# ARRANGEMENT OF GUIDELINES

**SHORT TITLE**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>INTRODUCTION</td>
</tr>
<tr>
<td>2.0</td>
<td>PURPOSE OF CORPORATE GOVERNANCE IN THE SUPERVISORY PROCESS</td>
</tr>
<tr>
<td>3.0</td>
<td>DEFINITIONS</td>
</tr>
<tr>
<td>4.0</td>
<td>APPLICATION OF THESE GUIDELINES</td>
</tr>
<tr>
<td>5.0</td>
<td>SHAREHOLDERS</td>
</tr>
<tr>
<td>6.0</td>
<td>ETHICAL STANDARDS &amp; CORPORATE VALUES</td>
</tr>
<tr>
<td>7.0</td>
<td>BOARD RESPONSIBILITIES AND COMPOSITION</td>
</tr>
<tr>
<td>8.0</td>
<td>BOARD COMMITTEES</td>
</tr>
<tr>
<td>9.0</td>
<td>EVALUATION OF BOARD PERFORMANCE</td>
</tr>
<tr>
<td>10.0</td>
<td>ROLES OF SENIOR MANAGEMENT</td>
</tr>
<tr>
<td>11.0</td>
<td>REPORTING AND DISCLOSURE</td>
</tr>
<tr>
<td>12.0</td>
<td>REMUNERATION</td>
</tr>
<tr>
<td>13.0</td>
<td>RISK MANAGEMENT</td>
</tr>
<tr>
<td>14.0</td>
<td>INTERNAL AUDIT</td>
</tr>
<tr>
<td>15.0</td>
<td>INTERNAL CONTROL COMPLIANCE</td>
</tr>
<tr>
<td>16.0</td>
<td>EXTERNAL AUDIT</td>
</tr>
<tr>
<td>17.0</td>
<td>STAKEHOLDER INTERESTS</td>
</tr>
<tr>
<td>18.0</td>
<td>BOARD RELATIONSHIP WITH SUPERVISORS</td>
</tr>
<tr>
<td>19.0</td>
<td>TRANSPARENCY</td>
</tr>
</tbody>
</table>

**Appendices**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Responsibilities of Committees</td>
</tr>
<tr>
<td></td>
<td>Board Audit Committee</td>
</tr>
<tr>
<td></td>
<td>Loans Review Committee</td>
</tr>
<tr>
<td></td>
<td>Risk Management Committee</td>
</tr>
<tr>
<td></td>
<td>Remuneration Committee</td>
</tr>
<tr>
<td></td>
<td>Nominations Committee</td>
</tr>
</tbody>
</table>

---

The document appears to outline various sections and appendices related to corporate governance guidelines, likely for regulatory or compliance purposes. Each section is likely to cover specific aspects such as introduction, purpose, definitions, application, shareholders, ethical standards, corporate values, board responsibilities, committee roles, management roles, reporting, disclosure, remuneration, risk management, audit, control compliance, external auditors, stakeholder interests, transparency, and responsibilities of committees.
SHORT TITLE

These Guidelines are issued pursuant to Section 125 of the Banking and Financial Services Act, Chapter 387 of the Laws of Zambia. These Guidelines may be cited as the Banking and Financial Services (Corporate Governance) Guidelines, 2006.
1.0 INTRODUCTION

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 (persons other than a bank, conducting a financial service business which includes receiving deposits from the public but does not include chequing accounts and current account deposits), the process and structure define the division of power and establish mechanisms for achieving accountability between the board of directors, management and shareholders, while protecting the interests of depositors and taking into account the effects of such processes on other stakeholders, such as creditors, employees, customers and the community.

Banks and financial institutions hereafter referred to as ‘the institutions’, occupy a special position of trust in the national economy and their corporate 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, financing to commercial enterprises and access to the payment system. Increasing globalization of financial markets, emergence of conglomerate structures, technological advances and innovations in financial products have added to the complexity of risk management in the financial sector. 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 these Guidelines which include: discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

These Guidelines set forth a broad framework of fundamental corporate governance principles to guide the actions of the directors and managers of the 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. Effective oversight is also essential for the maintenance of an efficient and cost-effective supervisory system. Effective oversight 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 meet its supervisory mandate. In addition, 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.

