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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

Licensing and Supervision of Banking Business

Bank Corporate Governance Directives No.SBB/71/2019 (1st Replacement)

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 (1)(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/71/2019 (1st Replacement)".

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 an insurance company, a bank, a micro-finance institution, a capital goods finance company, a reinsurer, a micro insurance provider, a postal saving, a money transfer institution, a digital financial service provider or such other similar institution as determined 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. **“one term”** means a period not exceeding three years;
- 2.11. **“person”** means any natural or juridical person;
- 2.12. **“related party”** means:
- 2.12.1. 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
 - 2.12.2. 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;
- 2.13. **“remuneration”** means board compensation and allowance paid to directors;
- 2.14. **“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;
- 2.15. **“senior executive officer”** means any officer of a bank who is deputy to the chief executive officer or is directly reporting to the board of directors;
- 2.16. **“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
- 2.17. any expression in the masculine gender includes the feminine and/or juridical persons.

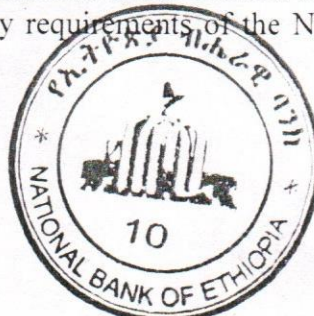
3. Scope of Application

- 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

No bank, director, or employee may carry out any transaction under conflict of interest that is contrary to the bank's own policies, the regulatory requirements of the National Bank and other applicable laws.

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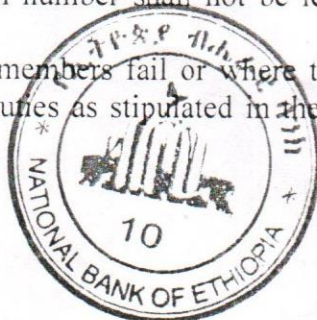
5. Board of Directors' Size and Composition

- 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 core competencies such as banking, finance, accounting, management, economics, legal, business administration, auditing, information technology and investment management.
- 5.3. The board shall comprise of female directors provided that eligible candidates are available among the shareholders.
- 5.4. The board of a bank shall comprise of non-influential shareholders whose number shall not be less than:
 - 5.4.1. one-third ($1/3^{\text{rd}}$) of the total board members. Such directors shall be nominated and elected separately by such shareholders provided that such shareholders hold at least thirty percent (30%) and above of the subscribed capital of the bank; or
 - 5.4.2. one-fourth ($1/4^{\text{th}}$) of the total board members. Such directors shall be nominated and elected separately by such shareholders provided that such shareholders hold less than thirty percent (30%) of the subscribed capital of the bank no matter what the proportion of their shareholding in the bank is.
 - 5.4.3. two-third ($2/3^{\text{rd}}$) or three-fourth ($3/4^{\text{th}}$) of the board members as the case may be, shall be nominated and elected by all shareholders; and
 - 5.4.4. where a bank has no influential shareholders at all sub articles 5.4.1-5.4.3 shall not apply.

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 director;
 - 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 and Election Committee":
 - a. elected from and by shareholders;
 - b. composed of not less than five members;
 - 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 and Election Committee. However, such number shall not be less than twice the number of board seats in the bank;
 - 6.1.6. where elected Nomination and Election Committee members fail or where the Committee is not yet established to discharge the duties as stipulated in these

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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 the Procedure for Nomination and Election of Board of Directors.

6.2. At least two of the Nomination and Election 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 and Election Committee.

6.4. A Nomination and Election Committee shall be established one year prior to the end of the term of outgoing board. However, it shall commence its work six months prior to the date of the ordinary general meeting of shareholders and its duty shall expire upon approval of the new incoming board by the National Bank.

6.5. Nomination and Election Committee shall be elected as per the provision set in the Commercial Code of Ethiopia for board mutatis mutandis.

6.6. The ordinary general meeting of shareholders may fix a reasonable fee payable to the Nomination and Election Committee members as it deems necessary taking in to consideration the duration of its services.

