

**Bank of Zambia Act  
(Act No. 43 of 1996)**

**Bank of Zambia Corporate Governance Directives**

**1.0 PREAMBLE**

Corporate governance is the process and structure used to direct and manage the business and affairs of an institution with the objective of ensuring its safety and soundness and enhancing shareholder value. For banks and financial institutions the process and structure define the division of power and establish mechanisms for achieving accountability between the board of directors, senior management and shareholders, while protecting the interests of depositors and other stakeholders.

Banks and financial institutions occupy a special position of trust in the national economy and their governance is, therefore, a matter of paramount importance. These institutions are highly leveraged, with most of their funds coming from depositors and creditors. They provide basic financial services to the public, credit to commercial enterprises and access to the payment system. The safety and soundness of these institutions is key to financial stability and the manner in which they conduct their business, therefore, is central to economic health. Governance weaknesses at these institutions can result in the transmission of problems in the financial sector and economy as a whole. For these reasons the quality of corporate governance expected of these institutions is high.

Additionally, the institutions operate within an ever-changing framework of laws and are subject to the direct control of the board of directors. The board must ensure that the law is adhered to while simultaneously ensuring that strategies for long-term success are set and implemented. It is, therefore, necessary to achieve a balance and alignment among external and internal controls, risk management and competitive behaviour and at the same time operate within the principles of good corporate governance outlined in the Directives.

These Directives set forth a broad framework of fundamental corporate governance principles that must be complied with by the directors and managers of institutions operating in Zambia.

**2.0 PURPOSE OF CORPORATE GOVERNANCE IN THE SUPERVISORY PROCESS**

The boards of directors and senior management of the institutions play key control functions in the Bank of Zambia's supervisory framework. Effective oversight by directors and senior management is an essential element in the safe and sound functioning of the institutions and maintenance of an efficient and cost-effective supervisory system. It also helps protect depositors and allows the Bank of Zambia to rely on the institutions' internal processes, thereby reducing the amount of resources needed for the Bank of Zambia to discharge its supervisory mandate.

In addition, in situations where an institution is experiencing problems or where significant corrective action is necessary, the important role of the board is heightened and the Bank of Zambia requires significant board involvement in seeking solutions and in overseeing the implementation of corrective actions.

**3.0 DEFINITIONS**

In these Directives, unless the context otherwise requires—

'bank' shall have the same meaning as contained in the Banking and Financial Services Act;

'board' means a board of directors of a bank or financial institution as provided in the Banking and Financial Services Act;

'chief executive officer' means a person responsible, under the immediate authority of the board of directors, for the conduct of the business of a bank or financial institution;

'chief financial officer' means a person responsible for maintaining the accounts and related records of a bank or financial institution;

'chief risk officer' means an independent senior executive with distinct responsibility for a bank or financial institution's risk management function and its enterprise-wide risk management framework;

'compliance officer' means a senior staff member with overall responsibility for coordinating the identification and management of the bank or financial institution's compliance risk and for supervising the activities of staff discharging the compliance function;

'duty of care' means the duty of board members to decide and act on an informed and prudent basis with respect to the bank or financial institution. This imposes a duty on board members to approach the affairs of the company the same way that a "prudent person" would approach his or her own affairs. A 'prudent person' is one who acts with care and foresight;

'duty of loyalty' means the duty of board members to act in good faith in the interest of the bank or financial institution. This duty prevents individual board members from acting in their own interest or the interest of another individual or group, at the expense of the bank or financial institution and shareholders;

'executive director' means a member of the board who is involved in the day-to-day management of a bank or financial institution and/or is in full time salaried employment of that institution or any of its subsidiaries or affiliates;

'independent non-executive director' means a member of the board who does not have any management responsibilities with the bank or financial institution and is not subject to any undue influence, internal or external, that may impede his or her exercise of objective judgement;

Such a person should be one that:

- (i) is not nominated or otherwise affiliated to a shareholder that has the ability to control or influence management;
- (ii) has not been employed by the bank or financial institution or the group of which it currently forms a part of, in any executive capacity for the preceding three financial years;
- (iii) is not a member of the immediate family of an individual who is or has been in any of the past three financial years, employed by the bank or financial institution or the group in an executive capacity;
- (iv) is not a professional advisor to the bank or financial institution or the group other than in a director capacity;
- (v) whose independence, in the opinion of the Bank of Zambia, is not impaired by reason of being a customer or supplier of the bank or financial institution;
- (vi) whose independence, in the opinion of the Bank of Zambia, is not impaired by reason of being in a contractual relationship with the bank or financial institution or group; or
- (vii) is free from any business or other relationship which could be seen to materially interfere with the individual's capacity to act in an independent manner.

'insider' shall have the same meaning as contained in the Banking and Financial Services (Insider Lending) Regulations;

'financial institution' shall have the same meaning as contained in the Banking and Financial Services Act;

'internal control' shall mean a process effected by the institution's board of directors, management and other personnel designated to provide reasonable assurance regarding the achievement of the bank or financial institution's objectives such as effectiveness of the risk management process, reliability of financial reporting and compliance with applicable laws and regulations;

'internal audit' means an independent, objective assurance and consulting activity designed to add value and improve an organization's operations and which helps an organization accomplish its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes;

'non-executive director' means a member of the board who is not involved in the day-to-day management of the bank or financial institution and is not a full time salaried employee of the institution;

'politician' means an individual who is active in politics if s/he is a member of parliament, councillor or member of the executive committee of the party or a member of any organ of a political party or any person who is publicly involved party politics;

'risk appetite' means the aggregate level and types of risk a bank or financial institution is willing to assume, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan;

'risk profile' means a point in time assessment of the bank or financial institution's risk exposures based on current or forward-looking assumptions;

'senior management' means the executive committee, or management team comprising a core group of individuals who are responsible and accountable to the board for effectively overseeing the day-to-day management of the bank or financial institution."

'significant shareholding' means any direct or indirect shareholding or beneficial interest in excess of five per cent of the share capital of a bank or financial institution;

'stakeholder' means an individual or group, in addition to shareholders, who have an interest in, and/or influence over, the institution's operations and the achievement of the institution's goals, such as creditors, employees, suppliers, customers and the community.

#### 4.0 APPLICATION OF THESE DIRECTIVES

These Directives shall apply to banks and financial institutions operating in Zambia and regulated by the Bank of Zambia.

#### 5.0 SHAREHOLDER RIGHTS AND RESPONSIBILITIES

##### *Principle I*

Shareholders of the institutions shall protect, preserve and actively exercise their supreme authority over the institution in general meetings. The board shall foster constructive relationships with shareholders. Additionally, institutions shall treat all shareholders fairly and equitably.

##### *Directives*

- 5.1 Shareholders shall ensure that the board is held accountable and responsible for the efficient and effective governance of the bank or financial institution.
- 5.2 Shareholders shall have a duty to change the composition of the board if it does not perform according to expectations or in accordance with the mandate of the bank or financial institution.

#### 6.0 APPOINTMENT OF BOARD OF DIRECTORS

##### *Principle II*

Directors should be appointed through a formal, rigorous and transparent process.

