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NATIONAL BANK OF ETHIOPIA

LICENSING AND SUPERVISION OF BANKING BUSINESS BANK CORPORATE GOVERNANCE DIRECTIVE NO. SBB/91/2024

Whereas, prudent and effective corporate governance practices at banks are critical to the proper functioning of the banking sector and the economy as a whole;

Whereas, good corporate governance plays a vital role in maintaining the safety and soundness of the financial system while also developing accountability regime that allocates the powers and responsibilities of a bank among the board and senior management;

Whereas, good corporate governance should lead to balanced risk-taking practices that take into account the interests of key stakeholders;

Whereas, the National Bank of Ethiopia aims to ensure that banks are soundly and prudently managed and directed;

Now, therefore, in accordance with Article 13(1/a), Article 14(4/b-d/ and /f/) and Article 66(2) of the Banking Business Proclamation No. 592/2008 (as Amended by Proclamation No. 1159/2019), the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as “Bank Corporate Governance Directive No. SBB/91/2024”.

2. Definitions

For the purpose of this Directive, unless the context provides otherwise:

- 2.1. “**Board**” means the governing body of a bank appointed by shareholders or other authorized body that has primary accountability for the governance and performance of the bank including strategy, overseeing management and protection of the shareholder and stakeholder interests.
- 2.2. “**Board Charter**” means a document outlining the roles and responsibilities of the board of directors, powers of the board, various board committees and their roles, separation of roles between the board and management and the policies and practices of the board in respect to corporate governance matters.





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- 2.3. **“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.
- 2.4. **“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 customer, depositor, and other stakeholder interests.
- 2.5. **“Director”** means any member of the board of directors of a bank, by whatever title the person may be referred to.
- 2.6. **“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.
- 2.7. **“Financial Institution”** means a bank, an insurance company, a reinsurer, a microfinance institution, a microinsurance company, payment instrument issuer, payment system operator, a capital goods finance company, a money transfer institution, a postal money transfer institution or such other similar institution as determined and licensed by the National Bank.
- 2.8. **“First Degree of Consanguinity or Affinity”** means spouse, children and parents.
- 2.9. **“Independent Director”** means a non-executive director that has no family of first degree consanguinity relationship or business, professional or commercial relationship with the bank, and is neither part of senior management nor involved in the day-to-day operations of the bank. An independent director is an experienced board member that is not under any undue influence, internal or external, political or ownership that would impede his/her ability to exercise objective judgment.
Candidates who would not normally be considered to be an independent director include natural persons who are:
 - 2.9.1. a direct or indirect 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
 - 2.9.2. a shareholder, director, chief executive officer, senior executive officer of a company that has any contractual obligation towards the bank;
 - 2.9.3. involved, either directly or indirectly, in any legal proceedings or out-of-court disputes against the bank, the parent undertaking or their subsidiaries;





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- 2.9.4. having any business, professional or commercial relationship with the bank over the past two years; and
- 2.9.5. having any financial obligations towards the bank in an amount cumulatively above Birr fifty (50) million.
- 2.10. **“Influential Shareholder”** means a person who holds directly or indirectly two percent or more of the total subscribed capital of a bank.
- 2.11. **“National Bank”** means the National Bank of Ethiopia.
- 2.12. **“Non-executive Director”** means an individual not involved in the day-to-day management and not a full-time salaried employee of a bank or of its subsidiaries.
- 2.13. **“Non-influential Shareholder”** means any person who holds directly or indirectly less than two (2%) percent of the total subscribed capital of a bank.
- 2.14. **“One Term”** means a period not exceeding three (3) years.
- 2.15. **“Person”** means any natural or juridical person.
- 2.16. **“Person with Significant Influence”** are influential shareholders, directors, chief executive officer and senior executive officers of a bank.
- 2.17. **“Related Party Transaction”** means any transaction with related parties as defined by the relevant Directive.
- 2.18. **“Risk Management Function”** means the business process that clearly identifies and measures inherent and significant risks of a bank and draws a strategy, policy and procedure to mitigate such risks, as defined by relevant Directives of the National Bank.
- 2.19. **“Senior Executive Officer”** means any officer of a bank who is managing two or more work units and is accountable to the chief executive officer or is directly reporting to the board of directors and includes positions at a level of deputy to chief executive Officer.
- 2.20. **“Senior Management”** means the chief executive officer, the senior executive officers, and any other official, as may be defined by individual bank, responsible for day-to-day running of a bank.
- 2.21. **“Minority Shareholders”** means a person or group of persons who cannot exercise the powers of a company or control its affairs.
- 2.22. **“Controlling Shareholder”** means a person who is the beneficial owner of or is able to exert control over thirty percent (30%) or more of the shares of the organization.
- 2.23. **“Sustainability”** refers to social and environmental sustainability, as well as economic sustainability where it intersects with environmental and social sustainability. Sustainability information is also referred to as non-financial information.





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2.24. any expression in the masculine gender includes the feminine and/or juridical persons.

3. Scope of Application

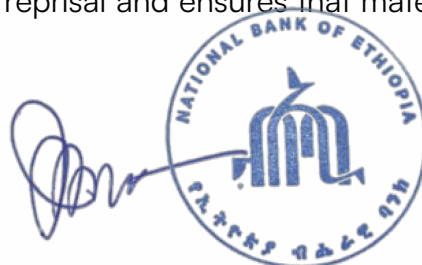
- 3.1. This Directive shall be applicable on all banks operating in Ethiopia.
- 3.2. In exceptional cases and with valid justification acceptable to the National Bank, banks may apply to the National Bank to defer the application of certain provisions of this Directive.
- 3.3. A bank owned by the Government may apply Articles 6, 7 and 9 in due consideration of relevant laws.

4. General Principles

- 4.1. Effective corporate governance of banks and the way they conduct their business is critical to the proper functioning of the banking sector and the economy as a whole.
- 4.2. The primary objective of corporate governance is to develop an accountability framework that allocates the powers and responsibilities by which the business and affairs of a bank are carried out by its board and senior management.
- 4.3. A secondary objective is also to safeguard stakeholders' interest in conformity with public interest on a sustainable basis.
- 4.4. Among stakeholders, particularly with respect to banks, shareholders' interest would be secondary to depositors' interest.

5. Corporate Culture and Values

- 5.1. A bank shall start its corporate governance framework by instituting a corporate culture and a set of values around responsible and ethical behavior, including risk culture, and legal and ethical conduct throughout the bank.
- 5.2. Corporate culture and value shall be set by the board and senior management and communicated to the rest of the organization, through a code of conduct and code of ethics that clearly define acceptable behavior.
- 5.3. Senior management shall institute a whistleblower policy and process overseen by the board that allow employees to report ethical and illegal issues confidentially without fear of reprisal and ensures that material concerns are thoroughly addressed.





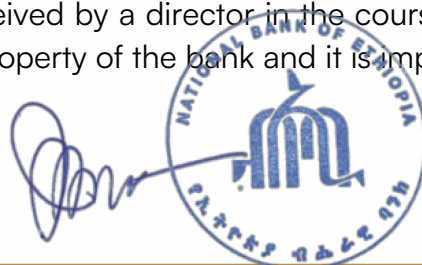
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- 5.4. A bank shall commit at the highest level of the organization to integrate sustainability factors in their risk management processes and oversight, focusing both on financing activities and operations.
- 5.5. A bank shall commit to long-term economic development and the sustainability of its financing and operating activities, in line with National Sustainable Development Goals.