6.7. Resolutions of shareholders meeting shall not come into force before approval by the National Bank and completing registration of the minutes of the meeting at relevant Government organ. However, dividend payment shall be effected on the date and methods of payment as decided by the ordinary general meeting.

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 and Election Committee

8.1. Nomination and Election Committee members shall:

8.1.1. at a minimum complete general secondary school or its equivalent; and

8.1.2. not have a record or evidence of previous conduct and activities where he has been convicted for a criminal offense under any law promulgated to protect members of the public from dishonesty or fraud whether in Ethiopia or elsewhere.

8.2. The Nomination and Election Committee shall elect its own chairperson and secretary from among its members.

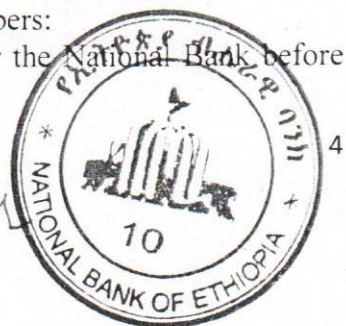
8.3. Nomination and Election Committee members shall undergo a training to be arranged by the bank on the Approved Procedure for Nomination and Election of Board of Directors.

8.4. A Nomination and Election Committee shall:

8.4.1. be responsible for handling the whole nomination and election process of board of directors;

8.4.2. ensure that all board nominations and elections pass through the bank's defined process unless over fifty percent (50%) of board members:

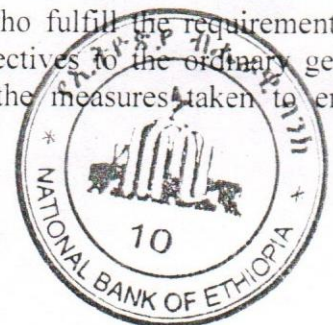
a. are removed by ordinary shareholders meeting or the National Bank before the expiry of their terms of office;





- b. have resigned from board seats;
 - c. are unable to sit on the board for any reason; or
 - d. over fifty percent (50%) of the voters fail to accept nominees presented by Nomination and Election Committee.
- 8.4.3. give an opportunity to every shareholder to nominate candidates for board membership through the best available and convenient means of communication well ahead of the date of the ordinary general meeting of shareholders which shall not be less than three months;
- 8.4.4. shortlist candidates on the basis of the nomination votes they obtained and ensure that they meet the fit and proper criteria under relevant National Bank Directives;
- 8.4.5. ensure transparency and make sure that list of all shortlisted candidates is:
- 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;
- 8.4.6. present the shortlisted candidates to the ordinary general meeting of shareholders through Nomination and Election Committee Chairperson who presides over the meeting and handles 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 approved Procedure for the Nomination and Election of Board of Directors;
- 8.4.7. where requirement set under sub-article 5.4.1 of these directives is fulfilled, ensure that two-third ($2/3^{\text{rd}}$) of the candidates for board memberships are nominated and elected by all participating shareholders and one-third ($1/3^{\text{rd}}$) solely by non-influential shareholders participating in the nomination and election process; and
- 8.4.8. where requirement set under sub-article 5.4.2 of these directives is not fulfilled, ensure that three-fourth ($3/4^{\text{th}}$) of the candidates for board memberships are nominated and elected by all participating shareholders and one-fourth ($1/4^{\text{th}}$) solely by non-influential shareholders participating in the nomination and election process.
- 8.5. In case the proportion under sub-article 8.4.7 or 8.4.8 is not maintained in the nomination process by shareholders, the Nomination and Election Committee shall be responsible for adjusting and ensuring the existence of the proportion in line with sub-article 5.4.1 or 5.4.2 of these directives, as the case may be.
- 8.6. Where potential candidates for board membership to be nominated by shareholders in response to calls made under sub-article 8.4.3 of this article are nonexistent or failed to fulfill requirements set by law, regulation, policy or procedure, the Nomination and Election Committee shall present its own candidates who fulfill the requirements set under relevant National Bank directives and these directives to the ordinary general meeting of shareholders with full explanation about the measures taken to ensure

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fairness, transparency and reliability. However, the shareholders of a bank if they wish shall still have the right to nominate such candidates on the date of the ordinary general meeting of shareholders as per the provisions of these and other relevant National Bank directives.

