

CORPORATE GOVERNANCE REGULATION FOR FINANCIAL INSTITUTIONS



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INTRODUCTION

The Central Bank of Liberia (CBL), in keeping with Sections 39, 15 (e), 21, 31 and 74 of the new Financial Institutions Act (FIA) of 1999, hereby issues this regulation, replacing Regulation No. CBL/SD/002/2008 Concerning Corporate Governance Regulation. The standards set herein are minimum requirements and licensed financial institutions are required to adopt more stringent standards applicable to their specific circumstances.

PART I- PRELIMINARY

1.0 TITLE

This regulation shall be cited *as amended Corporate Governance Regulation for Financial Institutions, Regulation No. CBL/RSD/001/2012.*

2.0 APPLICATION

This regulation shall apply to all licensed financial institutions in Liberia.

3.0 INTERPRETATION

In these Regulations, unless the context otherwise requires-

“*Act*” means the Financial Institutions Act (FIA) of 1999.

“*Board*” or “*Board of Directors*” means the Board of Directors of a financial institution.

“*Chief Executive Officer*” or “*CEO*” means the Chief Executive Officer of a financial institution.

“*Managing Director*” or “*MD*” means the Managing Director of a financial institution.

“*President*” means the President of a financial institution.

“*Financial Institution*” means any person doing financial transactions consisting in the business of banking, credit, loan making, lending or rendering non-banking financial services: provided that, for the purpose of the Act, and unless the context otherwise requires, all officers and branches of a financial institution in Liberia shall be deemed to be one financial institution.

“*Corporate Governance*” means the process and structure used to direct and manage the business and affairs of a financial institution with the objective of ensuring its safety and soundness and enhancing shareholders’ value. It covers the overall environment in which a financial institution operates comprising a system of checks and balances which promotes a healthy balancing of risk and return.

“Independent Director” – means a director who is not a shareholder or a representative of a shareholder; has not been employed by the financial institution and or bank holding company in any executive capacity for the preceding three financial years and has no significant contractual relationship with, or interest in, the financial institution and or bank holding company.

“Non-Executive Director”- means a director who is not involved in the day to day management of a financial institution and is not an employee of a financial institution or of its subsidiaries; but may represent the interest of the shareholder (s).

“Compliance Function” –means a function reporting independently and directly to the Board or a committee of the Board that identifies, assesses, advises, monitors and reports on the institution’s compliance risks such as the risk of legal or regulatory sanctions, financial loss, or to reputation that a bank may suffer as a result of its failure to comply with applicable laws, guidelines codes of conduct and standard practice (s).

“Senior Management Position”- Any person who is an officer of a financial institution, including the chief executive officer, vice-president(s), general manager, chief accountant, chief lending officer, chief treasury officer (or their equivalents), and any other person who, alone or together with one or more others, has the authority to commit the bank.

“Significant Shareholder” means any shareholder of a financial institution or other person owing five (5%) percent of any class of shares of a financial institution.

4.0 OBJECTIVES

The objectives of this regulation are:

- (a) To define minimum acceptable corporate governance standards for financial institutions, which must be adhered to by all licensed financial institutions;
- (b) To promote higher ethical standards in the financial system; and
- (c) To enhance public confidence in the financial system.

5.0 RATIONALE

- (a) Financial institutions play an important role in providing the needed finances for commercial enterprises, and basic financial services to a broad segment of the population and access to the payment systems. As such, acceptable corporate governance practices are necessary for ensuring the stability of the financial system and engenders public confidence in the system;

- (b) Given the special position of trust held by financial institutions in any economy and its contribution to economic growth and development, it is important that financial institutions adhere to strong corporate governance practices and standards;
- (c) Increasing globalization of financial markets, emergence of conglomerate structures, technological advances and innovations in financial products demand greater transparency and disclosure in the activities of financial institutions; hence the need for strong corporate governance standards for the financial system; and
- (d) In the specific context of Liberia, weak corporate governance practices have been identified as one of the key factors responsible for the poor performance of the financial institutions in the past. In spite of recent improvements, there are still some challenges in this area, which need to be addressed to enhance corporate governance practices in the financial sector.

PART II – REGULATORY REQUIREMENTS

6.0 Shareholders

6.1 Approval of Shareholders

Every significant shareholder shall be approved by the Central Bank, subject to the general criteria defined in CBL Amended Regulation Concerning Banking Licensing of Financial Institutions.