6. Duties of Directors

All Directors have a duty to:

- 6.1. act in good faith and with utmost commitment to promote the success of the bank. In this regard, a director shall give due regard to the long-term interests of the bank, the interests of the bank's employees, depositors and creditors, and the impact of the bank's operations on the community and the environment;
- 6.2. exercise independent judgment in the exercise of his responsibilities, as defined in the relevant law;
- 6.3. discharge his responsibility with care, skill and diligence, as defined in the relevant law. A director shall be liable for damages caused to the bank and shareholders due to lack of care or diligence on his part. A director shall avoid the approval of any transaction that is contrary to the bank's own policies, the regulatory requirements of the National Bank and other applicable laws;
- 6.4. comply with relevant laws and regulations, National Bank Directives, and corporate values and policies of the bank;
- 6.5. address all issues and problems on a timely basis, and prevent illegal or unethical actions such as bribery and corruption inside and outside the bank;
- 6.6. disallow behaviors that could result in any improper or illegal activities in the bank, such as money laundering, fraud, bribery or corruption. The board shall also discourage excessive risk-taking activities and self-dealing and acceptance of gifts or favors;
- 6.7. use their position, bank information and bank assets properly. Directors shall not use their position, information acquired by virtue of position they hold, to obtain an advantage for themselves or someone else. Directors shall not misuse bank's assets except in accordance with the terms on which they are provided;
- 6.8. maintain the confidentiality of the bank's and third party's information. Confidential information received by a director in the course of the exercise of their duties remains the property of the bank and it is improper to disclose



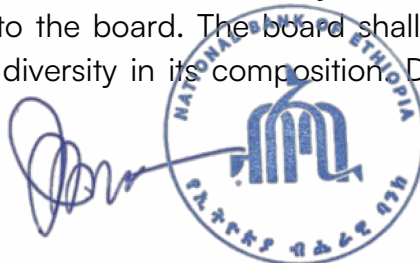


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- it, or allow it to be disclosed, unless that disclosure is authorized by responsible organ of the bank or permitted by other relevant laws. Directors shall maintain appropriate level of confidentiality at all times with respect to information or data pertaining to the bank's customers, suppliers and employees;
- 6.9. act fairly and impartially. Directors shall avoid bias, discrimination, caprice or self-interest and shall demonstrate respect for others by acting in a professional and courteous manner; and
- 6.10. act with honesty and integrity. Directors shall be truthful and transparent in their dealings and use their power responsibly.

7. Board of Directors' Size and Composition

- 7.1. Without prejudice to the provisions of the Commercial Code on the minimum number of directors, due to the special nature of deposit-taking institutions, which gives them an added responsibility of safeguarding the interests of depositors, the National Bank requires a bank, to have at least nine (9) directors. To be effective, the board of directors shall have qualifications and experiences that match the complexity, the size, the scope and operations of the bank.
- 7.2. A board shall include directors who as a group provide a balance of skill, diversity and expertise, who collectively possesses the necessary qualification commensurate with the size, complexity and risk profile of the bank. The mixtures of core competencies include banking, finance, accounting, management, economics, legal, business administration, auditing, information technology, investment management and sustainability. The qualifications and experience of all board members shall at a minimum meet the requirements set by the National Bank.
- 7.3. The board of directors of a bank shall be composed as follows:
- 7.3.1. 1/3rd of the directors shall be nominated and elected separately by non-influential shareholders;
 - 7.3.2. 1/3rd of the directors shall be nominated and elected by all shareholders; and
 - 7.3.3. 1/3rd of the directors shall be independent directors, nominated by the existing board of directors and elected by all shareholders.
- 7.4. Shareholders of a bank shall ensure that there is no single gender representation in the bank's board. To this end, they shall ensure that at least two (2) female are elected to the board. The board shall enact a policy to ensure the achievement of diversity in its composition. Diversity applies to





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- academic qualifications, technical expertise, relevant industry knowledge, experience, and gender.
- 7.5. A maximum number of two (2) bank employees (including the chief executive officer and senior executive officers, but excluding company secretary) , may be elected to the board. However, such employees cannot be chairperson of the board of the bank.
 - 7.6. In order to exercise its duties of monitoring and overseeing managerial performance, preventing conflicts of interest and balancing competing demands on the bank, it is essential that the board is able to exercise objective judgment.
 - 7.7. Notwithstanding the provision provided in the Commercial Code, the board of directors shall have a chairperson and vice chairperson. The chairperson and vice chairperson shall be elected by a majority of all directors.

8. Conflict of Interest

- 8.1. The board shall put in place a policy to manage conflict of interest. The bank shall maintain a register of declared conflict of interest.
- 8.2. The board chair, ahead of every board meeting, shall call upon all directors to declare if there are any conflict of interests related with the agenda items being discussed.
- 8.3. A director of a bank shall avoid a situation in which he has a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the bank, as described in relevant law.
- 8.4. A director shall inform the board of directors of any situation that may involve a conflict of interest between his own and the bank's interest. Where a director of a bank is in any way, directly or indirectly, interested in a proposed transaction, contract entered into or any other relationship with the bank, he shall declare the nature and extent of that interest to the other directors. Declarations shall be made as soon as the existence of a situation that could give rise to a conflict of interest is known.
- 8.5. 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, Commercial Code and other applicable laws





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9. Appointment of Directors

- 9.1. Directors shall be nominated and elected based on board appointment policy and procedures of a bank, as approved by the general shareholders meeting. Such policies and procedures shall incorporate relevant provisions of this Directive related to board appointment.
- 9.2. At a general shareholders meeting where the board of directors get elected, the first item on the agenda shall be to appoint an ad hoc board nomination and election committee responsible for nominating shareholders for election to the board. The committee shall be composed of five (5) members and shall not constitute current board members, or employees of the bank. At least two (2) of the nomination and election committee members shall be non-influential shareholders.
- 9.3. One month prior to the general shareholders' meeting, company secretary of a bank shall publish the board nomination and election criteria to shareholders through widely reaching media including newspapers, bank's website, broadcast and other electronic channels as necessary.
- 9.4. A bank, prior to general shareholder meeting, shall disclose and adequately inform its shareholders description of the procedures to be followed for nominating directors.
- 9.5. The nomination and election committee shall receive the nominations from the shareholders on the date of the general shareholders' meeting.
- 9.6. All nominations shall include a brief description of the nominee's professional qualification and experience, and indicate which shareholder is nominating the nominee. A shareholder may nominate himself or herself.
- 9.7. A legal person may be appointed to the board of directors in line with the relevant provisions of the Commercial Code. Where a person nominated is a legal person, a natural person who represents this legal person on the board (the representative) shall be identified during the nomination process to ensure that the person representing the shareholder fulfills the criteria set by the National Bank for board membership. In a situation where the representative cannot be identified during the nomination process; the legal person shall assign a representative who shall fulfil the National Bank's requirement in due course.
- 9.8. All nominees that the nomination and election committee receive from shareholders must meet the qualifications and experience required by the National Bank. The nomination and election committee shall adequately inform the shareholders about board election criteria prior to the conduct of board nomination process.