- 8.7. Where a person nominated in line with provisions of these directives and the Approved Procedure for Nomination and Election of Board of Directors is a juridical person, a natural person who represents such juridical person on the board shall be identified during the nomination process so as to ensure that the person representing the shareholder fulfills the criteria set by the National Bank for board membership.
- 8.8. A Nomination and Election Committee member shall not present himself as a candidate for board membership.
- 8.9. Where less than fifty percent (50%) of the Nomination and Election Committee members have left the Committee before completing their duty 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.
- 8.10. Where the surviving Nomination and Election Committee members are less than half (50%) of the Committee size, they may not appoint members; but they shall report the case to the board and cease their duty.
- 8.11. Where the Nomination and Election Committee ceases its duty as per sub-article 8.10 of this article, the board shall report same to the National Bank and handle the matter as per relevant National Bank directives. The ordinary general meeting of shareholders shall elect and appoint directors in line with the requirements of the Commercial Code of Ethiopia.
- 8.12. Where the Nomination and Election Committee failed to conduct its duties in a transparent, fair and credible manner and in accordance with the requirement set in the relevant National Bank directives and the bank's own procedure resulting in the cancellation of the election by the National Bank, the Nomination and Election Committee shall be penalized by a fine that shall not exceed the fee payable to the members.

9. Conduct of Board Election by Authorized Bodies

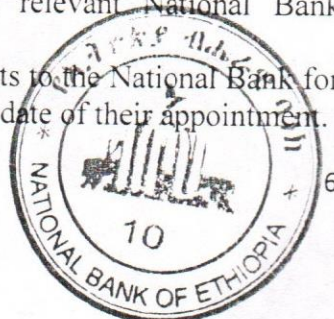
- 9.1. Where the National Bank decides to conduct board election, the process shall proceed in line with sub articles 12 (1) (b) and (2) of proclamation number 592/2008.
- 9.2. Where a court of law, external auditors or any other organ authorized by law orders to carry out or decides to conduct board 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 requirement stipulated under relevant National Bank directives.
- 10.1.2. A bank shall submit application and relevant documents to the National Bank for approval of directors within 20 working days from the date of their appointment.

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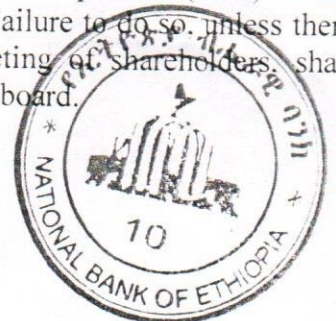
- 10.1.3. The National Bank shall decide on the application for approval within 15 working days from the date of receipt of all documents as required under sub-article 10.1.2 of this article.
- 10.1.4. The term of a board shall be counted from the date the ordinary general meeting of shareholders elected the board.
- 10.1.5. 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.
- 10.1.6. Notwithstanding sub-articles 10.1.5 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.
- 10.1.7. Where the surviving directors are less than half of the board of directors, they shall convene a general meeting to appoint other directors.
- 10.1.8. 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 criteria under relevant National Bank directives.
- 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 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 seventy five percent (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.