The Bank of Zambia supervises licensed institutions to assess their condition and monitor their compliance with applicable laws. This is carried out through a risk-based supervision framework. The Bank of Zambia rates the institutions using comprehensive rating criteria and key amongst these is the quality of oversight and control provided by the board of directors and senior management.

3.0 DEFINITIONS

In these Guidelines, 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 Section 30 of the Banking and Financial Services Act;

‘chief executive officer’ means the person responsible, under the immediate authority of the board of directors, for the conduct of the business of an institution,

‘chief financial officer’ means the person responsible for maintaining the accounts and related records of an institution;

‘executive director’ means a person who is involved in the day-to-day management of an institution and/or is in full time salaried employment of the institution or any of its subsidiaries or affiliates and at the same time sits on the board of directors.

‘independent non-executive director’ means a person 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 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 institution or the group in an executive capacity;
(iv) is not a professional advisor to the institution or the group other than in a director capacity;
(v) is not a significant customer or supplier of the institution;
(vi) has no significant contractual relationship with the 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 Statutory Instrument No. 97 of 1996, The Banking and Financial Services (Insider Lending) Regulations, 1996.

‘institution’ shall mean a person other than a bank conducting a financial service business which includes receiving deposits from the public but does not include chequing account and current account deposits;

‘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 objectives such as effectiveness and efficiency of operations, 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 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 person not involved in the day-to-day management and not a full time salaried employee of the institution or any of its subsidiaries and affiliates and sits on the board.

‘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 GUIDELINES

These Guidelines shall apply to all banks and financial institutions operating in Zambia.
5.0 SHAREHOLDERS

Principle I

Shareholders of the institutions shall jointly and severally protect, preserve and actively exercise their supreme authority over the institution in general meetings. The board shall foster constructive relationships with shareholders that encourage them to engage constructively with the respective entities.

Guidelines

5.1 The board shall have clear policies for shareholder relations and at least annually review practices, aimed at clearly communicating the goals, strategies and achievements of the institution.

5.2 The board shall facilitate, when deemed necessary by the shareholders, questioning of external auditors on the auditors' opinion during the annual general meeting or extraordinary meetings.

5.3 Shareholders shall ensure that only competent and reliable persons who can enrich and add value to the institution are elected or appointed to the board of directors.

5.4 Shareholders shall ensure that the board is constantly held accountable and responsible for the efficient and effective governance of the institution.

5.5 Shareholders shall change the composition of a board that does not perform to expectation or in accordance with the mandate of the institution.

6.0 ETHICAL STANDARDS & CORPORATE VALUES

Principle II

The board of directors, in keeping with their responsibilities to the shareholders and other stakeholders, is committed to the achievement of business success and the enhancement of long-term shareholder value with the highest standards of integrity and ethics. Each director, as well as each member of senior management, is therefore expected to lead by example in a culture that emphasizes trust, integrity, honesty, judgment, respect, responsibility and accountability.
Guidelines

6.1 The board shall ensure that senior management implements strategic policies and procedures that are designed to promote good and acceptable ethical behaviour.

6.2 The board shall ensure that senior management implements policies that prohibit or appropriately limit activities and relationships that diminish the quality of corporate governance, such as:

6.2.1 Lending to directors and employees or officers from affiliated companies contrary to insider lending limits stipulated in Statutory Instrument No 97 of 1996, The Banking and Financial Services (Insider Lending) Regulations, 1996;

6.2.2 Providing preferential treatment to insiders, for example, lending contrary to market terms;

6.2.3 Improper use of a bank’s property and/or information;

6.2.4 Unfair dealing with customers/clients, employees, suppliers, competitors and other stakeholders; or

6.2.5 Allowing the delinquency of loans to board members.

6.3 The board shall ensure that a policy is in place that encourages 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.

6.4 The board of every institution shall adopt a written code of ethics that sets 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.

6.5 The board shall ensure that;

6.5.1 every code of ethics includes measures for dealing with breaches of the code;

6.5.2 it reviews the code of ethics at least annually;
6.5.3 management has in place a system to implement the institution’s code of ethics and to report to the board on the record of compliance at least annually;

6.5.4 management communicates the institution’s code of ethics to all employees and provides employee training after every review.