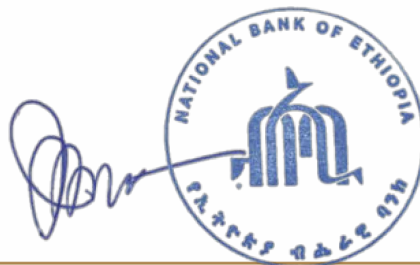
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- 9.9. The nomination and remuneration committee of the board of directors, in due observance of related criteria, shall recruit and propose nominees, whose number shall at least be twice the number of independent board members to be elected. The board of directors will then handover the list of nominees for independent directors to the nomination and election committee.
- 9.10. The nomination and election committee, shall receive and prepare three (3) lists of nominees, as per the following order:
- 9.10.1. List 1: Nominees for 1/3rd of the board seats reserved for non-influential shareholders, for election by non-influential shareholders;
 - 9.10.2. List 2: Nominees for 1/3rd of the board seats reserved for all shareholders, for election by all shareholders; and
 - 9.10.3. List 3: Nominees for 1/3rd of the board seats reserved for independent directors, for election by all shareholders.
- 9.11. The general meeting shall vote separately for each nominee, on each list. Only non-influential shareholders may vote for the nominees in List 1. All shareholders may vote for List 2 and List 3. The nominees with the largest number of votes will be appointed. Nominees who were not successful shall be included for each category on a waiting list for consideration for appointment by the board in the event of future vacancies on the board.
- 9.12. If a bank has no influential shareholder, election for board shall be conducted by all shareholders.
- 9.13. The board of directors of government-owned banks shall be appointed in compliance with the relevant law under which they are governed.
- 9.14. Notwithstanding the provision stated above, board of directors appointed for a government-owned bank shall be presented to the National Bank for conduct of fit and propriety assessment and approval.

10. Conduct of Board Election by Authorized Bodies

- 10.1. Where the National Bank decides to conduct board election, the process shall proceed in line with sub-articles 12 (1) (b) and (2) of the Banking Business Proclamation number 592/2008 (as Amended by Proclamation number 1159/2019).
- 10.2. 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.

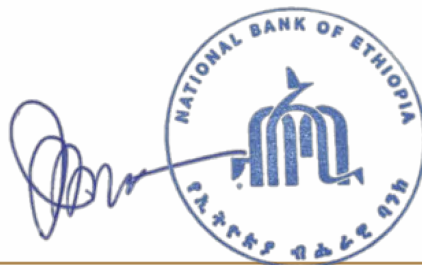
11. Board of Directors





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- 11.1. A bank shall be led by an effective and entrepreneurial board of directors, whose role is to promote the long-term sustainable success of the bank, generating value for shareholders and contributing to wider society.
- 11.2. The board shall ensure that the necessary resources, policies and practices are in place for the bank to meet its objectives and measure senior management's performance against those objectives.
- 11.3. The board shall establish the bank's values and strategy, and ensure its alignment with its culture. A director shall act with integrity, lead by example, and promote the desired culture.
- 11.4. Approval by the National Bank and Term of Office
 - 11.4.1. Appointment of directors shall be subject to approval by the National Bank in accordance with the requirements stipulated under relevant National Bank Directives.
 - 11.4.2. A bank shall submit application and relevant documents to the National Bank for approval of directors within twenty (20) working days from the date of their election.
 - 11.4.3. The National Bank shall decide on the application for approval within fifteen (15) working days from the date of receipt of all documents as required under sub-article 11.4.2 of this Article.
 - 11.4.4. The term of a board shall be counted from the date the ordinary general meeting of shareholders elected the board.
 - 11.4.5. 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 (6) consecutive years. However, he may be re-elected after a lapse of six consecutive years.
 - 11.4.6. Notwithstanding sub-article 11.4.5 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 (1) 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.
 - 11.4.7. Where the surviving directors are less than half of the board of directors, they shall convene a general meeting to appoint other directors.





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11.4.8. 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.

11.5. Training

11.5.1. A bank shall give training, at least once a year, to directors on priority basis in areas of financial analysis, corporate governance, applicable laws, regulations, Directives, risk management and internal control.

11.5.2. A bank shall provide formal induction program for new directors within three (3) months of their appointment.

11.5.3. 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 11.5.1 of this Article.

11.6. Board Meetings

11.6.1. The board shall establish rules for conducting board meetings in a board charter.

11.6.2. A board meeting shall be held at least once in a quarter on the date and at the venue fixed in accordance with the rules for manner of conducting board meetings.

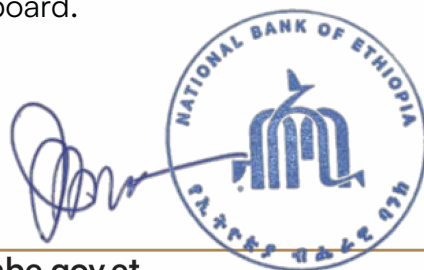
11.6.3. The board may hold virtual meetings on an extraordinary basis, as long as the rules and procedures are laid out in the board charter.

11.6.4. The board may invite to board meetings senior officials or other staff that it deems necessary.

11.6.5. The board shall fix regular meeting days and venue. In all regular meetings (excluding urgent meetings), the chairperson or the company secretary shall serve formal notice of meeting to each director, together with agenda items, at least seven (7) days earlier than the meeting day.

11.6.6. Board members are expected to commit to their duties and to arrive for board meetings fully prepared to discuss the agenda. Board members shall attend in person at least seventy five percent (75%) of the board meetings of a bank within a financial year.

11.6.7. The board is required to take action in cases where the condition in sub-article 11.6.6 is not met. Actions the board can take include a recommendation to the shareholders meeting to remove that director from the board.





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- 11.6.8. The board shall ensure all minutes of its meetings are properly recorded, signed, sequentially numbered, and safely kept along with other relevant documents.
- 11.6.9. Board remuneration shall be paid to a director in proportion to his attendance at board meetings during the year.

11.7. Board Responsibilities

The board of directors of a bank has the ultimate responsibility for the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. The board may delegate some of its functions, though not its responsibilities, to board committees, including the Audit Committee, the Risk Management and Compliance Committee, and the Nomination and Remuneration Committee and other committees as the case may be.

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

- 11.7.1. approving the strategy of the bank, based on a proposal from the chief executive officer;
- 11.7.2. approving the bank's annual business plans and budgets;
- 11.7.3. approving bank policies;
- 11.7.4. approving the risk appetite statement, based on the proposal of the chief risk officer;
- 11.7.5. overseeing risk management and internal controls of the bank, ensuring the establishment of an appropriate risk management framework, and setting the risk appetite of the bank;
- 11.7.6. proposing external auditors and their service fee to the general meeting of shareholders for appointment, based on recommendations from the Audit Committee;
- 11.7.7. selecting and appointing chief executive officer, and overseeing his performance;
- 11.7.8. appointing senior executive officers recommended by Nomination and Remuneration Committee;
- 11.7.9. ratifying the appointment of chief internal audit, chief risk officer, and chief compliance officer who are qualified and competent with





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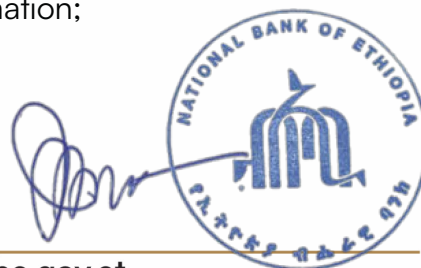
integrity, to administer the affairs of the bank effectively and efficiently, or removing the same where they fail to be fit and proper;