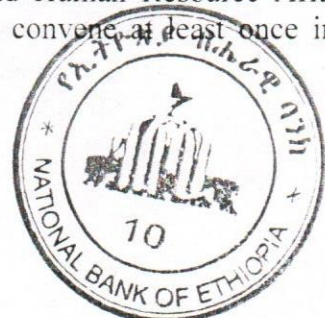
- 10.3.6. The board may invite only the Chief Executive Officer and/or other Senior Executive Officers, as deemed necessary, to its meetings for explanations.
- 10.3.7. The board shall ensure that all minutes of its meetings are properly recorded, signed, sequentially numbered, and safely kept along with other relevant documents.
- 10.3.8. 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 and 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 National Bank directives;
- 10.4.2. appointing directors from the waiting list as per their voting rank, in case one or more of the directors have left the board before completing their term within 30 working days from the date of resignation and present the case to the next ordinary general meeting of shareholders for their 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 chief internal audit and chief risk management &/or compliance officer, 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. appointing senior executive officers selected by chief executive officer;
- 10.4.6. ensuring that the operation of the bank is run prudently, and in accordance with relevant laws, regulations, policies, and procedures;
- 10.4.7. 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;
- 10.4.8. ensuring that the National Bank's examination report is considered as confidential by the directors and/or employees of the bank;
- 10.4.9. ensuring that appropriate and timely actions are taken to address the regulatory and supervisory concerns and instructions of the National Bank;
- 10.4.10. 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 &/or compliance;
- 10.4.11. establishing and ensuring the effective functioning of various board committees including, but not limited to, Audit Sub-Committee, Risk Management and Compliance Sub-Committee and Human Resource Affairs Sub-Committee (**Annex III**) which shall have to convene at least once in a month and report their resolution to the full board;

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- 10.4.12. 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;
- 10.4.13. ensuring the capital adequacy of the bank on an on-going basis;
- 10.4.14. 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;
- 10.4.15. 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;
- 10.4.16. establishing clear policies for shareholder 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;
- 10.4.17. reviewing and approving strategies, policies, systems, annual business plans & budgets;
- 10.4.18. monitoring performance in implementing issues indicated under sub-article 10.4.17 of this article by setting key performance indicators as stipulated in **Annex I** of these directives which is part hereof;
- 10.4.19. reviewing and approving clear lines of responsibilities, delegating authorities, segregating duties and accountabilities for board of directors and senior management members;
- 10.4.20. 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;
- 10.4.21. ensuring the establishment of code of conduct for the employees of the bank;
- 10.4.22. approving human development strategy and succession plan for chief executive officer and senior executive officers and effectively monitoring their implementation;
- 10.4.23. ensuring that the bank puts in place comprehensive risk management program;
- 10.4.24. 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;
- 10.4.25. 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

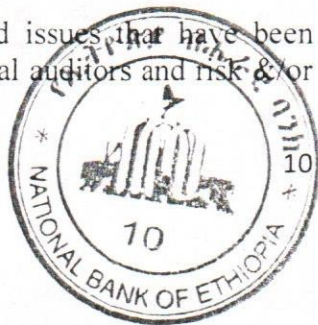
- 10.6.1. At the end of its office term, the outgoing board shall prepare a comprehensive exit report and submit to the National Bank and board secretary of the bank at the latest fifteen (15) calendar days before conducting general meeting of shareholders. The exit report shall at a minimum cover the board's performance during its office term, challenges, issues requiring 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, the 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. Selecting and presenting all senior executive officers except chief internal audit and chief risk management &/or compliance for board approval;
- 11.6. allocating authorities, duties and responsibilities in well-defined job specification and description;
- 11.7. developing management information system that adequately addresses the bank's business environment and risk profile, getting approval from the board and implementing it;
- 11.8. providing the board with timely, relevant, accurate and complete reports on the plan performance;
- 11.9. implementing an effective internal control system and risk management program of the bank; and
- 11.10. implementing timely corrective action on deficiencies and issues that have been raised or reported by the National Bank, external and internal auditors and risk &/or compliance managers.

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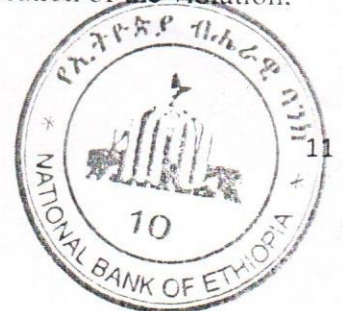
12. Disclosures

- 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 the 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, banks 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, 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 places of business, including its branches and sub-branches, in a conspicuous place throughout the year, covering at a minimum a copy of its latest audited statement of financial position, 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 statements of financial 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 occur within one month after the annual shareholders meeting.