6.6 An institution shall publish its code of ethics in form of a booklet and on its website.

6.7 The annual report shall include information about the steps taken to comply with the code, including as appropriate any serious instances of unethical behaviour and any action(s) taken.

6.8 Every institution shall avail a copy of its code of ethics to the Bank of Zambia on request.

6.9 Directors and officers who have an interest in a transaction to which the institution is an actual or potential party are required to disclose their interest to the board. It is the responsibility of directors to scrutinize their transactions and outside business interests and relationships and to make immediate disclosure in writing of any potential conflicts. Disclosure is to be made as soon as the director becomes aware of the conflict. This interest which encompasses circumstances such as a director participating in board discussion and voting on matters in which the director has personal interest can include but is not limited to the following:

6.9.1 Being the other party to the contract;

6.9.2 Acting as a representative or agent of the other party;

6.9.3 Being a shareholder or serving as a director, trustee, partner or employee of the other party;

6.9.4 Being a financier of the other party;

6.9.5 Having a close relation such as a spouse, son or daughter who is any of the above; or

6.9.6 Having a close relation in a senior management position.

In addition to any disclosures made above, each director at the beginning of each financial year, will 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.
6.10 For a transaction undertaken by a director to be valid, a majority of the disinterested directors shall approve the transaction.

6.11 An institution shall ensure that all information addressed to clients or potential clients, such as information about the nature and cost of services provided or recommendations regarding financial instruments and investment strategies, are clear, fair and not intentionally misleading.

7.0 BOARD RESPONSIBILITIES AND COMPOSITION

Principle III

The board of directors’ role is to oversee the proper functioning of the institution. In order to achieve this, the board shall have clear, well-defined and understood responsibilities. There shall be a balance of skills, knowledge, experience and perspectives among directors so that the board works effectively to ensure the long-term safety and soundness of the institution.

Guidelines

7.1 The board shall:

7.1.1 Have a formal charter that sets out its responsibilities, which shall be disclosed in summary in the annual report. A charter shall, at a minimum, confirm the board’s responsibility for the adoption of strategic plans, the monitoring of operational performance and management. The charter shall allow the board to determine appropriate policies and processes to ensure the integrity of the institution’s risk management practices and internal controls, communications policy, and director selection, orientation and evaluation;

7.1.2 Retain full and effective control over the institution and be responsible for monitoring management in respect of implementation of the board’s plans and strategies;

7.1.3 Allocate time and resources for directors to acquire and retain a sound understanding of their responsibilities and this shall include appropriate induction-training for new appointees;

7.1.4 Have rigorous formal processes for evaluating its performance along with that of board committees and individual directors;
7.1.5 Give strategic direction to the institution, appoint the chief executive officer and ensure that succession is planned throughout the organisation;

7.1.6 Ensure that the institution complies with all relevant laws, and codes of business practice, and that it communicates with its shareholders and relevant stakeholders openly and promptly;

7.1.7 Ensure that management maintains an effective compliance function that routinely monitors adherence to rules, regulations and policies to which the institution is subject and ensures that any deviations are reported to an appropriate level of management or, if necessary, the board;

7.1.8 Have unrestricted access to all the institution’s information, records, documents and property;

7.1.9 Have an agreed procedure, and access to budget resources, to enable directors, if necessary, to obtain independent professional advice at the institution’s expense;

7.1.10 Identify and monitor the non-financial aspects relevant to the business of the institution including reputational risk; and

7.1.11 Ensure that senior management implements policies to identify, prevent or manage and disclose as appropriate the conflicts of interest which may arise as a result of its affiliation or transactions with affiliated entities.

7.2 An institution’s board shall have a majority of non-executive directors and shall include directors who meet the criterion of ‘independent non-executive’ directors so as to safeguard the stakeholders’ interests.

7.2.1 The chairperson of every institution shall be an independent non-executive director. No director of an institution shall simultaneously hold the roles of board chairperson and chief executive (or equivalent).