- 11.7.10. setting and actively overseeing a remuneration structure for the chief executive officer and senior executive officers, based on recommendations from the Nomination and Remuneration Committee. The remuneration structure shall support sound corporate governance, shall establish appropriate incentives that are aligned with prudent risk taking and sustainability goals, shall be consistent with the long-term interest and the financial soundness of the bank, and shall be effective in addressing misconduct that potentially result in losses;
- 11.7.11. ensuring the operation of the bank is run prudently, and in compliance with relevant laws, regulations, policies, and procedures;
- 11.7.12. approving equity investment decisions or agreements related to acquisition and disposal of fixed assets and technology which have material nature, as may be defined in the internal policy of the bank;
- 11.7.13. approving material related party transactions, in line with the requirements of the National Bank Directive;
- 11.7.14. developing succession plans for senior management, with support from the Nomination and Remuneration Committee.
- 11.7.15. establishing and ensuring the effective functioning of various board committees including, when applicable, Audit Committee, Risk Management Committee and Nomination and Remuneration Committee, which shall report their resolutions to the full board;
- 11.7.16. assessing annually the effectiveness of the board, its 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;
- 11.7.17. ensuring the capital and liquidity adequacy of the bank on an on-going basis;
- 11.7.18. preventing and managing conflicts of interest in the bank by putting in place sound policies and implementing them, where conflict of interest refers to a circumstance where a person's activities or interests are advanced at the expense of the bank;
- 11.7.19. establishing clear policies for shareholder relations with the bank and at least annually reviewing practices, aimed at clearly



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- communicating the goals, strategies and achievements of the bank to the shareholders;
- 11.7.20. monitoring management performance by a performance management system and setting key performance indicators, including those mentioned in sub-article 11.7.19 of this Article;
 - 11.7.21. developing transparent policy, rules and procedure for board nomination and election in consideration of industry standard and requirements stipulated in this Directive and submit to the general meeting of shareholders for review and endorsement;
 - 11.7.22. establishing an appropriate risk governance framework that includes well defined organizational responsibilities for risk management, satisfying three lines of defense principles;
 - 11.7.23. reviewing and approving lines of responsibilities, delegating authorities, segregating duties and accountabilities for board of directors and senior management members;
 - 11.7.24. reviewing and approving a code of conduct for the board and senior management;
 - 11.7.25. ensuring the establishment of a code of conduct for the employees of the bank;
 - 11.7.26. establishing a formal induction program and ensuring that every in-coming board director is inducted and provided with necessary orientation in the area of the bank's business;
 - 11.7.27. reviewing level of implementation of the codes of conduct through undertaking internal, as well as external monitoring and assessment, establishing and communicating corporate culture and value, including staff training programs developed to encourage implementation;
 - 11.7.28. exercising oversight over the bank's exposure and response to sustainability-related risks and opportunities, review policies, strategies, risk management, and targets set by management, and assess the performance of the organization against its targets;
 - 11.7.29. clearly defining the roles and responsibilities of senior management, for the management of sustainability-related risks and opportunities;
 - 11.7.30. ensuring that sustainability-related risks and opportunities are integrated in internal controls and compliance, including risk management and processes to ensure the integrity of reported sustainability information;





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- 11.7.31. 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;
 - 11.7.32. ensuring that appropriate management information system is established to produce accurate, complete, relevant and timely information on the performance of the bank;
 - 11.7.33. monitoring stakeholder engagement process and ensuring that stakeholder concerns and expectations are integrated in the bank's strategy;
 - 11.7.34. developing strategies and suitable policies to manage relations with different stakeholder groups, including a program that allows bank staff and other stakeholders to report complaints (i.e., "Whistleblower" policy); and
 - 11.7.35. adopting a clear governance framework for the bank including units, branches, district /regional offices, or other legal entities, and manage the risk associated with complex or opaque organizational structures.
- 11.8. Board Charter and Description of Authority
- 11.8.1. The board shall adopt a board charter that provides a formal description of matters specifically reserved for its decision as provided in the bank's internal policy to ensure that the direction and control of the bank is firmly retained in its hands.
 - 11.8.2. The description of matters referred to under sub-article 11.8.1 of this Directive 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) approval on corporate policies on all matters, at a minimum:
 - i. board charter;
 - ii. committee charters;
 - iii. strategy;
 - iv. compliance control policy;
 - v. credit policy;
 - vi. conflict of interest management;
 - vii. human resource management;
 - viii. investment;





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- ix. domestic and foreign banking operations;
- x. liquidity management;
- xi. internal audit/control;
- xii. management information system/MIS;
- xiii. planning and budgeting;
- xiv. finance;
- xv. risk management;
- xvi. fixed assets;
- xvii. corporate governance;
- xviii. detection and prevention of criminal activities including AML/CFT;
- xix. outsourcing;
- xx. disclosure policy;
- xxi. communication;
- xxii. procurement; and
- xxiii. fraud monitoring.

11.9. Board Succession Planning and Exit of Board Members

11.9.1. The term of office of the board members shall be organized in a manner that ensures a smooth transition.

11.9.2. The term of office of the members of the board shall end in a manner that ensures retention of institutional memory and makes it easier to induct new board members. Where possible, no more than one third of the board members shall retire at the same time.


11.10. Exit Report

11.10.1. At the end of their office term, the outgoing board members shall prepare a comprehensive exit report and submit to the National Bank and company 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.

11.10.2. 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 sub-article 11.10.1 herein above.

11.11. Role of Board Chairperson

11.11.1. The chairperson leads the board and is responsible for its overall effectiveness in directing the bank. The chairperson shall


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demonstrate objective judgment and encourage and promote critical discussion and a culture of openness and debate, ensuring that dissenting view can be freely expressed. In addition, the chairperson shall ensure that directors receive accurate, timely and clear information, so that decisions can be taken on a sound and well-informed basis.

11.11.2. Board Chairperson's responsibilities are:

- a) Provide effective leadership to the board by setting the tone and agenda, while guiding discussions in meetings.
- b) Ensure the board operates within legal and ethical guidelines that all board members are heard and participate in the discussion, and policies and procedures are followed.
- c) Facilitate board meetings, ensuring all agenda items are covered, discussions are productive, and decisions are made in a timely manner.
- d) Serve as a primary liaison between the board, management, and shareholders, communicating important information and decisions.
- e) Collaborate with other board members and management in setting the organization's strategic direction and goals.
- f) Oversee the annual board evaluation, as well as the performance evaluations of senior management.
- g) Foster positive relationships with key stakeholders, including shareholders, employees, customers, and the community.
- h) Ensure guidelines and procedures are in place to govern the board's operation and conduct.

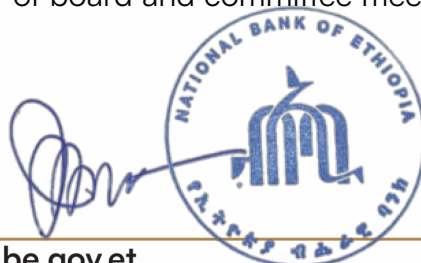
12. Company Secretary

12.1. Each bank shall have company secretary, in line with the requirements of relevant law. The appointment and dismissal of the secretary shall be approved by the board of directors.

