least once every month and shall report regularly to the full board.

3. HUMAN RESOURCE AFFAIRS COMMITTEE

i. Objective

Primary objective of Human Resource Affairs Committee is to provide formal and transparent proposal on the employment and removal of senior management

members if he/she is ineffective, errant or negligent in discharging his/her responsibilities and on the overall compensation/benefit systems of the company.

ii. Composition

The Human Resource Affairs Committee shall comprise at least three directors.

iii. Roles and Responsibilities

The Human Resource Affairs Committee is responsible at least for the following.

Based on detailed study:

1. recommending a framework of hiring and replacing members of senior management of the company;
2. recommending to the whole board on removal of the members of senior management of the company where they found to be ineffective, errant or negligent in discharging their responsibilities;
3. recommending and monitoring of salaries and benefits for the members of senior management and overall benefit packages (bonus, salary increment etc.,) of the company;
4. overseeing management succession planning and performance evaluation of members of senior management;
5. ensuring that all directors receive an appropriate induction and continuous training in order to keep abreast with the latest developments in the industry; and
6. oversee any major changes on the overall benefit structure of the company.

iv. Meeting

The committee shall hold regular meetings, at least once every quarter and shall report regularly to the full board.

Annex-IV

The minimum required policies, procedure manuals, and guidelines for an insurer:

1. human resource management;
2. investment;
3. internal audit/control;
4. management information system/MIS;
5. planning and budgeting;
6. finance;
7. risk management;
8. fixed assets;
9. corporate governance;
10. detection and prevention of criminal activities;
11. outsourcing;
12. marketing, underwriting, claims, re-insurance;
13. disclosure;

14. communication; and
15. procurement.