7.2.2 The chairperson shall be responsible for fostering a constructive governance culture and applying appropriate governance principles among the directors and with management.

7.2.3 Procedures for appointments to the board shall be formal and transparent, and be a matter for the board as a whole, assisted by the nominations committee. Selection and appointment of directors, a majority of whom shall be resident in Zambia, shall
be through rigorous formal processes designed to give the board a range of relevant skills and experience.

7.2.4 There shall be an appropriate balance of power and authority on the board, such that no one individual or group of individuals shall dominate the board’s decision making process.

7.2.5 The nominations committee shall constitute only non-executive directors, of whom the majority shall be independent, and chaired by the board chairperson.

7.2.6 The nominations committee shall ascertain whether potential new directors are suitable for the position and meet the requirements of Section 31(1) of the Banking and Financial Services Act.

7.2.7 Board continuity, subject to performance and eligibility for re-election, is imperative, and a programme ensuring a staggered replacement of directors shall be put in place by the board to the extent that this is not already regulated.

7.2.8 The annual report of institutions shall include information on the name, age, experience, education, affiliation, and committee membership, of each director. The reports should also identify which directors are independent, and include the respective dates of the board members’ appointments and their percentage shareholding in the institution and other companies.

7.2.9 To avoid conflict of interest with their existing audit clients, practicing accountants shall not be appointed as directors of an institution.

7.2.10 Directors are discouraged from appointing alternate directors, as they shall be committed personally to the board in directing management of an institution. An alternate director, in his capacity as a proxy director, may not be able to contribute effectively to the deliberations of the board.

7.2.11 Every director shall exercise all efforts to attend all board meetings of the institution. The duty of care requires that a director discharges his or her duties and responsibilities effectively. At its annual general meeting, each institution shall be required to review the suitability of every director who has failed to attend at least 75% of board meetings. Attendances shall be disclosed in the annual report.
7.2.12 A director on the board shall not be a member on more than six (6) boards of other companies.

7.2.13 Independent non-executive directors shall not be considered independent after serving on the board for a period of ten (10) years.

8.0 BOARD COMMITTEES

Principle IV

*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 preferably be made up of non-executive directors. The inclusion of management on these committees shall be the exception rather than the rule, to reinforce the independence of the board. Management may, however, be invited to provide input on any matter that is of interest to the board.

Guidelines

8.1 At a minimum each board shall ensure the following committees are in place: Audit Committee, Risk Management Committee, and Loans Review Committee as set out in the Appendix. In addition, each board shall endeavour to have the following committees: Nominations Committee and Remuneration Committee, or a combination of the two.

8.2 Every board committee shall have a clear, formal 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.

8.3 The summary of the charter and membership of each board committee shall be published in the annual report.

8.4 Proceedings of committee meetings shall be reported back to the board to allow the other directors to be informed and seek clarification from the committee members if so desired.

8.5 All board committees shall preferably be chaired by an independent non-executive director, who may be the board chairperson.
8.6 All board committees shall be free to take independent, external professional advice as and when deemed necessary at the institution’s cost.

8.7 All board committees shall be subjected to regular evaluation by the board to ascertain their performance and effectiveness. Board committee charters shall be reviewed annually and modified when necessary.

8.8 The board shall consider occasional rotation of members and the chairperson of all board committees taking into account the specific experience and knowledge required to sit on a particular committee.

9.0 EVALUATION OF BOARD PERFORMANCE

Principle V

Self-evaluation is a proactive, 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 and any actions to be taken shall be discussed by the full board.

Guidelines

9.1 The board, through its nominations committee, shall review its required mix of skills and experience and other qualities such as diversity in order to assess its effectiveness. Such review shall be by means of peer and self-evaluation of the board as a whole, its committees and the contribution of each and every director including the chairperson.

9.2 The evaluation shall be conducted annually, and every institution shall be required to disclose in the annual report that this has been done. The report on the board and directors’ effectiveness shall be submitted to the Bank of Zambia on request.