*Directives*

- 6.1 Shareholders shall be responsible for all appointments to the board and shall ensure that the board is properly constituted. A person appointed to serve as a director shall not exercise his or her duties unless the Bank of Zambia has issued prior approval of the appointment.
- 6.2 A bank or financial institution shall have a written policy and procedures for the appointment of directors to the board. The policy shall include a process for conducting due diligence in relation to sourcing appropriately skilled and experienced directors.
- 6.3 A non-executive director of a bank or financial institution shall not serve on the board of a bank or financial institution for a cumulative period exceeding six years.
- 6.4 A director shall have the power to appoint an alternate director to represent him at board meetings. However, only one such alternate director may be appointed subject to prior written approval of Bank of Zambia provided that the alternate director shall not attend the majority of board meetings in any calendar year.
- 6.5 A person who has held a senior management position in a bank or financial institution shall only be eligible for appointment as chairperson of the board or board committee of that bank or financial institution after a cooling-off period of at least two years.
- 6.6 A person who has served on the board of a bank or financial institution shall only be eligible for appointment as director on the board of another bank or financial institution after a cooling-off period of at least two years.
- 6.7 A person with a significant shareholding in a bank or financial institution shall not at the same time serve on the board of another bank or financial institution.
- 6.8 A person who is a significant shareholder in a bank or financial institution shall not at the same time hold a senior management position in that bank or financial institution.
- 6.9 A person who has previously served as Board member, Governor, Deputy Governor, Senior Director, Registrar or Deputy Registrar of Banks, Financial Institutions and Financial Businesses, Director responsible for the supervision of financial service providers at the Bank of Zambia or any other position as may be determined by the Bank of Zambia shall only be eligible for appointment as director on the board of a bank or financial institution after a cooling-off period of at least two years.
- 6.10 An engagement partner of an audit or legal firm which has previously provided audit or legal services to a bank or financial institution shall only be eligible for appointment as director on the board of another bank or financial institution after a cooling-off period of at least two years.
- 6.11 A politician shall not be eligible for appointment as a director of a bank or financial institution.
- 6.12 A person eligible for appointment as director to the board of a bank or financial institution shall exhibit leadership, enterprise, integrity and judgement.
- 6.13 A director on the board of a bank or financial institution shall not be a member on more than six (6) boards of other companies. However, this shall not apply to a person who sits on the board of directors of a bank or financial institution on behalf of a lender or investor for the purpose of safeguarding a transitory interest such as observance of loan or investment covenant or as a transaction advisor.
- 6.14 Any person appointed as a director on a board of a bank or financial institution shall primarily have a duty of care and loyalty to the bank or financial institution.
- 6.15 In cases where board members are selected by a controlling shareholder, the board shall set out specific procedures or conduct periodic reviews to ensure the appropriate discharge of responsibility by all such board members.

**7.0 BOARD RESPONSIBILITIES AND DUTIES***Principle III*

The board shall have overall responsibility for the bank or financial institution, including approving and overseeing the implementation of its strategic objectives, risk strategy, governance framework and corporate values and culture. The board shall also be responsible for providing oversight to senior management.

*Directives*

- 7.1 The board shall approve the overall business strategy of the bank or financial institution, taking into account the bank or financial institution's long term financial interests and its ability to manage risk effectively.
- 7.2 The board shall establish and oversee the implementation and embedment of the bank or financial institution's:
  - 7.2.1 Overall business objectives and strategy;
  - 7.2.2 Corporate culture and values;
  - 7.2.3 Risk culture;
  - 7.2.4 Risk management function and an appropriate risk governance framework. The board shall develop, along with senior management and the Chief Risk Officer, the bank's risk appetite, taking into consideration the competitive and regulatory landscape, long-term interests, exposure to risk and the ability to manage risk effectively; and

- 7.2.5 Corporate governance framework, principles and corporate values, including a code of conduct or comparable document and compensation system.
- 7.3 The board shall approve and oversee the implementation of the bank or financial institution's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations and the internal control system.
- 7.4 The board shall be responsible for managing its relationships with management of the bank or financial institution and other relevant stakeholders.
- 7.5 The board shall ensure that shareholders have the opportunity to participate effectively and vote at general meetings of shareholders. Additionally, the board shall ensure that shareholders are informed of the rules, including voting procedures that govern general meetings of shareholders.
- 7.6 The board shall have clear policies for shareholder relations and, at least annually, review practices aimed at clearly communicating the objectives, strategies and achievements of the bank or financial institution.
- 7.7 The board shall be accountable to shareholders and be responsible for the efficient and effective governance of the institution.
- 7.8 The board shall facilitate questioning of external auditors on their opinion at annual general meetings or extraordinary meetings when deemed necessary by the shareholders.
- 7.9 The board shall ensure that a director who is found to have delinquent credit facilities vacates his or her position. In this regard, the board shall put in place appropriate mechanisms for identifying directors with delinquent credit facilities.
- 7.10 The board shall have a formal charter which sets out the roles, functions, responsibilities and powers of the board, shareholders, individual directors and senior management. The charter shall also set out the powers delegated to various board committees.
- 7.11 The board shall have a programme to replace directors in an orderly manner subject to performance and eligibility for re-appointment to ensure board continuity.
- 7.12 The board shall ensure that the annual report contains a statement on the responsibilities of the board.
- 7.13 The board shall have rigorous formal processes for evaluating its performance together with that of the board committees and individual directors.
- 7.14 The board shall establish an effective process for the selection and appointment of key senior management officers that are qualified, professional and competent to administer the affairs of the bank or financial institution, approve the succession planning policy and monitor senior management performance on an on-going basis.
- 7.15 The board shall ensure that the bank or financial institution operates prudently and complies with relevant laws, supervisory directives, codes of business practice and its own policies and directives.
- 7.16 The board shall ensure that management establishes an effective compliance function that monitors adherence to laws, regulations and policies to which the institution is subject and ensures that any deviations are reported and corrected.
- 7.17 The board shall ensure that senior management implements policies to identify, prevent or manage and disclose, as appropriate, any conflicts of interest that may arise.
- 7.18 The board shall establish a disclosure policy that enhances transparency.
- 7.19 The board shall establish specialized board committees to oversee critical and/or major functional areas of the bank or financial institution which require detailed review or in-depth consideration.
- 7.20 The board shall oversee the design and operation of the bank's compensation system, and monitor and review the system to ensure that it is aligned with the bank or financial institution's desired risk appetite and risk culture.
- 7.21 The board shall ensure that transactions with related parties (including internal group transactions) are reviewed to assess risk and are subject to appropriate restrictions (e.g. by requiring that such transactions are conducted at arm's length terms).
- 7.22 In discharging these responsibilities, the board shall take into account the legitimate interests of depositors, shareholders and other relevant stakeholders.
- 7.23 The board shall ensure that the bank or financial institution maintains an effective relationship with supervisors.
- 7.24 The board shall have the ultimate responsibility for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control system.

## 8.0 COMPOSITION OF THE BOARD

### *Principle IV*

There shall be a balance of skills, knowledge and relevant experience among directors in order to enhance the board's effectiveness.

### *Directives*

- 8.1 The shareholders shall ensure that the majority of board members are non-executive directors, of which independent directors shall be in the majority.
- 8.2 When constituting the board, the shareholders shall ensure that the directors serving on the board have an appropriate mix of knowledge, skill and experience.
- 8.3 A balance should be sought between continuity in board membership, subject to performance and eligibility for re-election, as well as considerations of independence and the sourcing of new ideas through the introduction of new board members.
- 8.4 The chief executive officer shall be a non-voting member of the board.

- 8.5 The board shall be of sufficient size such that the requirements of the business can be met and shall not be so large as to be unwieldy.
- 8.6 A majority of the directors selected and appointed to the board shall be resident in Zambia.