12.2. The secretary shall be accountable to the chief executive officer.

12.3. The secretary shall have the following powers and duties:

- 12.3.1. monitor the corporate governance of the bank, and compliance with corporate governance requirements;
- 12.3.2. ensure timely and accurate flow of information to board members, and to shareholders and third parties, as necessary;
- 12.3.3. prepare a calendar of board and committee meetings;





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- 12.3.4. develop and maintain the board charter and policies outlining the responsibilities, duties, and expectations of the board and the company secretary;
 - 12.3.5. maintain accurate and up-to-date corporate records, including board minutes, resolutions, conflict of interest register and statutory registers;
 - 12.3.6. organize meetings of shareholders and meetings of the board of directors;
 - 12.3.7. prepare, organize and keep minutes;
 - 12.3.8. ensure effective capacity building and training of board members; and
 - 12.3.9. carry out other tasks assigned to him by chief executive officer and the memorandum of association.
- 12.4. A bank shall uphold high standards of ethics and integrity, ensuring the company secretary acts in the best interests of the organization and its stakeholders.
- 12.5. If possible, the bank shall support company secretary to obtain company secretary training and certification from national or international bodies.
- 12.6. Notwithstanding an agreement to the contrary, the secretary shall be liable to the bank, shareholders or third parties for any breaches of his duties under the Commercial Code or the memorandum of association.

13. Audit Committee

- 13.1. All banks shall establish an Audit Committee of the board of directors.
- 13.2. The objective of the Audit Committee is to provide independent oversight of the bank's financial reporting and internal control system and ensure checks and balances within the bank.
- 13.3. The Audit Committee shall comprise of at least three (3) directors. All members of the Committee shall be non-employees, and at least one (1) of its members shall be an independent director. The chairperson of the Committee shall be preferably an independent director, and not the chairperson of the board or of any other committee.
- 13.4. The Audit Committee shall possess a collective balance of skills and expert knowledge. At least two (2) members shall have experience in audit practices, financial reporting, and accounting. All members shall have the ability to understand financial statements and education in accounting or finance.
- 13.5. A former partner or director of a bank's existing auditing firm or auditing corporation shall not act as a member of a bank's audit committee, within a





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- period of twelve (12) months after ceasing to be a partner of the audit firm, or for as long as he has any financial interest in the audit firm or audit corporation.
- 13.6. The Audit Committee shall have an explicit authority to investigate any matter within its terms of reference, full access to and co-operation by senior management and shall have full discretion to invite any director or executive officer to attend its meetings. The Audit committee shall have reasonable resources to enable it discharge its functions properly. The Audit Committee shall have full and unrestricted access to information, and unfettered access to senior management, to the internal audit and risk management functions. The Audit Committee shall be able to obtain independent professional advice.
- 13.7. The Audit Committee shall develop a committee charter, for approval by the full board, laying out its composition, roles and responsibilities, and meeting requirements.
- 13.8. The Audit Committee shall hold regular meetings, at least once every quarter and shall report regularly to the full board.

The Audit Committee shall be responsible for:

- 13.9. Oversight of the Financial Reporting Process:
- 13.9.1. ensuring fair and transparent financial reporting, and prompt publication of the financial accounts;
 - 13.9.2. recommending approval by the board of the bank's policies on accounting policy and financial reporting;
 - 13.9.3. overseeing the financial reporting process; and
 - 13.9.4. approving financial statements prior to their submission to the full board.
- 13.10. Oversight of the External Audit Process
- 13.10.1. recommending to the board for their approval, the appointment, remuneration and dismissal of external auditors;
 - 13.10.2. review and approve the audit scope and frequency;
 - 13.10.3. receive key audit reports and ensure that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and other control functions;
 - 13.10.4. ensuring adequate functioning, independence and effective cooperation of internal and external audits; and


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- 13.10.5. review any non-audit services provided by the external auditor, seeking to maintain the objectivity of the external auditor and avoid conflicts of interest.
- 13.11. Oversight of Non-financial Reporting and Assurance
 - 13.11.1. ensuring fair and transparent reporting of material sustainability information;
 - 13.11.2. ensuring fair and transparent reporting of performance audit information; and
 - 13.11.3. overseeing the process of seeking independent, external assurance of non-financial information.
- 13.12. Oversight of the Internal Audit Function
 - 13.12.1. overseeing the functions of the Internal Audit Unit;
 - 13.12.2. approving the annual internal audit plan;
 - 13.12.3. ensuring full coverage of the bank's activities by internal controls and internal or external audits;
 - 13.12.4. ensuring that all the bank's activities are audited by the internal audit in a cycle whose duration shall not exceed three (3) years and must be adjusted depending on the risk profile;
 - 13.12.5. assessing the adequacy of human, information technology and other resources allocated to the internal control function;
 - 13.12.6. ensuring that the internal controllers and auditors have the necessary skills, and proposing measures to strengthen their expertise and qualifications as necessary;
 - 13.12.7. verifying the reliability and accuracy of financial information intended for the board, the National Bank and third parties, and assess the relevance of the accounting methods adopted for the preparation of the individual and consolidated accounts;
 - 13.12.8. assessing the relevance of the corrective measures taken or proposed to remedy the shortcomings or insufficiencies detected in the processing of transactions, following control or audit reports, or even, if applicable, in the internal control system;
 - 13.12.9. ensuring the effective and rapid implementation of the corrective measures recommended by the control and audit functions and, if necessary, alert the board, or the National Bank directly in the event of non-implementation; and
 - 13.12.10. assessing whether existing policies, processes and internal controls (including risk management, compliance, Shari'ah compliance and corporate governance processes) are effective,



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appropriate and remain sufficient for interest free banking business.

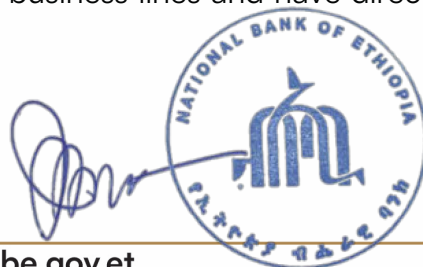
14. Internal Audit Function

- 14.1. The internal audit function is responsible for reviewing the scope of the internal audit program, internal audit findings and recommend actions to be taken by management.
- 14.2. The head of internal audit function is appointed or removed based on the recommendation of the audit committee, and by the approval of the board of directors. The remuneration shall be determined independently of any business line overseen, and performance measures shall be based principally on the achievement of its own objectives to ensure independence.
- 14.3. Any measure of dismissal or transfer of the head of internal audit can only take place after informing, accompanied by a supporting file, the National Bank showing the reasons for the decision. The revocation can only take place by the board, after obtaining assent of the audit committee. The head of internal audit cannot be dismissed if he has exercised his functions in good faith. An abusive revocation measure taken without respecting the provisions of this Article will be subject to the sanctions.
- 14.4. The internal audit function shall review material related party transactions such as those exceeding Birr fifteen (15) million or otherwise posing special risk) and express its reasoned (non-binding) opinion on related party transactions, including the bank's interest in entering into the transaction, and the convenience and substantial correctness of its underlying terms.