9.3 The review and evaluation shall include, among other things, an assessment of the board’s:

9.3.1 Composition and independence;
9.3.2 Performance against its objectives at the beginning of the year;
9.3.3 Performance against the board charter;
9.3.4 Effectiveness in the institution’s strategic direction;
9.3.5 Response to problems and crises;
9.3.6 Responsiveness to shareholders’ and stakeholders’ concerns;
9.3.7 Maintenance and implementation of the board's governance principles; and
9.3.8 Access to and review of information from management and the quality of such information.

10.0 ROLES OF SENIOR MANAGEMENT

Principle VI

*It is the responsibility of management, under the direction of the chief executive officer, 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.*

Guidelines

10.1 Senior Management

10.1.1 Senior management shall have the necessary skills to manage the business under their oversight and have appropriate control over the key individuals in these areas.

10.1.2 Senior management shall implement strategies and polices approved by the board.

10.1.3 Senior management shall ensure that strategies and polices are communicated to all relevant staff.

10.1.4 Senior management shall ensure adequate segregation of duties in order to prevent conflicts of interest.

10.1.5 Senior management should provide the board with timely, relevant, and complete reports on the implementation of business strategy.

10.1.6 Senior management should be held liable for false or misleading statements to the board, staff, and regulators.
10.2 Chief Executive Officer

10.2.1 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.

10.2.2 The chief executive officer shall be subjected to a fit and proper test by the Bank of Zambia in the same manner as is recommended for all new director appointments.

10.2.3 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, state of internal controls, requirements of legislation, as well as current issues and policies affecting the financial sector.

10.2.4 Where the chief executive officer is absent, an institution shall be required to provide the Bank of Zambia with details of the person appointed to act in that position. The person so nominated shall be fully acquainted with the affairs of the institution and shall be able to act promptly and with authority, on matters affecting the institution.

10.2.5 An institution shall not make any public announcement about any proposed appointment of the chief executive officer or director before it obtains the Bank of Zambia’s written consent for the proposed change.

10.3 Company Secretary

10.3.1 The company secretary of an institution shall be a lawyer, or Chartered accountant or Chartered secretary or a firm or any person of similar capabilities that the Bank of Zambia deems fit. The company secretary shall preferably be an executive officer of the institution.

10.3.2 The company secretary shall be duly empowered by the board to enable the company secretary to fulfil the prescribed duties.

10.3.3 The company secretary shall provide the board as a whole and directors individually with detailed guidance as to how their responsibilities shall be properly discharged in the best interest of the institution and in compliance with laws, internal rules and corporate governance guidelines.
10.3.4 The company secretary shall be responsible for the induction and continuing training of directors, and for assisting the chairperson and the chief executive officer in determining the annual board plan and the administration of other issues of a strategic nature at board level. Copies of the induction and continuing training programme shall be made available to the Bank of Zambia on request.

10.3.5 The company secretary shall be a central source of guidance and advice to the board, and to the institution in general on matters of ethics and good governance.

10.3.6 The company secretary shall be subjected to a fit and proper test by the Bank of Zambia in the same manner as is recommended for all new director appointments.

10.4 Chief Financial Officer

10.4.1 The chief financial officer, in addition to the requisite academic and professional qualification, shall be of good standing and a member of a professional association i.e. Zambia Institute of Chartered Accountants (ZICA).

10.4.2 The chief financial officer shall be subjected to a fit and proper test by the Bank of Zambia.

11.0 REPORTING AND DISCLOSURE

Principle VII

*The board shall demand integrity both in financial reporting and in timeliness and balance of disclosures on the institution’s affairs.*

Guidelines

11.1 It shall be the board’s responsibility to ensure that the institution’s financial statements fairly present the state of affairs of the institution as at the end of the financial year and the profit or loss and cash flows for the reporting period.

11.2 It shall be the responsibility of the external auditor to report on whether the financial statements are truly and fairly presented in accordance with Section 64 of the Banking and Financial Services Act.
11.3 The board shall attest in a statement on the adequacy of accounting records and effectiveness of the system of internal controls and risk management, and this statement shall be included in the annual report.

11.4 The annual report shall include a statement confirming that appropriate accounting policies supported by reasonable and prudent judgments and estimates have been used consistently.

11.5 The annual report shall also 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.

11.6 The annual report shall state whether these corporate governance guidelines have been adhered to or, if not, where there has not been compliance the institution shall give reasons.