#### 9.0 BOARD COMMITTEES

##### *Principle V*

The Board shall use committees where this would enhance its effectiveness in key areas while retaining its overall responsibility. Board committees are an aid to assist the board of directors in discharging its duties and responsibilities more effectively and efficiently. Committees should be made up of non-executive directors. Management shall not be included on these committees but may be invited to provide input on any matter that is of interest to the board.

##### *Directives*

- 9.1 The Board shall, at a minimum, establish the following committees:
- (i) Audit Committee;
  - (ii) Risk Management Committee;
  - (iii) Loans Committee; and
  - (iv) Nominations and Remunerations Committee.
- 9.2 Each board committee shall have a written charter that sets out its role, schedule of meetings and delegated responsibilities, whilst safeguarding the ultimate decision making authority of the board as a whole.
- 9.3 Each committee shall maintain appropriate records (minutes of the meetings and/or summary of matters reviewed and decisions taken) of their deliberations and decisions. Such records shall document the committees' fulfilment of their responsibilities and help in the assessment, by those responsible for the control functions or the supervisor, of the effectiveness of these committees.
- 9.4 The proceedings of all committee meetings shall be reported back to the board to allow the other directors to be informed and to seek clarifications on matters deliberated on by the committee.
- 9.5 All board committees shall be chaired by an independent non-executive director.
- 9.6 All board committees shall be free to take independent, external professional advice, as and when they deem it necessary, at the bank or financial institution's cost.
- 9.7 All board committees shall be subjected to regular evaluation by the board to ascertain their performance and effectiveness.
- 9.8 All board committees shall have relevant experience and shall possess a collective balance of technical skills and expert knowledge commensurate with the complexity of the institution and the duties to be performed.
- 9.9 The Nominations and Remuneration Committee shall only constitute of non-executive directors, of whom the majority shall be independent, and shall be chaired by the board chairperson.
- 9.10 The Nominations and Remuneration Committee shall ascertain whether potential new directors are suitable for the position and meet the requirements for appointment under the Banking and Financial Services Act.
- 9.11 The board shall consider occasional rotation of members and the chairperson of all board committees taking into account the technical skills, knowledge and experience required to sit on a particular committee.
- 9.12 The board chairperson shall not chair any of the board sub-committees except the Nominations and Remuneration Committee.

#### 10.0 CONFLICT OF INTEREST

##### *Principle VI*

The Board of directors shall put in place policies and processes to manage conflicts of interests.

##### *Directives*

- 10.1 The board shall establish a formal policy to identify potential conflicts of interests and processes to manage them. The policy shall also include processes to ensure compliance with the policy. The policy shall include:
- 10.1.1 A member's duty to avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest;
  - 10.1.2 Examples of where conflicts can arise when serving as a board member;
  - 10.1.3 A review or approval process for board members to follow before they engage in activities that have the potential to lead to a conflict of interest (such as serving on another board) in order to ensure that such activities will not lead to a conflict of interest;
  - 10.1.4 A member's duty to disclose any matter that may result, or has already resulted, in a conflict of interest;
  - 10.1.5 A member's responsibility to abstain from voting on any matter where the member may have a conflict of interest, a potential conflict of interest or where the member's objectivity or ability to properly fulfil duties to the bank or financial institution may be otherwise compromised;
  - 10.1.6 Procedures for transactions with related parties to be made on an arms-length basis; and
  - 10.1.7 The manner in which the board will deal with non-compliance with the policy.

- 10.2 The board shall ensure that appropriate public disclosures are made, and that information is provided to the Bank of Zambia, relating to the bank or financial institution's policies on conflicts of interest.
- 10.3 Directors shall ensure that their personal interests, or the interests of persons closely associated with them, shall not take precedence over the interest of the bank or financial institution.
- 10.4 Directors and officers who have an interest in a transaction to which the bank or financial institution is an actual or potential party shall disclose their interest to the board.
- 10.5 A director shall, at the beginning of each financial year, submit a 'disclosure statement' setting forth all business relationships, as of the date of the statement, and a summary of transactions during the preceding financial year, which might be considered to present issues of conflict of interest.

#### 11.0 EVALUATION OF BOARD PERFORMANCE

##### *Principle VII*

Self-evaluation is a proactive measure and best practice by boards that intend to excel to higher levels of performance. The review seeks to identify specific areas in need of improvement or strengthening and the results of the evaluation and any actions to be taken shall be discussed by the full board.

##### *Directives*

- 11.1 The board shall, through the Nominations and Remuneration Committee, review the mix of technical skills, expert knowledge and experience and their diversity in order to assess its effectiveness. Such a review shall be by means of a peer review and/or a self-evaluation of the board, its committees and each director including the chairperson.
- 11.2 The evaluation shall be conducted annually, and every bank or financial institution shall be required to disclose, in the annual report, that this has been done. The evaluation report on the board and directors' effectiveness shall be submitted to the Bank of Zambia on request.
- 11.3 The review and evaluation shall include, among other things, an assessment of the board's:
  - 11.3.1 Composition and independence;
  - 11.3.2 Performance against its objectives;
  - 11.3.3 Performance against the board charter;
  - 11.3.4 Effectiveness in achieving the bank or financial institution's strategic objectives and direction;
  - 11.3.5 Effectiveness in managing and providing oversight over all the risks that the bank or financial institution is exposed to;
  - 11.3.6 Effectiveness in ensuring that the bank or financial institution complies with all the laws, regulations, supervisory directives, the code of banking practice and its own internal policies;
  - 11.3.7 Effectiveness in responding to financial distress and crises;
  - 11.3.8 Responsiveness to shareholders' and stakeholders' concerns;
  - 11.3.9 Maintenance and implementation of the board's governance principles; and
  - 11.3.10 Access to and review of information from management and the quality of such information.
- 11.4 The board shall establish a formal procedure for regular assessment of the performance of the board, board committees and individual directors based on objective performance criteria, in line with key performance indicators.
- 11.5 The board shall formulate key performance indicators derived from the strategic plans, risk appetite and tolerance statement and its objectives and use them to measure its performance.
- 11.6 The effectiveness of the board shall be evaluated against its functions, key roles, and performance and attendance standards for directors, the board and board committees.
- 11.7 The Nominations and Remuneration Committee shall review the results of the board evaluation.
- 11.8 The board shall state in the annual report that the appraisals of the board and its committees have been conducted.
- 11.9 Where a deficiency is identified in a director's performance, a plan shall be developed and implemented for the director to acquire the necessary skills or develop appropriate behavioural patterns.
- 11.10 The action plan arising out of the evaluation shall be reported and discussed by the board and a consolidated summary of the whole process shall be reported to the full board.
- 11.11 The board shall appoint an independent non-executive director from within its ranks to lead the process of evaluating the chairperson's performance.
- 11.12 On a periodic basis, the Bank of Zambia may require submission of assessments of the board's performance or individual director's report or meet the board or individual directors, from time to time, to provide avenues for the board or directors to give feedback and views to the Bank. Where the assessment indicates that the director's performance is persistently below the expected performance standard, even after a training intervention, the Bank shall deem such a director as not being fit and proper to continue serving on the board of the bank or financial institution.

## 12.0 TRAINING AND DEVELOPMENT OF DIRECTORS

*Principle VIII*

In order to help board members acquire, maintain and deepen their knowledge and enhance their skills and to fulfil their responsibilities, the board shall ensure that board members have access to programmes of tailored initial (e.g. induction) and on-going training on relevant issues. The board shall dedicate sufficient time, financial and other resources to achieve this purpose.