6.2 Authority and Duties of Shareholders

Shareholders of financial institutions shall jointly and severally protect, preserve and actively exercise the supreme authority of their financial institutions. They have a duty, jointly and severally, to exercise that supreme authority to:

- a) Ensure that only competent and reliable persons who can add value to the financial institution are elected or appointed to the Board of Directors.
- b) Ensure that the Board of Directors is constantly held accountable and responsible for the efficient and effective governance of the financial institution.
- c) Change a Director or the composition of a Board of Directors that does not perform to expectation or in accordance with the mandate of the institution.
- d) Ensure that Director appointed on the Board shall not serve as a member on the board of any financial institutions to prevent conflict of interests and promote efficiency and efficacy.

6.3 Shareholders' Rights

- a) Basic shareholder rights shall include the right to:
 - secured methods of ownership registration;
 - convey or transfer shares;
 - obtain relevant and material information on the corporation on a timely and regular basis;
 - participate and vote in general shareholder meetings;
 - elect and remove members of the board; and
 - share in the profits of the corporation.
- b) All shareholders should have the right to participate in, and to be sufficiently informed of, decisions concerning fundamental corporate changes such as, amendments to the statutes, by-laws or articles of incorporation or similar governing documents of the company; the authorization and or acquisition of additional shares; and extraordinary transactions, including the transfer of all or substantially all assets, that in effect result in the sale of the company; and
- c) The exercise of ownership rights by all shareholders, including institutional investors, should be encouraged. Institutional investors acting in a fiduciary capacity should disclose how they exercise key ownership rights regarding their investments.

6.4 Voting Rights

- a) Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings and should be informed of the rules, including voting procedures that govern general shareholder meetings;
- b) Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting; and
- c) Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia.

6.5 The Equitable Treatment of Shareholders

- a) There should be equitable treatment of all shareholders, including minority and foreign shareholders.
- b) All shareholders of the same class should be treated equally. Within any class, all shareholders should carry the same rights.

- c) Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
- d) All shareholders should be able to obtain information about the rights attached to all classes of shares before they purchase the class of shares of their choice.

7.0 Board of Directors

7.1 Appointment and Approval of Directors

Appointment of directors of a financial institution shall be done in keeping with Section 74 of the new FIA of 1999 which requires the Central Bank's written approval of such appointment.

7.2 General Criteria for appointment and/or approval of Directors

To be considered for appointment and/or approval as a member of the board of a financial institution, the below-listed minimum standards, in addition to those defined in CBL Amended Regulation Concerning Banking Licensing, shall apply. The proposed director must:

- a) Be of sound mind and must not have been declared to be unsound by a court of competent jurisdiction in Liberia or elsewhere;
- b) Not have been declared by a court of competent jurisdiction to be bankrupt;
- c) Have a demonstrable skills and/or expertise needed to add value to the processes or activities of the board in the context of the business of the bank; preferably in banking, finance, economics, law, accounting, etc and
- d) Be a person of proven moral standards and character.

7.3 Approval Process

- (a) The financial institution must officially communicate to the Central Bank for approval of its nomination and/or appointment of a proposed director.
- (b) The Central Bank may, on receipt of a request of the appointment of a proposed director, seek further information and documents from the financial institution or from other sources to inform its decision on the approval or disapproval of the appointment;
- (c) After due consideration of the request, the Central Bank may-
 - i) Give its approval of the appointment and/or nomination of a proposed director; or

- ii) Withhold its approval on grounds that the person concerned has not met the “fit and proper” test to become a director.
- (d) Any person who knowingly or advertently provides information to the Central Bank which is false or materially misleading shall be deemed to be in violation of Sections 30-32 of the new FIA of 1999, and may be subjected to appropriate penalties as prescribed by law.

7.4 **Grounds for Rejection of a Proposed Director**

The following reasons, in addition to other considerations in keeping with CBL Regulation Concerning Banking License, may constitute cause for Central Bank’s disapproval of a proposed director:

- (a) If he/she has been a Director or involved in the management of an institution that has been adjudged insolvent, gone into compulsory liquidation, declared bankrupt, unless that person shows to the satisfaction of the CBL that he/she was not responsible for the insolvency, liquidation and, bankruptcy of the institution;
- (b) If he/she was a director of an institution that had been placed under the management of the CBL;
- (c) If he/she has taken part in or been associated with any other business practices as would be considered as illegal under the law including money laundering and other financial crimes, or has otherwise conducted himself in such manner as to cause doubt on his competence, integrity and soundness of judgment; or
- (d) If he/she is under suspension or has been removed from office in a financial institution.