12.0 REMUNERATION

Principle VIII

The remuneration of directors and executives shall be transparent, fair, and reasonable.

Guidelines

12.1 The board shall have a clear policy for setting remuneration of executives and non-executive directors at levels that are fair and reasonable in a competitive market for the skills, knowledge, experience, nature and size of the institution.

12.2 Every institution shall disclose its remuneration policy in the annual report.

12.3 Executive directors’ remuneration shall be clearly differentiated from that of non-executive directors.

12.4 Executive directors’ remuneration packages shall include an element that is dependent on individual performance as well as the institution’s performance.

12.5 Preferably, every institution should appoint a remuneration committee, consisting entirely or mainly of non-executive directors and/or independent non-executive directors. The remuneration committee shall make recommendations to the board with agreed terms of reference on the institution’s framework of executive remuneration and to determine specific remuneration packages for each of the executive directors.
12.6 The remuneration committee shall be chaired by an independent non-executive director. The chief executive officer may, at the invitation of the committee, attend meetings to provide input on the remuneration of the other executives. However, a chief executive officer shall play no part in the decisions regarding his remuneration.

12.7 Every institution shall provide full disclosure in the annual report of director remuneration on an individual basis, giving details of earnings, share options, restraint payments and any other benefits.

12.8 The remuneration committee shall play an integral part in succession planning for management.

13.0 RISK MANAGEMENT

Principle IX

*Institutions shall have corporate governance structures that promote effective identification, monitoring and management of all material business risks. The board shall regularly verify that the institution has appropriate processes that identify, measure and manage potential and relevant risks.*

Guidelines

13.1 The board shall ensure that there is a risk management policy in place.

13.2 The board shall require management to implement rigorous processes for risk management and internal control. The board shall receive regular reports on the operation and status of risk management and internal control systems.

13.3 The board shall include in its annual report information on risk identification, risk management and internal controls in accordance with Section 56 of the Banking and Financial Services Act.

13.4 The board shall ensure management facilitates training programmes at least annually for staff responsible for risk management so that they have a well developed understanding of risks and the means by which they are managed.

13.5 The board shall ensure management facilitates training programmes for directors and senior management to enable them to have a robust understanding of the nature of the business, the nature of the risks, the
consequences of risks being inadequately managed, and an appreciation of the techniques for managing the risks effectively.

13.6 The board shall maintain a structure which requires regular reporting to senior management and to the board on the nature and magnitude of the risks the institution is exposed to and the structures to control these risks, including a regular assurance to the board that all risk management systems and internal controls are being properly applied at all times.

13.7 The board shall include a statement in the annual report that the directors are satisfied to the best of their ability that all material business risks are being managed effectively.

13.8 The board shall have a policy in place requiring risk management systems and internal controls to be subjected to periodic external reviews as determined by institution’s risk profile and for the results of the reviews to be reported to the board.

13.9 The board shall ensure that management considers the compliance function as a part of the overall risk management framework and submits compliance reports to the board on a quarterly basis.

13.10 The board shall periodically review and approve risk exposure limits to conform to any changes in strategies, products and market conditions.

13.11 The board shall ensure that duties are segregated in order to avoid operational risks. The board may specify the methods of authorisation, limits and delegation as well as a dual control system to ensure accuracy of risk exposure limits.

13.12 The board shall ensure management uses its influence and moral suasion to promote good governance among the institution’s corporate customers, thereby improving their performance and reducing their risk, which would benefit the institutions themselves, and ultimately the wider economy.

14.0 INTERNAL AUDIT

Principle X

*Internal audit provides assurance that internal controls in place are adequate to mitigate risks; organizational goals and objectives are met and corporate governance processes are effective and efficient.*
Guidelines

14.1 Internal audit shall have its purpose, authority and responsibility defined in an internal audit charter.

14.2 The internal audit charter shall include among other issues, the following;

14.2.1 Internal audit’s role and responsibility for governance, risk management, consulting services, and fraud investigations, etc.;

14.2.2 The right for the chief internal auditor to have unrestricted access to the audit committee chairperson, employees, facilities and records of the institution;

14.2.3 That the chief internal auditor reports directly to the board of directors or its audit committee in order to ensure independence from management;

14.2.4 That the chief internal auditor has a right to attend audit committee meetings without management.

14.2.5 That the chief internal auditor meets with the audit committee at least once a year.

14.3 The institutions shall ensure that the internal audit function is properly established with adequate authority, scope and resources to enable them to operate professionally and proficiently in line with the internal audit charter standards as issued by the Institute of Internal Auditors.