*Directives*

- 12.1 The board shall establish a formal orientation programme to familiarise incoming directors with the bank or financial institution's operations and its business environment, and to introduce them to their fiduciary duties, responsibilities, powers and potential liabilities.
- 12.2 The board shall establish policies and programmes for on-going director development to enhance governance practices within the board and in the best interests of the bank or financial institution and of other stakeholders.
- 12.3 The chairperson of the board shall regularly review and may agree with each director his or her training and development needs.
- 12.4 Directors shall receive regular briefings on matters relevant to the business of the bank or financial institution such as its risk management processes and exposures, changes in laws and regulations, accounting standards and policies, and broader financial sector developments that have an impact on the bank's operations.

## 13.0 ROLES OF SENIOR MANAGEMENT

*Principle LX*

It is the responsibility of senior management to conduct the institution's business and affairs in an effective, responsible and ethical manner, consistent with the principles and direction established by the board through the strategic plan.

*Directives**Senior Management*

- 13.1 Senior management shall have the necessary skills to manage the business and provide appropriate oversight and control over the key functional areas.
- 13.2 Senior management shall implement policies and strategies approved by the board and communicate them to all relevant staff.
- 13.3 Senior management shall establish adequate internal controls which are supported by an effective internal control function.
- 13.4 Senior management shall establish an effective enterprise-wide risk management framework that identifies, measures, monitors and controls the major risks that the bank or financial institution is exposed to. Additionally, management shall establish an effective compliance function that will ensure that the bank or financial institution complies with all laws and regulations, supervisory directives, industry codes of conduct and internal policies and regulations.
- 13.5 Senior management shall provide the board with timely and relevant reports on, among other things, the financial performance and condition of the institution, risk management strategies, exposures and practices and extent of compliance to laws and regulations, supervisory directives, industry codes of conduct and internal policies.

*Chief Executive Officer*

- 13.6 The chief executive officer shall be a suitably qualified person with appropriate and relevant experience and shall possess a proven track record at senior management level.
- 13.7 The chief executive officer shall not discharge his duties as chief executive officer and no public announcements on the appointment shall be made without prior written approval by the Bank of Zambia.
- 13.8 The chief executive officer shall be directly responsible for the day-to-day operations of the institution. The chief executive officer shall be conversant with the operations of the institution, risks that the bank or financial institution is exposed to, the state of internal controls, legal, regulatory and industry practice requirements that the bank or financial institution is supposed to comply with, as well as current issues and policies affecting the financial sector.
- 13.9 Where the chief executive officer is absent for a period of at least three months, the board shall nominate a person to act in that role and shall seek the prior written approval of the Bank of Zambia.

*Chief Risk Officer*

- 13.10 The board shall designate a senior officer as Chief Risk Officer (CRO) or equivalent with overall responsibility for the bank's risk management function. The officer appointed as CRO shall not assume his/her responsibilities without the prior written approval of the Bank of Zambia.
- 13.11 The CRO shall, among others, be responsible for:
  - 13.11.1 Overseeing the development and implementation of the bank or financial institution's risk management function.
  - 13.11.2 Supporting the board in its development of the bank or financial institution's risk appetite and risk appetite statement and for translating the risk appetite into a risk limits structure.
  - 13.11.3 Managing and participating in key decision-making processes (e.g. strategic planning, capital and liquidity planning, new products and services, compensation design and operation).
  - 13.11.4 Together with management, setting risk measures and limits for the various business lines and monitoring their performance relative to risk-taking and limit adherence.

- 13.12 The board shall ensure that the CRO has appropriate organizational stature, authority and the necessary skills and experience to oversee the bank or financial institution's risk management activities.
- 13.13 The board shall ensure that the CRO is independent and has duties which are distinct from other executive functions. This requires the CRO to have access to any information necessary to perform his or her duties.
- 13.14 The CRO shall not have management or financial responsibility related to any operational business lines or revenue-generating functions. In this regard, the CRO shall also not serve as the chief operating officer, chief financial officer, chief internal auditor or in other senior management function outside the second line of defense.
- 13.15 The CRO shall report and have direct access to the board or its risk committee without impediment. The CRO shall have the ability to engage with the board and with senior management on key risk issues. Interaction between the CRO and the board and/or the board risk committee should occur regularly, and the CRO shall have the ability to meet with the board or the board risk committee without executive directors being present.
- 13.16 The appointment, dismissal and other changes to the CRO position shall be approved by the board. The bank or financial institution shall also disclose the reasons for such removal to the Bank of Zambia.

#### Chief Financial Officer

- 13.17 The chief financial officer, in addition to the requisite academic and professional qualification, shall be a member, in good standing, of a recognised national professional association of accountants.
- 13.18 The chief financial officer shall not discharge his duties as chief financial officer without the prior written approval of the Bank of Zambia.

#### Head of Compliance

- 13.19 Every bank or financial institution shall appoint a suitably qualified officer as head of the compliance function who shall be responsible for co-ordinating the identification and management of compliance risk.
- 13.20 In order to ensure security of tenure, the head of compliance may be removed or transferred only with the approval of the Board or through an internal administrative procedure in which it has been established that there was negligence in discharging the compliance function or other serious acts of omission and commissions in other financial or administrative matters.

#### Company Secretary

- 13.21 The company secretary of a bank or financial institution shall be a lawyer, or chartered accountant or chartered secretary or any person of similar capabilities that the Bank of Zambia may deem fit. The company secretary shall be an executive officer of the institution.
- 13.22 The company secretary shall provide the board as a whole and directors individually with detailed guidance on how they shall discharge their responsibilities.
- 13.23 The company secretary shall be responsible for facilitating the induction and continuing training of directors, and for assisting the chairperson of the board and the chief executive officer in developing the annual board plan and the administration of other strategic issues.
- 13.24 The company secretary shall be a central source of guidance and advice to the board, and to the bank or financial institution in general on matters of ethics and good corporate governance.

#### 14.0 RISK MANAGEMENT

##### *Principle X:*

A bank or financial institution shall have an effective and independent risk management function, which shall have sufficient stature, independence, resources and access to the board of directors or the risk committee of the board.

##### *Directives*

- 14.1 The board shall establish an independent risk management function, which shall be a key component of the bank's risk management architecture and shall be primarily responsible for overseeing risk-taking activities across the enterprise.
- 14.2 The enterprise-wide risk management function shall have authority within the organization to oversee the bank or financial institution's risk management activities. Key amongst the activities includes:
- 14.2.1 identifying material individual, aggregate and emerging risks;
  - 14.2.2 assessing these risks and measuring the bank or financial institutions's exposure to them;
  - 14.2.3 supporting the board in implementing, reviewing and approving the enterprise-wide risk governance;
  - 14.2.4 establishing a framework which includes the bank or financial institution's risk culture, risk appetite, risk appetite statement and risk limits;
  - 14.2.5 ongoing monitoring of the risk-taking activities and risk exposures to ensure that they are in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs (i.e. capital planning);
  - 14.2.6 establishing an early warning or trigger system for breaches of the bank's risk appetite or limits;
  - 14.2.7 influencing and, when necessary, challenging material risk decisions; and
  - 14.2.8 reporting to senior management and the board or board risk committee, as appropriate, on all these items, including but not limited to proposing appropriate risk-mitigating actions.



- 14.3 The board shall ensure that although risk managers may work closely with individual business units, the risk management function shall remain sufficiently independent of the business units and that it is not involved in revenue generation activities.
- 14.4 The board shall ensure that the bank or financial institution's risk management function shall have sufficient numbers of personnel who possess the requisite experience and qualifications, including market and product knowledge as well as command of risk disciplines. The staff should have the ability and willingness to effectively challenge business lines regarding all aspects of risk arising from the bank or financial institution's activities.