15. Risk Management and Compliance

15.1. Governance of Risk Management

- 15.1.1. A bank shall follow the three (3) lines of defense model and assign responsibilities for risk management at key levels of the organization, including in the business units, as part of a dedicated risk management function and an independent internal audit function.
- 15.1.2. A bank shall have a dedicated risk management unit overseen by a chief risk officer, whose functions are further defined in separate National Bank Directives. The chief risk officer shall be independent from the individual business lines and have direct and unimpeded





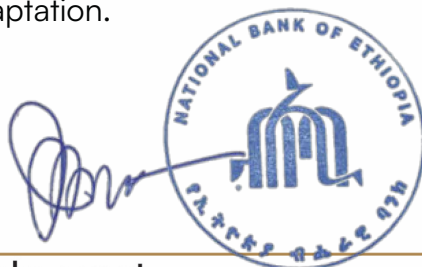
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access to the bank's board of directors and in particular to the Risk Management and Compliance Committee.

- a) The chief risk officer is responsible for supporting the committee (and the full board) in its engagement with and oversight of the development of the bank's risk appetite and risk appetite statement and for translating the risk appetite into a risk limits structure.
- b) The chief risk officer shall report and have direct access to the board or risk management and compliance committee without impediment. The chief risk officer shall have the ability to meet with the board or risk management and compliance committee in the absence of other executive directors and senior management members.
- c) The appointment, dismissal, and other changes to the chief risk officer or its equivalent position shall be approved by the board of directors. The bank shall discuss the reasons for such removal with the National Bank.
- d) The chief risk officer's performance, compensation and budget shall be reviewed and approved by the risk management and compliance committee. The compensation shall be determined independently of any business line overseen, and performance measures shall be based principally on the achievement of its own objectives so as not to compromise the independence.
- e) The appointment of chief risk officer is subject to the prior approval of the National Bank.

15.1.3. A bank shall integrate sustainability in the overall risk management and control framework, including risk appetite and tolerance, and the three-line-of-defense model, and evaluate the impact of sustainability on their risk profile and capital adequacy and liquidity positions. This includes assessing the impact of sustainability on traditional risks facing financial institutions, including credit risk, liquidity risk, market risk, and operational risks.

15.1.4. A bank shall analyze the risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, and assess the concentration of sustainability-related risks in specific industry and geography, including sectors vulnerable to climate transition risk and physical risk or priority sectors for climate adaptation.



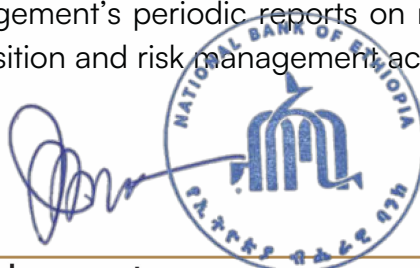


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15.2. Risk Management and Compliance Committee

The Board Risk Management and Compliance Committee of a bank shall:

- 15.2.1. be responsible for oversight of the strategies for capital and liquidity management, as well as for all relevant risks of the bank, such as credit, market, operational and reputational risks and others to be specified in the relevant National Bank Directives to ensure they are consistent with the stated risk appetite;
- 15.2.2. develop a committee charter, for approval by the full board of directors, laying out its composition, roles and responsibilities, and meeting requirements;
- 15.2.3. hold regular meetings, at least once every month and shall report regularly to the full board;
- 15.2.4. comprise at least three (3) directors. The chairperson of the committee shall be preferably independent, and not the chairperson of the board or any other committee. The Committee shall include members who have experience in risk management issues and practices;
- 15.2.5. receive regular reporting and communication from the chief risk officer and other relevant functions about the bank's current risk profile, current state of the risk culture, utilization against the established risk appetite, and limits, limit breaches and mitigation plans;
- 15.2.6. have effective communication and coordination with the audit committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the bank; and
- 15.2.7. be responsible at least for:
 - a) reviewing and recommending risk management strategies, policies, risk appetite statements, and risk tolerance limits for board's approval;
 - b) reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk, as well as, the extent to which these are operating effectively;
 - c) ensuring infrastructure, resources and systems are in place for risk management;
 - d) ensuring the staff responsible for implementing risk management systems perform those duties independently of the bank's risk-taking activities;
 - e) reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities;



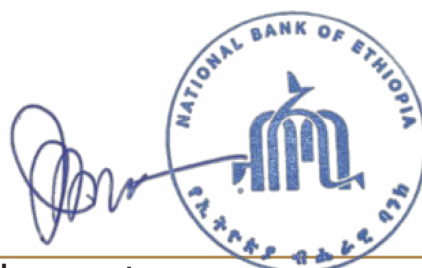


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- f) periodically reviewing the effectiveness of internal controls and risk management processes;
- g) assessing the quality of the internal control system, in particular the consistency of the risk measurement, monitoring and control systems and propose, where appropriate, reinforcement actions in this regard; and
- h) checking compliance with the policies and rules of the bank and with relevant proclamations, regulations, Directives and guidelines of the National Bank and other relevant laws.

16. Nomination and Remuneration Committee

- 16.1. The primary objectives of Nomination and Remuneration Committee are to:
 - 16.1.1. identify and nominate candidates for independent members of the board of directors, for election by the general shareholders meeting;
 - 16.1.2. nominate candidates for senior executive officer positions, for approval by the full board of directors;
 - 16.1.3. provide a formal and transparent proposal on the employment and removal of the chief executive officer and senior executive officers if they are ineffective, errant or negligent in discharging their responsibilities;
 - 16.1.4. make recommendations on the compensation/benefit systems of the bank;
 - 16.1.5. oversee human resource policy; human resource strategy and employee performance management processes ;
 - 16.1.6. oversee training programs for members of the board; and
 - 16.1.7. review and endorse succession plans prepared by the management of the bank.
- 16.2. The Committee shall strive to ensure the board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the bank.
- 16.3. The Committee shall strive to ensure remuneration is appropriate and consistent with the bank's culture and value, including the risk culture, ethical conduct, long-term business success and sustainability.
- 16.4. The Committee shall comprise at least four (4) directors.
- 16.5. The Committee is responsible at least for the following:



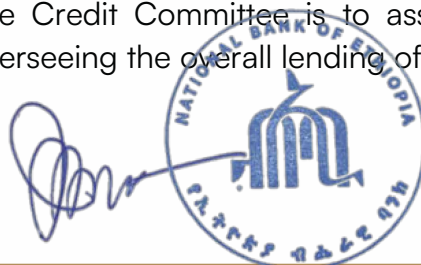


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- 16.5.1. prepare a profile of the ideal independent board of directors, based on discussions with the full board, and use the profile as a basis for the recruitment of good candidates;
 - 16.5.2. recruit independent directors to serve on the board, with the assistance of recruitment consultants as necessary. Following deliberations, the Committee will forward its proposed candidates to the board of directors for further review and presentation to the general meeting. All independent directors nominated shall meet or exceed the National Bank's requirements;
 - 16.5.3. lead the process of nominating candidates to serve as senior managers, for appointment by the board of directors. The Committee will recruit candidates for open positions, with the assistance of recruitment consultants as necessary. Following deliberations, the Committee will forward a "short list" of proposed candidates to the board of directors;
 - 16.5.4. at the request of the board chairperson, and after detailed review, provide a formal and transparent proposal on the employment and removal of senior management members if they are ineffective, errant and/or negligent in discharging their responsibilities, for decision by the full board;
 - 16.5.5. monitor the bank's compensation and benefits practices, and periodically benchmark these practices against a set of peer institutions, in cooperation with the bank's human resources department. The Committee will periodically make recommendations on the compensation/benefit systems of the bank, for decision by the full board. The Committee will also periodically review other human resource policies of the bank, as requested by the board of directors; and
 - 16.5.6. develop training programs for board members by working with the company secretary and outside consultants as necessary. The Committee shall review the effectiveness of these programs and make changes as necessary.
- 16.6. The Committee shall hold regular meetings, at least once every three months or as necessary, and shall report regularly to the full board.