14.4 Internal audit shall be performed by professionals with an in-depth understanding of the business culture, systems and processes of the institution.

14.5 The institutions shall put in place robust internal audit procedures, with appropriate reporting lines to the board of directors, and with oversight by the audit committee of the board.

14.6 Internal auditors shall develop an annual work plan which must be approved by the audit committee and must include for each assignment the scope, objectives, timing and resources.

14.7 During the execution of the internal audit, internal auditors shall identify, analyse, evaluate and record sufficient information to achieve the internal audit objectives and once the audit is completed, results shall be communicated accurately and timely. Internal auditors shall be required to follow up with management of the unit that has been audited to see what
corrective actions have been taken on the deficiencies noted in the audit, and if those actions have been taken in a timely manner.

14.8 Internal auditors shall not assume any operational responsibilities as their objectivity will be impaired.

14.9 Independent non-executive directors of the board shall meet in the absence of management at least annually with the external auditor and the heads of the internal audit, compliance and legal functions.

15.0 INTERNAL CONTROL COMPLIANCE

Principle XI

*Internal controls encompass the policies, processes, culture, tasks and other aspects of an institution that support the achievement of the entity’s objectives and mission. Internal controls facilitate the efficiency of operations, contribute to effective risk management, assist compliance with applicable laws and strengthen capacity to respond appropriately to business opportunities.*

Guidelines

15.1 Development and implementation of an adequate and sound system of internal controls are the responsibility of senior management. The board of directors is ultimately responsible for ensuring that such a system is established, implemented and maintained.

15.2 The board shall review at least annually the system of internal controls to determine whether it works to expectation and to ensure it remains appropriate.

15.3 The audit committee shall ensure that the institution complies with regulatory requirements, including prudential requirements, taxation rules and various reporting obligations. The corporate governance framework shall therefore include systems for ensuring that all statutory and regulatory requirements are being complied with, and to highlight potential or actual breaches as and when they occur.
16.0 EXTERNAL AUDITORS

Principle XII

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

Guidelines

16.1 The board through its 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 the Zambia Institute of Chartered Accountants.

16.2 The board shall satisfy itself that there is no relationship between the auditor and the institution or any related person that could compromise the independence of the auditor, and shall require confirmation of this from the auditor.

16.3 The board shall facilitate full and frank dialogue among its audit committee, the external auditors, and management.

16.4 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.

16.5 An auditing firm that provides auditing services may be engaged to provide other non-audit work subject to prior approval by the audit committee to avoid possible conflicts of interest and to ensure independence and objectivity of audit work.

16.6 The board shall explain in the annual report what non-audit work was undertaken if any, and why this did not compromise auditor independence.

16.7 The institutions shall strive for efficient audit processes using external auditors in combination with the internal audit function.

16.8 The external auditors shall evaluate and make an opinion on the effectiveness of the institution’s internal controls. Management letters shall be provided to the audit committee, reviewed, acted on and incorporated into the chief internal auditor’s annual work plan.

16.9 The institution’s external audit shall not be performed by the same audit engagement partner for more than five consecutive years in order to mitigate the threat of over-familiarity. Furthermore, the individual may not serve as engagement partner until a period of two years has elapsed.
17.0 STAKEHOLDER INTERESTS

Principle XIII

_The board shall respect the interests of stakeholders within the context of the institution’s ownership and its fundamental purpose._

Guidelines

17.1 The board shall have clear written policies for the institution’s relationships with significant stakeholders, bearing in mind distinctions between public, private and government ownership.

17.2 The board shall regularly assess compliance with these policies to ensure that the conduct towards stakeholders complies with the code of ethics and the law and that it is within broadly accepted social, environmental, and ethical norms, generally subject to the interests of shareholders.