#### 15.0 RISK IDENTIFICATION, MONITORING AND CONTROLLING

##### *Principle XI*

Risks should be identified, monitored and controlled on an on-going basis institution-wide. The sophistication of a bank or financial institution's risk management and internal control infrastructure shall keep pace with changes to the bank or financial institution's risk profile, to the external environment and to changes in industry practice.

##### *Directives*

- 15.1 The board shall ensure that the bank or financial institution's risk governance framework includes policies, supported by appropriate control procedures and processes, designed to ensure that its risk identification, aggregation, mitigation and monitoring capabilities are commensurate with its size, complexity and risk profile.
- 15.2 The board shall ensure that risk identification processes encompass all material risks that the bank or financial institution is exposed to, both on- and off-balance sheet, and if the bank or financial institution belongs to a financial group, on a group-wide, portfolio-wise and business-line level. In order to perform effective risk assessments, the board and senior management, including the CRO, should, regularly and on an ad hoc basis, evaluate the risks faced by the bank or financial institution and its overall risk profile.
- 15.3 The risk assessment process shall include ongoing analysis of existing risks as well as the identification of new or emerging risks. Risks should be captured from all organisational units that originate risk. Concentrations associated with material risks should, likewise, be factored into the risk assessment.
- 15.4 The board shall ensure that risk identification and measurement should include both quantitative and qualitative elements including bank-wide views of risk relative to the bank or financial institution's external operating environment. The bank or financial institution should also have a method to identify and measure hard-to-quantify risks, such as reputation risk.
- 15.5 The board shall ensure that the bank or financial institution's internal controls are designed to assure that each key risk has a policy, process or other measure and that these are being applied and working as intended.
- 15.6 The board shall ensure that internal controls place reasonable checks on managerial and employee discretion in order to avoid actions beyond the authority of the individual.
- 15.7 The board shall ensure that the sophistication of the bank or financial institution's risk management infrastructure including, in particular, a sufficiently robust data, data architecture and information technology infrastructure – keep pace with developments such as balance sheet and revenue growth; increasing complexity of the business, risk configuration or operating structure.
- 15.8 The board shall ensure that the bank or financial institution has accurate internal and external data to identify and assess risk, make strategic business decisions and determine capital and liquidity adequacy.
- 15.9 The board and senior management shall give special attention to the quality, completeness and accuracy of the data used to make risk decisions. While tools such as external credit ratings or externally purchased risk models and data can be useful as inputs into a more comprehensive assessment, banks and financial institutions shall ultimately be responsible for the assessment of their risks.
- 15.10 Although banks or financial institutions may use risk measurement and modeling techniques in managing risk, these shall be used in addition to, but not as a replacement for qualitative risk analysis and monitoring. The risk management function shall keep the board and senior management apprised of the assumptions used in and potential shortcomings of the bank's or financial institution's risk models and analyses.
- 15.11 As part of its quantitative and qualitative analysis, the bank or financial institution shall utilize stress tests and scenario analyses to better understand potential risk exposures under a variety of adverse circumstances.
- 15.11.1 Internal stress tests shall cover a range of scenarios based on reasonable assumptions regarding dependencies and correlations. Senior management and, as applicable, the board shall review and approve the scenarios that are used in the bank's risk analyses.
- 15.11.2 Stress test programme results shall be periodically reviewed by the board or the board risk committee. Test results shall be incorporated into the reviews of the risk appetite, the capital adequacy assessment process, the capital and liquidity planning processes, and budgets. The risk management function shall suggest if and what action is required based on results.
- 15.11.3 The results of stress tests and scenario analyses shall also be communicated to, and given appropriate consideration by relevant business lines and individuals within the bank or financial institution.
- 15.12 Banks or financial institutions shall regularly compare actual performance against risk estimates (i.e. back testing) to assist in judging the accuracy and effectiveness of the risk management process and making necessary adjustments.

- 15.13 The board shall ensure that in addition to identifying and measuring risk exposures, the risk management function evaluates possible ways to mitigate against these exposures. In some cases, the risk management function may direct that risk be reduced or hedged to limit exposure. In other cases, such as when there is a decision to accept or take risk that is beyond risk limits (i.e. on a temporary basis) or take risk that cannot be hedged or mitigated, the risk management function shall report and monitor the positions to ensure that they remain within the bank or financial institution's framework of limits and controls or within exceptional approval.
- 15.14 The board shall ensure that the bank or financial institution has risk management and approval processes for new or expanded products or services, lines of business and markets, as well as for large and complex transactions that require significant use of resources or have hard-to-quantify risks. Banks or financial institutions shall also have review and approval processes for outsourcing bank or financial institution functions to third parties.
- 15.15 Where a bank or financial institution has subsidiaries or affiliates, the board shall put in place effective risk identification and measurement approaches in the subsidiaries and affiliates. Material risk-bearing affiliates and subsidiaries shall be captured by the institution-wide risk management system and should be a part of the overall risk governance framework.
- 15.16 Where a bank or financial institution is a subsidiary of a foreign bank or financial institution, the subsidiary boards and senior management shall remain responsible for developing effective risk management processes for their entities.
- 15.17 While parent banks or financial institutions are expected to conduct strategic, group-wide risk management and prescribe corporate risk policies, the boards of subsidiaries and their management shall have appropriate input to their local applications and in the assessment of local risks. Parent companies shall ensure that adequate tools and authorities are available to the subsidiary and that the subsidiary understands what reporting obligations it has to the parent.

#### 16.0 RISK COMMUNICATION

##### *Principle XII*

An effective risk governance framework requires robust communication within the bank or financial institution about risk, both across the organization and through reporting to the board and senior management.

##### *Directives*

- 16.1 The board shall ensure that there is ongoing communication about risk issues, including the bank or financial institution's risk strategy, throughout the bank or financial institution as this is a key tenet of a strong risk culture.
- 16.2 The board shall ensure that information within the bank or financial institution is communicated in a timely, accurate, concise and understandable manner to enable the board and senior management take informed decisions.
- 16.3 The board shall ensure that material risk-related ad hoc information that requires immediate decisions or reactions shall be promptly presented to senior management and the board, the responsible officers and, where applicable, the heads of control functions, so that suitable measures and activities can be initiated at an early stage. In this regard, the board shall ensure that suitable policies and procedures are established for this purpose.
- 16.4 The board shall ensure that reporting of risk is in a concise and meaningful manner. Additionally, it shall accurately communicate risk exposures and results of stress tests or scenario analyses and shall provoke a robust discussion of, for example, the institution's current and prospective exposures (particularly under stressed scenarios), risk/return relationships and risk appetite and limits. Reporting shall also include information about the external environment to identify market conditions and trends that may have an impact on the bank or financial institution's current or future risk profile.
- 16.5 The board shall ensure that risk reporting systems are dynamic, comprehensive and accurate, and that this shall not only occur at the disaggregated level (including risk residing in subsidiaries that could be considered significant), but shall also be aggregated to allow for an institution-wide or integrated perspective of risk exposures.
- 16.6 The board shall ensure that risk reporting systems are clear about any deficiencies or limitations in risk estimates, as well as any significant embedded assumptions (e.g. regarding risk dependencies or correlations).

#### 17.0 COMPLIANCE WITH LAWS AND REGULATIONS

##### *Principle XIII*

The board of directors, collectively and individually, should be aware of the laws, regulations and industry standards under which the bank or financial institution operates. The board should approve a compliance policy which should include a formal document establishing a permanent and effective compliance function. To provide effective oversight, the board is primarily responsible for overseeing the management of compliance risk.