17. Credit Committee

- 17.1. The primary objective of the Credit Committee is to assist the board of directors in reviewing and overseeing the overall lending of the bank.





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- 17.2. The Committee shall comprise of at least four (4) directors. At least one (1) of the directors shall be an independent director of the bank.
- 17.3. To enhance independence and objectivity of the Committee, banks are required to appoint an independent non-executive director as the chairperson of the Committee. The chairperson of the bank's board shall not chair the Credit Committee but can be included as a member.
- 17.4. The Committee shall be responsible at least for the following:
 - 17.4.1. review and oversee the overall lending policy of the bank;
 - 17.4.2. deliberate and consider loan applications beyond the discretionary limits of the Credit Risk Management Committee;
 - 17.4.3. review lending by the Credit Risk Management Committee;
 - 17.4.4. ensure there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries;
 - 17.4.5. direct, monitor, review and consider all issues that may materially impact on the present and future quality of the bank's credit risk management;
 - 17.4.6. delegate and review lending limits to the sanctioning arms of the bank;
 - 17.4.7. assist the board with discharging its responsibility to review the quality of the bank's loan portfolio and ensuring adequate provisions for bad and doubtful debts in compliance with prudential requirements;
 - 17.4.8. conduct loan reviews independent of any person or committee responsible for sanctioning credit; and
 - 17.4.9. ensure the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates.

18. Senior Management

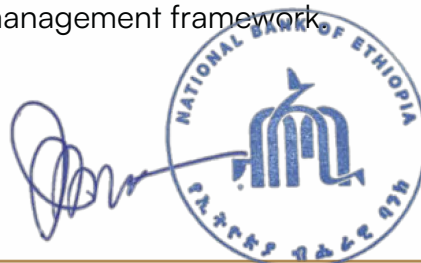
- 18.1. Under the direction and oversight of the board, senior management shall carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.
- 18.2. Senior management consists of a core group of individuals responsible and accountable to the board for the sound and prudent day-to-day management of the bank.





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- 18.3. Senior management shall provide the board of directors with any information the board of directors or its committees deem necessary to properly carry out their tasks and responsibilities.
- 18.4. The organization, procedures and decision-making of senior management shall be clear and transparent and designed to promote effective management of the bank. This includes clarity on the role, power, and responsibility of the various positions within senior management, including that of the chief executive officer.
- 18.5. The bank may form an executive committee, consisting of the chief executive officer and senior executive officers. The composition, role, responsibilities, and meeting procedures shall be established by a separate charter.
- 18.6. Members of senior management shall have the necessary experience, competencies and integrity to manage the businesses and the people under their supervision. They shall receive access to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility.
- 18.7. The Board Charter shall clearly establish which senior management positions require board approval.
- 18.8. Members of senior management shall be selected through an appropriate promotion or recruitment process, which considers the qualifications required for the position in question. For those senior management positions for which the board of directors is required to review or select candidates through an interview process, senior management shall provide sufficient information to the board.
- 18.9. Senior management contributes substantially to a bank's sound corporate governance by setting appropriate ethical and professional standards, the "tone at the top". Members of senior management shall provide adequate oversight of those they manage and ensure the bank's activities are consistent with the business strategy, risk appetite and the policies approved by the board.
- 18.10. Senior management shall include consideration of sustainability risks and opportunities in strategic objectives, focusing on sustainability impacts, risks and opportunities in lending and investments activities, as well as in operations and the supply chain.
- 18.11. Senior management shall establish policies, procedures, and targets to identify and manage climate, nature, labor, community, and other sustainability-related risks at client operations and that these are integrated in the existing credit and risk management framework.





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- 18.12. Senior management is responsible for delegating duties to staff and shall establish a management structure that promotes accountability and transparency throughout the bank.
- 18.13. Senior management shall be responsible to establish and implement management level committees including Executive Committee and Asset and Liabilities Management Committee.
- 18.14. Senior management shall recognize and respect the independent duties of the risk management, compliance and internal audit functions and shall not interfere in their exercise of such duties.
- 18.15. Senior management shall provide the board with the information it needs to carry out its responsibilities, supervise senior management and assess the quality of senior management's performance. In this regard, senior management shall keep the board regularly and adequately informed of material matters, including:
- 18.15.1. changes in business strategy, risk strategy/risk appetite;
 - 18.15.2. the bank's performance and financial condition;
 - 18.15.3. breaches of risk limits or compliance rules;
 - 18.15.4. internal control failures;
 - 18.15.5. legal or regulatory concerns; and
 - 18.15.6. issues raised because of the bank's whistleblowing procedures.
- 18.16. Without prejudice to the duties and responsibilities stated in any applicable laws, regulations, the National Bank Directives, and memorandum of association of the bank, a chief executive officer shall at least be responsible for:
- 18.16.1. developing corporate strategies, policies, business plans and budgets which are subject to approval by the board before implementation;
 - 18.16.2. 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;
 - 18.16.3. ensuring documents indicated under sub-article 18.16.1 and 18.16.2 of this Article are communicated to all concerned staff;
 - 18.16.4. preparing an organizational structure that clearly and appropriately assigns duties, responsibilities and authorities, and ensures segregation of duties, which shall be subject to board approval;
 - 18.16.5. selecting and presenting all senior executive officers except chief internal audit and chief risk management &/or compliance for



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- nomination and remuneration committee which shall be subject to board approval;
- 18.16.6. allocating authorities, duties and responsibilities in well-defined job specification and description;
 - 18.16.7. developing management information system that adequately addresses the bank's business environment and risk profile, getting approval from the board and implementing it;
 - 18.16.8. providing the board with timely, relevant, accurate and complete reports on the plan performance;
 - 18.16.9. implementing an effective internal control system and risk management program of the bank;
 - 18.16.10. implementing timely corrective action on deficiencies and issues that have been raised or reported by the National Bank, external and internal auditors and risk and/or compliance managers; and
 - 18.16.11. implementing the resolutions of the board.
- 18.17. Key performance indicators to monitor the performance of senior management shall at least include:
- 18.17.1. the bank's record of compliance with laws, regulations and board approved policies;
 - 18.17.2. internal audit, external audit, risk management findings, recommendations and rectifications.
 - 18.17.3. risk profile of the bank against risk tolerance limits;
 - 18.17.4. timely execution of regulatory and supervisory concerns raised by the National Bank;
 - 18.17.5. the timeliness, quality, and accuracy of management's recommendations and reports; and
 - 18.17.6. key business and financial performance indicators, such as actual versus projected performance, performance trend, peer group comparisons and ratios.

19. Shareholder Rights

- 19.1. A bank shall facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority shareholders.
- 19.2. Shareholders' rights shall include information, voting and financial rights, including to:
 - 19.2.1. secure methods of ownership registration;
 - 19.2.2. convey or transfer shares;





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- 19.2.3. share in the profits of the bank;
 - 19.2.4. obtain material information on a timely and regular basis;
 - 19.2.5. vote in general shareholder meetings;
 - 19.2.6. elect members of the board of directors; and
 - 19.2.7. appoint the external auditor.
- 19.3. Related party transactions shall be approved and conducted in a manner that ensures proper management of conflicts of interest and protects the interests of the bank and its shareholders.
- 19.4. Members of the board of directors and management shall disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the bank.
- 19.5. Anti-takeover devices shall not be used to shield management and the board from accountability.
- 19.6. Shareholders shall be protected from adverse actions by controlling shareholders, acting either directly or indirectly, and shall have effective means of redress.