13. Penalties

- 13.1. 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 article 4 of these directives, depending on the gravity of the violation, shall be:
 - 13.1.1. 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;
 - 13.1.2. suspended or removed from his seat on the board for at least three consecutive years effective from the date of identification of the violation;

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13.1.3. 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

13.1.4. subjected to any other appropriate administrative action the National Bank deems necessary.

13.2. 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 article 4 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. Compliance with Approved Procedures for Nomination and Election of Board of Directors

The Nomination and Election Committee shall strictly comply with Approved Procedures for Nomination and Election of Board of Directors.

16. Transitional Provision

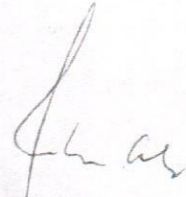
An incumbent Nomination and Election Committee shall conduct its duty as per the Revised Procedures for Nomination and Election of board of directors on condition that the Revised Procedures shall be approved in the next ordinary general meeting of shareholders.

17. Repealed Directives

Directives No. SBB/62/2015, No. SBB/68/2018 and Circular Number BSD/10/2015 are hereby repealed and replaced by these directives.

18. Effective date

These directives shall enter into force as of the 18th day of June 2019.


Vinager Dessie (PhD)
Governor



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, 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, performance trend, peer group comparisons and ratios.

Annex-II

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

1. duty to comply with relevant laws and regulations, the National Bank directives, and corporate values and policies of the bank;
2. importance of evaluating problems in time and being 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 in the interest of another individual or group, at the expense of the bank;
5. duty to disallow behaviors that could result in any improper or illegal activities in the bank, 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. 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 except in accordance with the terms on which they are provided;
8. duty to keep 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 appropriate level of confidentiality at all times with respect to information or data pertaining to the bank's customers, suppliers and employees;

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9. duty to act fairly and impartially. Directors and senior management should avoid bias, discrimination, caprice or self-interest; they should demonstrate respect for others by acting in a professional and courteous manner; and
10. duty to 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

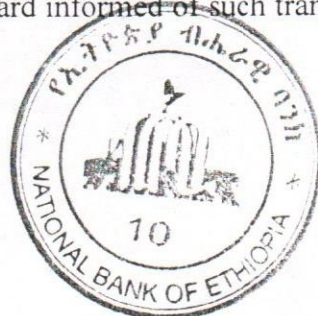
The Audit Sub-Committee shall comprise at least three directors. At least one member shall have accounting or auditing expertise or experience in the field of finance.

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 Sub-Committee should have full and unrestricted access to information and be able to obtain independent professional advice. The Audit Sub-Committee, among others, is responsible to:

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 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

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13. check compliance with the policies & rules of the company and proclamations, regulations, directives, guidelines of the National 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 MANAGEMENT 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 Management and Compliance Sub-Committee shall comprise at least three directors.

iii. Roles and Responsibilities

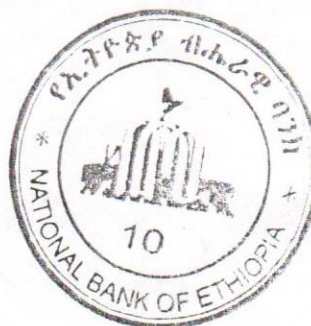
The Risk Management and Compliance Sub-Committee is responsible at least for:

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.

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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 they are ineffective, errant or negligent in discharging their 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.

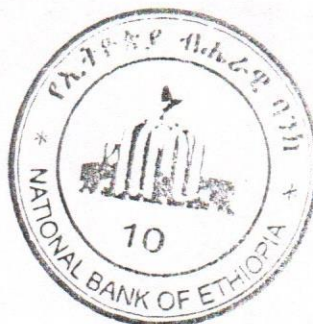
Based on detailed study:

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 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 bank;
4. overseeing management succession planning and performance evaluation of members of senior management;
5. ensuring that all Nomination and Election Committee members get training on approved "Procedure for Nomination and Election of Board of Directors" and elected directors receive an appropriate induction and continuous training in order to keep abreast with the latest developments in the industry;
6. overseeing any major changes on the overall 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 month and shall report regularly to the full board.

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Annex-IV

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

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

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