##### *Directives*

- 17.1 The board shall, as part of the bank or financial institution's control functions, have a written compliance policy to manage its exposure to compliance risk.
- 17.2 The board shall ensure that the compliance policy, at a minimum, includes the following:
- 17.2.1 The role and responsibilities of the compliance function;
  - 17.2.2 Measures to ensure the independence of the compliance function;
  - 17.2.3 The relationship with other control functions, i.e. risk management and internal audit;
  - 17.2.4 The right of the compliance function to have access to information necessary for the function to carry out its responsibilities and the corresponding duty of bank or financial institution staff to co-operate in supplying this information;

- 17.2.5 The right of the compliance function to conduct investigations of possible breaches of the compliance policy and to appoint outside experts to perform this task if appropriate;
- 17.2.6 The right of the compliance function to be able to freely express and disclose its findings to senior management, and if necessary to the board of directors; and
- 17.2.7 The right of the compliance function to have direct access to the board of directors or a committee of the board.
- 17.3 The board shall establish a formal, permanent and effective compliance function, and this shall be provided for in the bank or financial institution's compliance policy.
- 17.4 The board shall appoint a compliance officer, who shall be a member of senior management and shall have overall responsibility for co-ordinating the identification and management of compliance risk.
- 17.5 The board shall implement processes that will ensure that it is informed, in a timely manner, of the banking laws and regulations, supervisory directives, code of banking practice, including changes thereto, as part of their induction, risk management processes and continuing education.
- 17.6 The board shall facilitate the development of a compliance culture within the bank or financial institution using relevant tools and techniques, such as key performance indicators that are relevant to compliance.
- 17.7 Senior management shall report to the board on the management of compliance risk, in order to assist the board members to make informed judgments on whether the bank or financial institution is managing its compliance risk effectively.
- 17.8 A bank or financial institution shall inform the Bank of Zambia when the head of compliance leaves his/ her position or is transferred and, if the head of compliance is leaving the position, the reasons for his or her departure.
- 17.9 The board or a committee of the board shall meet with the head of compliance, at least annually, to help the board to assess the extent to which the bank or financial institution is managing its compliance risk.
- 17.10 The chairperson of the board shall submit to the Bank of Zambia for each financial reporting period a compliance statement (*Appendix II*) certifying that the bank or financial institution has complied with the provisions of the law, regulations, directives and guidelines issued by the Bank of Zambia.

#### 18.0 REMUNERATION

##### *Principle XIV*

The bank or financial institution's compensation of directors, executives and staff should be transparent, fair and reasonable and should not encourage risky behaviour.

##### *Directives*

- 18.1 Every bank and financial institution shall have a clear policy on compensation which seeks to ensure the effective governance of the bank or financial institution's remuneration system and align it with prudent risk taking. The compensation policy should be disclosed in the annual report.
- 18.2 Every bank or financial institution shall appoint a Nominations and Remunerations Committee, consisting of non-executive and independent non-executive directors. The Committee shall be chaired by the chairperson of the board, and the chief executive officer may, at the invitation of the Committee, attend committee meetings to provide input when requested but shall not actively participate in the decision making process of the Committee.
- 18.3 The board of directors shall exercise good stewardship of the bank or financial institution's compensation practices and ensure that the design of the bank or financial institution's compensation system works in harmony with its risk management practices in order to curtail risky behaviour by staff.
- 18.4 The compensation system shall not be primarily controlled by the chief executive officer and management shall demonstrate independence when dealing with compensation of staff. The board shall ensure that the bank or financial institution has a formal framework for compensating staff.
- 18.5 To preserve the integrity of risk management, staff engaged in financial and risk control shall be independent, have appropriate authority and be compensated in a manner that is independent of the risk areas they oversee.
- 18.6 The bank or financial institution shall ensure that compensation must be adjusted for all the risks that employees take on its behalf. This shall take into consideration both prospective risks and realised risk outcomes. Both quantitative measures and human judgment shall be applied when determining risk adjustment.
- 18.7 The board shall consider that, as profits and losses of different activities are realized over different periods of time, compensation payments shall not be finalized over short periods of time when the risks are realized over longer periods. Management shall question pay-outs for income that cannot be realized or whose likelihood of realization remains uncertain at the time of pay-out.
- 18.8 A bank or financial institutions shall disclose in the annual report clear, and comprehensive information about their compensation practices to facilitate constructive engagement by all stakeholders. This shall include disclosure of the name, composition and mandate of the board committee that is responsible for remuneration.

#### 19.0 INTERNAL AUDIT

##### *Principle XV*

An effective internal audit function provides independent assurance to the board of directors and senior management on the quality and effectiveness of a bank or financial institution's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organisation and its reputation.

*Directives*

- 19.1 Every bank or financial institution shall have a permanent and independent internal audit function which shall have sufficient standing and authority within the bank or financial institution, thereby enabling internal auditors to carry out their assignments with objectivity.
- 19.2 Internal auditors shall act with integrity, in line with the international standards for the professional practice of internal audit as issued by a recognised standards setting body for internal auditors.
- 19.3 Each bank or financial institution shall have an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the bank or financial institution in a manner that promotes an effective internal audit function.
- 19.4 At a minimum the internal audit charter shall include the following:
- 19.4.1 Internal audit's role and its responsibilities for corporate governance, risk management, compliance and all elements of the internal control framework;
  - 19.4.2 That the chief internal auditor shall operate independently of senior management and have unrestricted access to the audit committee, employees, facilities and records of the bank or financial institution;
  - 19.4.3 The chief internal auditor shall report functionally to the audit committee of the board and administratively to the chief executive officer of the bank or financial institution.
  - 19.4.4 That the chief internal auditor can request to meet the audit committee without senior management being present.
  - 19.4.5 That the chief internal auditor shall meet with the audit committee at least once a year.
- 19.5 The internal audit function shall independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes created by the business units and support functions and provide assurance on these systems and processes.
- 19.6 The scope of the internal audit function shall extend to every entity and activity of the bank or financial institution, including outsourced activities.
- 19.7 The board of a bank or financial institution shall ensure that the internal audit adopts a risk-based approach in the development of its audit programmes and the annual work plan.
- 19.9 The board audit committee shall approve the internal audit annual work plan which shall include for each assignment, the scope, objectives, timing and resources needed to carry out the assignment.
- 19.9 The chief internal auditor shall ensure that the results of internal audit assignments are communicated accurately and timely and that they are followed up with the management of the audited unit to check on the timely implementation of corrective actions.
- 19.10 Internal auditors shall not assume any operational responsibilities.
- 19.11 The board of directors shall remain ultimately responsible for the internal audit function regardless of whether internal audit activities are outsourced.
- 19.12 A bank or financial institution shall not outsource internal audit activities to its own external audit firm.
- 19.13 The internal audit function shall be subjected to a quality assurance review both internal and external, to ensure the function remains effective. The internal quality assurance review shall be conducted annually while the independent external quality assurance review shall be undertaken at least once every three years. The results of the quality assurance work shall be presented to the audit committee.

## 20.0 EXTERNAL AUDITORS

*Principle XVI*

The board shall ensure the quality and independence of the external audit process.