20. General Meeting of Shareholders

- 20.1. Without prejudice to provisions provided in the Commercial Code of Ethiopia, the ordinary general meeting of shareholders of a bank shall:
- 20.1.1. strive in a good faith that only competent and reliable persons who meet the requirements of the National Bank, and can enrich good corporate governance and add value to the bank, are elected or appointed as a director;
 - 20.1.2. decide upon the appointment and service fee of an external auditor as proposed by the Audit Committee and the board and this power shall not be delegated to any other organ or body in the bank's structure;
 - 20.1.3. ensure the board is held accountable and responsible for the inefficient and ineffective governance;
- 20.2. 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 ten percent (10%) of the total subscribed capital of a bank.
- 20.3. A sitting board member or any employee of a bank including chief executive officer or a senior executive officer shall not represent and be proxy of any other shareholder in any shareholders meeting of the bank.



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20.4. A shareholder to be considered for being board nominee in a bank shall be registered shareholder of the bank for a minimum of two consecutive years preceding the date of shareholders meeting of the bank.

21. Disclosure

21.1. A bank shall be transparent to any shareholders, depositors and other relevant stakeholders without breaching the law of the country and the National Bank Directives.

21.2. Without prejudice to provisions in other laws and National Bank Directives, a bank shall at a minimum disclose the following to the National Bank:

21.2.1. submit any related party loan/foreign currency transactions, banks fixed assets, and technology transactions of material nature, as defined by the board, within fifteen (15) working days from the date of the transaction specifying the name, type of transaction and amount involved;

21.2.2. report the status of the transactions stated under sub-article 21.2.1, 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; and

21.2.3. key points concerning risk exposures and risk management strategy.

21.3. Without prejudice to provisions in other laws and the National Bank Directives, a bank shall make public, timely and accurate disclosure on all material matters regarding the organization, including the financial situation, performance, sustainability, ownership, and governance of the company.

21.4. Disclosure shall be done in a timely fashion through a public website, annual and periodic financial reports, and through other appropriate mechanisms. Public disclosure shall include an annual report to shareholders with the following information:

21.4.1. strategic objectives of the organization;

21.4.2. risks factors;

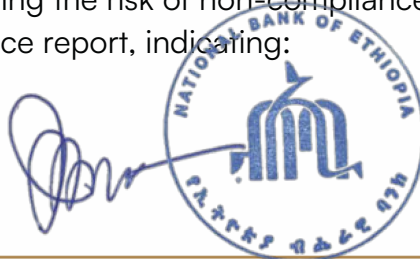
21.4.3. narrative report summarizing the bank's results for the past year;

21.4.4. the three (3) most recent available set of audited financial statements, including statements of financial position, statement of comprehensive income and expense accounts together with auditors' report;

21.4.5. external audit by independent, competent and qualified auditor;

21.4.6. debt contracts, including the risk of non-compliance with covenants;

21.4.7. a corporate governance report, indicating:





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- a) board members, including their qualification, experience and membership on board committees, and whether or not the bank considers each director to be independent;
 - b) the approach used for the selection of board member for ensuring an appropriate diversity of skill, background, and viewpoints.
 - c) role and activity/performance of the board of directors;
 - d) evaluation of the board of directors;
 - e) the bank’s basic organizational structure, including line business structure;
 - f) the bank’s memorandum of association;
 - g) capital structure and ownership including major share ownership and voting rights, group structures and their control arrangements;
 - h) risk management process, including risk appetite, control and audit;
 - i) compensation of members of the board and key executives, including policy and criteria, performance-based compensation and risk adjustment; and aggregate total compensation;
 - j) related party transactions; and
 - k) sustainability-related information including the governance process, strategy, risk management and metrics to address sustainability matters that are material for the organization, including sustainability-related risks and opportunities in a bank’s loan portfolio.
- 21.5. 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 its operations during the period.
- 21.6. The exhibition and publishing of the annual report pursuant to sub-articles 20.3 and 20.4 of this article shall occur within one month after the annual shareholders meeting.

22. Supervision

- 22.1. The National Bank shall supervise corporate governance at banks, including through comprehensive evaluations and regular interaction with boards and senior management, and will suggest remedial action as necessary.
- 22.2. The National Bank shall assess each bank’s corporate governance performance, especially with respect to the risk culture of the bank. This includes a consideration of the behavioral dynamic of the board and senior management, including the “tone at the top” and the cultural values of the

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- bank are communicated and put into practice, how information flows to and from the board and senior management, and how potential serious problems are identified and addressed throughout the organization.
- 22.3. The National Bank will interact regularly with boards of directors, individual board members, senior managers and those responsible for the risk management, compliance, and internal audit functions. The purpose of the interactions is to support timely and open dialogue between the bank and supervisors.
- 22.4. The National Bank may produce additional guidelines to assist banks in the implementation of good corporate governance practices.
- 22.5. The board of directors is responsible for:
- 22.5.1. ensuring the National Bank’s examination report is considered as confidential by the directors and/or employees of the bank;
 - 22.5.2. ensuring appropriate and timely actions are taken to address the regulatory and supervisory concerns and instructions of the National Bank; and
 - 22.5.3. following up the implementation of findings and recommendations of on-site examination and off-site surveillance reports of the National Bank, the external auditor, and the internal control functions.
- 22.6. The company secretary is responsible for ensuring minutes of general meetings of shareholders are delivered to the National Bank within twenty (20) working days from the date of such meetings of shareholders for approval and for following up timely registration of the same with the appropriate government organ.

23. Penalties

- 23.1. Without prejudice to Article 65 of Proclamation Number 592/2008 (as Amended by Proclamation 1159/2019), 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 8.5 of this Directive, depending on the gravity of the violation, shall be:
- 23.1.1. 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 (3) consecutive years effective from the date of identification of the violation;





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- 23.1.2. suspended or removed from his seat on the board for at least three (3) consecutive years effective from the date of identification of the violation;
- 23.1.3. prohibited from investing in new shares or from buying existing shares in any financial institution for three consecutive years effective from the date of identification of the violation; and
- 23.1.4. subjected to any other appropriate administrative action the National Bank deems necessary.

23.2. Without prejudice to article 17(1) of Proclamation Number 592/2008(as Amended by Proclamation No. 1159/2019), 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 8.5 of this Directive.

24. Applicability of Other Laws

- 24.1. Nothing in this Directive 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.
- 24.2. No Directive or established practice may, in so far as it is inconsistent with the provisions of this Directive, have effect with respect to matters provided by this Directive.

25. Transitional Provision

A bank shall apply provisions related to nomination and election of board of director after expiry of the terms of the existing boards of directors.

26. Repealed Directive

Bank Corporate Governance Directive No. SBB/71/2019 (1st Replacement) is hereby repealed and replaced by this Directive.

27. Effective Date

This Directive shall enter into force as of the 12th day of June, 2024.


Mamo Esmelealem Mihretu
Governor