17.3 Institutions shall include in their annual report information of their activities, performance and how they have served the interests of their stakeholders.

17.4 The institutions shall include in their annual report the nature and extent of their social transformation, ethical, safety, health and environmental management policies and practices. The board must determine what is relevant for disclosure, having regard to the institution’s particular circumstances.

18.0 BOARD RELATIONSHIP WITH SUPERVISORS

Principle XIV

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

Guidelines

18.1 The board shall:

18.1.1 Understand the regulatory environment within which it operates;

18.1.2 Require appropriate follow-up on recommendations and any deficiencies identified by the supervisors, including following up with senior management to determine if weaknesses identified
are indicators that similar problems may exist elsewhere in the institution;

18.1.3 Consider regulatory findings in its on-going evaluation of senior management, recognising that the primary responsibility for identifying weaknesses rests with the board and senior management; and

18.1.4 Be open to sharing with supervisors, information pertaining to the supervisors’ oversight of the institution.

19.0 TRANSPARENCY

Principle XV

*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.*

Guidelines

19.1 Where institutions have complex shareholding structures that may foster opacity in a manner that impedes effective market and supervisory oversight, appropriate disclosures shall be made to facilitate market discipline as ownership transparency is central to the effectiveness of external governance.

19.2 Accurate disclosures in the annual report shall be made in the following areas:

19.2.1 Basic organisational structure; major share ownership and voting rights, beneficial ownership, major shareholder participation on the board or in senior management positions;

19.2.2 Board and senior management structure with qualifications and experience; and

19.2.3 Nature and extent of transactions with affiliates and related parties including any institutional matters for which members of the board or senior management have material interests either directly, indirectly or on behalf of third parties,

19.3 The institutions shall establish clear policies when operating:
19.3.1 through complex corporate structures such as corporate trusts or special purpose vehicles or any corporate structures that impair transparency;

19.3.2 in offshore financial centres or jurisdictions that have secrecy laws or weak enforcement mechanisms or any other jurisdiction that impairs transparency; and

19.3.3 A policy formulated under this section shall ensure that:

(i) the institution’s operations in the circumstances stated in 19.3 (i) and (ii) comply with relevant laws and regulations and facilitate effective banking supervision;

(ii) the board considers the appropriateness of and sets limits for operations in such jurisdictions or the use of such structures; and

(iii) senior management identifies and manages the full range of risks associated with such structures or activities.
Responsibilities of Committees

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

**Board Audit Committee**

- Provide oversight of the institution’s internal and external auditors; approving their appointment, compensation and dismissal;
- Review and approve audit scope and frequency;
- Receive audit reports and ensuring that management is taking appropriate corrective actions in a timely manner to address control weaknesses, non-compliance with laws and policies identified by 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;
- Supervise the review and approval of public financial statements.

**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 area;
- Approve appropriate general underwriting guidelines with respect to all lending areas and ensure institution 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 reports of examination by supervisory authorities as well as internal and external audit reports and management letters that pertain to the institution’s loan portfolio;
- Monitor management’s response to all supervisory examination and internal audit comments pertaining to the Institution’s loan portfolio;
- Review loan portfolio quality including but not limited to trends in loan quality, classified loans, charge-offs and delinquencies.
**Risk Management Committee**

- Provide oversight of senior management’s activities in managing credit, market, liquidity, operational, legal, compliance, reputational and other risks of the institution;
- Receive periodic information on risk exposures and risk management activities from senior management.

**Remuneration Committee**

- Provide oversight of remuneration and compensation of directors, senior management and other key personnel;
- Ensure that compensation is consistent with the institution’s culture, objectives and strategy;
- Make recommendations to the board regarding the use of incentive compensation plans and equity based remuneration plans.

**Nominations Committee**

- Identify and assist with the recruitment of qualified candidates for board membership and for the positions of chairperson of the board and chairperson of the committees and committee members;
- Establish formal selection criteria for prospective directors and evaluation of criteria for current directors;
- Assess the effectiveness of the board and direct the process of renewing and replacing board members;
- Recommend nominees for each board committee;
- 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.