*Directives*

- 20.1 The audit committee shall acquaint itself fully with the responsibilities of external auditors and be rigorous in its selection of auditors on professional merit. Any auditor so appointed shall be licensed by a recognised national body of accountants.
- 20.2 The board shall satisfy itself that there is no relationship between the auditor and the bank or financial institution or any related person that could compromise the independence of the auditor, and shall require confirmation of this from the auditor.
- 20.3 The board shall include in the annual report the amount of fees paid to the auditors by the institution and its affiliates and clearly distinguish audit and non-audit fees.
- 20.4 Where an external auditor performs audit and non-audit work, the board shall explain, in the annual report, the nature of the non-audit work undertaken by the auditor, and why such work did not compromise the auditor's independence.
- 20.5 An external auditor shall assess and make a comment on the following:
- 20.5.1 Assessment of the adequacy of risk management, including the internal control system and the internal audit and compliance functions;
  - 20.5.2 Analysis of the bank's exposure to credit risk/counterparty risk, market risk, interest rate risk, settlement risk, foreign exchange risk, liquidity risk, profitability risk and operational risk;
  - 20.5.3 Analysis of the amount and composition of the bank's own funds that have to be reported to the supervisor;

- 20.5.4 Assessment of the appropriateness of procedures for the preparation of prudential returns;
- 20.5.5 Assessment of the appropriateness of measures taken by the bank or financial institution to determine the level of own funds, its liquidity ratio and its solvency ratio;
- 20.5.6 Assessment of the liquidity position and the liquidity management system of the bank;
- 20.5.7 Description and assessment of the provisions for preventing money laundering and terrorist financing; and
- 20.5.8 Description and assessment of the provisions on conduct of business rules.
- 20.6 The audit committee shall ensure that it obtains a management letter from an external auditor, the contents of which shall be reviewed, acted upon and incorporated into the chief internal auditor's annual work plan.
- 20.7 The independent non-executive board members shall meet in the absence of management at least annually with the external auditor and the heads of the internal audit, compliance, risk and legal functions.
- 20.8 The external audit of a bank or financial institution shall not be performed by the same audit engagement partner for more than three consecutive years. The individual may not serve as engagement partner again until a period of at least two years has elapsed.
- 21.0 REPORTING AND DISCLOSURE

*Principle XVII*

The board shall demand integrity both in financial reporting and in timeliness of disclosures on the bank or financial institution's affairs.

*Directives*

- 21.1 The board shall ensure that the financial statements of a bank or financial institution present a true and fair statement of its affairs as at the end of the financial reporting period, the profit or loss and cash flows for the reporting period.
- 21.2 The board shall attest in a statement to the Bank of Zambia on the adequacy of accounting records and effectiveness of the system of governance and risk management (As per appendix III), and this statement shall also be included in the annual report.
- 21.3 The annual report shall include a statement confirming that appropriate accounting policies supported by reasonable and prudent judgments and estimates have been used consistently.
- 21.4 The annual report shall state whether the International Financial Reporting Standards have been adhered to or if there has been any departure in the interest of fair presentation, this shall not only be disclosed and explained but quantified.
- 21.5 The board of directors shall state in the annual report whether the bank or financial institution has complied with the Bank of Zambia's Corporate Governance Directives.
- 21.6 The board of directors shall ensure that the external audit firm shall not be engaged for a period exceeding of ten (10) years but may be eligible for re-engagement after a cooling off period of at least two (2) years.

22.0 TRANSPARENCY

*Principle XVIII*

Transparency is essential for sound and effective corporate governance. Transparency will ensure that shareholders, other stakeholders and market participants effectively monitor and properly hold the board of directors and senior management accountable.

*Directives*

- 22.1 A bank or financial institution shall have a disclosure policy which shall outline the substance, frequency and mode of the bank's disclosures to the public.
- 22.2 The bank or financial institution shall ensure that the disclosures include both qualitative and quantitative information on a bank or financial institution's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related parties, transactions with related parties, accounting policies, and basic information on its business objectives, management, governance arrangements and compensation. The scope and content of the information provided and level of disaggregation shall be commensurate with the size and risk profile of the bank or financial institution.
- 22.3 The bank or financial institution shall disclose relevant and useful information proportionate to the size, complexity, structure, economic significance and risk profile of the bank or financial institution that supports the key areas of corporate governance and at a minimum such information shall include:
  - 22.3.1 the bank or financial institution's objectives;
  - 22.3.2 organizational and governance structures (board and senior management structures with their qualifications and experience) and policies;
  - 22.3.3 major share ownership and voting rights; and
  - 22.3.4 its incentive and compensation policy.
- 22.4 A bank or financial institution that is involved in complex and non-transparent structures, such as special purpose vehicles, shall disclose adequate information regarding the purpose, strategies, structures, risks and controls around such structures.
- 22.5 A bank or financial institution that has a complex shareholding structure shall disclose the purpose of such structures and information on the beneficial owners of the shares in the bank or financial institution.
- 22.6 A bank or financial institution shall ensure that all disclosures are clear, accurate and presented in a manner that is understandable to supervisors, shareholders, depositors, other relevant stakeholders and market participants.

## 23.0 ETHICAL STANDARDS AND CORPORATE VALUES

*Principle XIX*

The board shall actively cultivate a culture in which ethical conduct is promoted and embraced, and which reinforce appropriate norms for responsible and ethical behaviour. These norms are especially critical in terms of a bank or financial institution's risk awareness, risk-taking and risk management.

*Directives*

- 23.1 In order to promote a sound corporate culture, the board shall take the lead in establishing 'the tone at the top' by:
- 23.1.1 setting and adhering to corporate values for itself, senior management and other employees that create expectations that all business should be conducted in a legal and ethical manner;
  - 23.1.2 promoting risk awareness within a strong risk culture, conveying the board's expectation that it does not support excessive risk-taking and that all employees are responsible for helping ensure that the bank or financial institution operates within the agreed risk appetite and risk limits;
  - 23.1.3 ensuring that appropriate steps are taken to communicate throughout the bank or financial institution the corporate values, professional standards or codes of conduct it sets, together with supporting policies; and
  - 23.1.4 ensuring that employees, including senior management, are aware that appropriate disciplinary actions or other actions will follow unacceptable behaviors and transgressions.
- 23.2 The board shall ensure that senior management implements policies that prohibit or limit activities and relationships that diminish the quality of corporate governance, such as:
- 23.2.1 lending to directors, employees or officers from affiliated entities contrary to the insider lending limits stipulated in the Banking and Financial Services (Insider Lending) Regulations;
  - 23.2.2 providing preferential treatment to insiders, for example, lending contrary to market terms;
  - 23.2.3 improper use of a bank or financial institution's property and/or information;
  - 23.2.4 unfair dealing with customers/clients, employees, suppliers, competitors and other stakeholders; or
  - 23.2.5 allowing the delinquency of loans extended to board members.
- 23.3 The board should develop policies that encourage employees to freely communicate concerns about illegal, unethical or questionable practices to the board or an independent committee thereof, as well as to senior management, without fear of reprisal. This process shall include an option for employees to make their concerns known anonymously.
- 23.4 The board shall ensure that a code of ethics is developed, stipulating specific guidelines, ethical values or standards guiding the bank or financial institution in its interaction with its internal and external stakeholders.
- 23.5 The code of ethics shall set out explicit expectations for ethical decision making and personal behaviour by all board members and employees with respect to conflicts of interest, which include circumstances such as a director participating in board discussion and voting on matters in which the director has a personal interest.
- 23.6 The board shall ensure that:
- 23.6.1 The code explicitly disallows behaviour that is improper, or illegal such as financial misreporting, money laundering, fraud, anti-competitive practices, bribery and corruption or the violation of consumer rights or any behaviour that could expose the bank or financial institution to reputation risk;
  - 23.6.2 the code of ethics includes measures for dealing with breaches of the code;
  - 23.6.3 it reviews the code at least annually;
  - 23.6.4 management has in place a system to implement the code of ethics and report to the board on the record of compliance at least annually; and
  - 23.6.5 management publishes and communicates the code of ethics to all employees.
- 23.7 The board shall ensure that the annual report includes information about compliance by the bank or financial institution to the code of ethics, including any action taken to address serious instances of unethical behaviour.
- 23.8 Every bank or financial institution shall avail a copy of its code of ethics to the Bank of Zambia on request.

## 24.0 STAKEHOLDER INTERESTS

*Principle XX*

The board shall ensure that stakeholders are engaged in such a manner as to increase and maintain trust and confidence in the bank or financial institution.

*Directives*

- 24.1 The board shall identify all its stakeholders and ensure that it takes into account all their legitimate expectations in its decision making processes and that it engages them in a manner that creates and maintains trust and confidence in the bank or financial institution.
- 24.2 The board shall have clear written policies to guide the bank or financial institution in its relationships with stakeholders.
- 24.3 The board shall regularly assess compliance with these policies to ensure that the conduct towards stakeholders complies with the law and the bank or financial institution's code of ethics and that it is within broadly accepted social, environmental, and ethical norms.

- 24.4 A bank or financial institution shall include in its annual report information of how they have served the interests of their stakeholders.

#### 25.0 BOARD RELATIONSHIP WITH SUPERVISORS

##### *Principle XXI*

The Board shall maintain an open and transparent relationship with the Bank of Zambia which promotes mutual trust and confidence.

##### *Directives*

- 25.1 The board shall:
- 25.1.1 understand the regulatory environment within which it operates;
  - 25.1.2 require appropriate follow-up on supervisory directives and recommendations arising from any deficiencies identified by the Bank of Zambia in the course of their work, including following up with senior management to determine if weaknesses identified are indicators that similar problems may exist elsewhere in the bank or financial institution;
  - 25.1.3 consider regulatory findings and how management addresses them in its on-going evaluation of senior management, recognising that the primary responsibility for identifying weaknesses rests with the board and senior management; and
  - 25.1.4 be open to sharing with supervisors, information pertaining to the Bank of Zambia's oversight of the institution.
- 25.2 The board and each director individually shall immediately report in writing to the Bank of Zambia if they have reason to believe that:
- 25.2.1 the bank or financial institution may not be able to conduct its business as a going concern;
  - 25.2.2 the bank or financial institution appears to be or is likely in the near future to be unable to meet all or any of its obligations as they fall due; and
  - 25.2.3 the bank or financial institution does not or may not be able to meet its capital requirements as prescribed in the Banking and Financial Services Act.
- 25.3 The board shall notify the Bank of Zambia as soon as it becomes aware of any material and bona fide information that may negatively affect the fitness and propriety of a director or member of senior management.

#### 26.0 SANCTIONS

A person who contravenes the provisions of these Directives will be considered by the Bank of Zambia as committing or pursuing an act or course of conduct that constitutes an unsafe or unsound practice under section 77 of the Banking and Financial Services Act.

#### 27.0 EFFECTIVE DATE OF DIRECTIVES

These Directives shall come into force upon publication in the Government Gazette and banks and financial institutions shall ensure full compliance with the provisions herein within six (6) months from the date of promulgation.

### APPENDIX 1

#### RESPONSIBILITIES OF COMMITTEES

At a minimum, responsibilities of the various committees shall include the following:

##### *Board Audit Committee*

- Provide oversight over the bank's financial reporting process;
- Provide oversight of the institutions internal and external auditors, approving their appointment, compensation and dismissal;
- Review and approve audit scope and frequency;
- Receive audit reports and ensuring that senior management is taking appropriate corrective actions in a timely manner to address control weaknesses, non-compliance with laws and regulations and other problems identified auditors.
- Satisfy itself that accounting principles, policies and practices are adequate to ensure resources are safeguarded; laws are followed; reliable data is disclosed; and internal control systems are adequate.
- The appointment or dismissal of external auditors should only be made by a decision of the independent, non-executive audit committee members.

##### *Board Risk Management Committee*

- Provide oversight on senior management in the management of credit risk, market risk, liquidity risk, operational risk, legal risk, compliance risk reputational risk, strategic risk and other risk that the institution is exposed to.
- Advising board on the institutions overall current and future risk tolerance/appetite and strategy and for overseeing senior management's implementation of that strategy. This should include strategies for capital and liquidity management as well as credit, market, operational, compliance, reputational and other risks of the bank.
- In order to enhance effectiveness of the committee, it should receive formal and informal communication from the risk management function and the Chief Risk Officer and should, where appropriate receive external expert advice, particularly in relation to proposed strategic transactions such as mergers and acquisitions.

*Loans Review Committee*

- Review and approve lending strategies and policies including appropriate loan limits;
- Approve asset quality standards with respect to all lending areas and monitor concentration of credit by product, industry and geographic areas;
- Approve appropriate general underwriting guidelines with respect to all lending areas and ensure institutional adherence to such guidelines;
- Review institution's lending activities and ensure compliance with approved internal policies and all applicable laws;
- Review and if appropriate, approve all loans recommended by the management credit committee and where appropriate approve exceptions to defined policies;
- Review compliance exceptions matters arising from supervisory, internal audit and external audit findings that pertain to the banks credit portfolio and monitors how they are being addressed;
- Review the bank's credit quality including but not limited to trends in loan quality, classification of loans, charge-offs and delinquencies.

*Nominations and Remuneration Committee*

- Identify and assist with the recruitment of competent and qualified candidates for board membership, chairpersons of the board, and of the boards committees and of committee members and members of senior management;
- Establish a formal selection criteria for prospective directors and participate in the evaluation of board and senior management effectiveness;
- Assess the effectiveness of the board and direct the process of renewing and replacing board members;
- Recommend to the board to accept or decline any tendered resignation of a director;
- Ensure a review at least annually of incumbent directors' performance and attendance at board and committee meetings;
- Ensure that the board members receive thorough orientation on board governance and key strategic issues facing the institution;
- Review and reassess the adequacy of the institution's corporate governance principles and practices for the board of directors at least annually and recommend proposed changes to the board;
- Provide oversight of remuneration and compensation of directors, senior management and other key personnel;
- Provide oversight of the remuneration system's design and operation and ensure that it is consistent with the institution's culture, long-term objectives, business and risk strategy, performance and control environment; and
- Make recommendations to the board regarding the use of incentive compensation plans and equity based remuneration plans.

## APPENDIX II

**Annual Compliance Statement in Accordance with the Paragraph 17.10 of the Corporate Governance Directives**  
*Statement of Compliance*

Name of Institution: .....

Reporting Period: .....

I, .....[name]....., the Chairperson of the Board of Directors of ..... [name of institution] confirm that to the best of my knowledge, that:

- (i) \*the ..... [name of institution] has materially complied with the provision of the law, regulations, guidelines issued by the Bank of Zambia, supervisory directives as contained in Bank of Zambia inspection findings, and codes of industry practice as contained in the Code of banking practice.
- (ii) \* the ..... [name of institution] has failed to materially comply with the provisions of the law, regulations, guidelines issued by the Bank of Zambia, supervisory directives as contained in Bank of Zambia inspection findings, and codes of industry practice as contained in the Code of banking practice and for the reasons identified in the Report of material non-compliance annexed to this statement.

[\*Delete as appropriate]

Signed.....  
*Chairperson of the Board*

Dated.....

DR. B. NG'ANDU,  
*Deputy Governor—Operations*