7.5 **Removal of Board Members or Change of Board of Directors**

The Central Bank may, for reasonable cause-

- b) suspend or remove a director of a financial institution; and
- c) suspend or remove the entire board of directors of a financial institution.

For the purpose of this regulation, “reasonable cause” shall include:

- (i) failure to exercise fiduciary responsibility;
- (ii) exhibiting any act detrimental to the reputation of the bank or its customers; and
- (iii) failure to comply with or ensure compliance of the bank with supervisory directives.

7.6 **Prohibition of Multiple Directorships**

No director shall simultaneously serve as a board member or in an executive capacity of more than one financial institution, a subsidiary or an affiliate of a financial institution in Liberia.

7.7 **Composition of the Board**

- a) The Board of Directors of a financial institution must comprise of members with diversified backgrounds, whose overall competencies and experiences will provide proper oversight. Some Board members will likely be controlling shareholders of a financial institution; however, substantial active participation by non-executive directors is essential if the Board is to be effective;
- b) In order to promote effective and independent board oversight, not more than two senior officers, including the Chief Executive Officer (CEO) or an equivalent position in a financial institution, shall serve on the board, subject to approval by the Central Bank;
- c) The Board is required to examine its size with a view to determining the impact of the number upon effectiveness and discharge of its oversight responsibilities. It should consider the scope and nature of the operations of the financial institution and facilitate effective decision making. Accordingly, the minimum size of a Board shall be seven (7) members and a maximum size of fifteen (15) members. The board should at all times have odd number members to break ties to ensure effective decision-making;
- d) At least two-third of the directors shall possess demonstrable expertise and experience relevant to the functions of the financial institution and the principal issues that face the financial institution;
- e) Consistent with 7.7 (b) above, the remaining members of the board shall be non-executive board members, not less than one-third of whom shall be independent board members who are appointed based on merit and do not represent any particular shareholder's interest or hold special business interest in the financial institution; and
- f) No less than two-third of the Board members must reside in Liberia and be able to form a quorum for any meeting including emergency Board meetings, the exception being Section 8.0 (d) below.

7.8 **Appointment of a Chairman of the Board**

- (a) The Chairperson of the Board must be a non-executive director;
- (b) The Chairman of the Board shall not chair any board committee; and

- (c) No two members of the same family shall be allowed to occupy the position of Chairman and Chief Executive Officer or a senior management position of a financial institution at the same time. Family means husband, wife, siblings, parents and brother and sister of both husband and wife, and children.

7.9 Responsibilities and Duties of the Chairperson

The chairman is required to:-

- a) Ensure that the board meets regularly and that meetings are conducted in a proper manner;
- b) Ascertain the views and/or the decision of the meeting on the issues being discussed;
- c) Ensure that directors are encouraged to contribute to board deliberations in order to secure the maximum benefit for the corporate body;
- d) Ensure that each director receives all qualitative and quantitative information regarding the operations of the financial institutions;
- e) Ensure that ineffective directors are either not re-elected or are requested to resign or removed;
- f) Ensure that the board develops and implements a process for assessing its effectiveness of the members of the board, board committees and the contributions of the individual directors; and
- g) Ensure that clear and complete minutes of board meetings are circulated to each member and follow up actions implemented as required.

7.10 Key Guiding Principles for Effective Board Oversight

The Board of Directors shall observe the following key principles –

- (a) The board shall receive, on a timely basis, sufficient information to judge the performance of management and assess the quantitative performance of the institution, the observance of prudential norms, customer satisfaction, service quality, market share and market reaction;
- (b) The directors shall observe the duties and responsibilities set out in these regulations;
- (c) Each financial institution shall establish an orientation program for new directors as well as refresher programs for existing directors that shall include a presentation on the responsibilities and legal obligations of each director and/or

the board as a whole, the nature of business of the institution, conditions in the industry, corporate strategy and expectations of the directors, understanding of the risk profile and risk management practices of the financial institution, and evolving developments in the financial world.

- (d) Each board member or shareholder shall be required to abide strictly by the standards set out in Regulations Concerning Related Party Transactions. The board shall ensure that loans or other obligations to any of its members are paid or honored on time. If the debt or obligation remains non-performing for more than ninety (90) days, the director must cease to be on the board of the financial institution, unless there are clear mitigating circumstances and/or repayment plan;
- (f) The insider trading and abusive self-dealing shall be completely prohibited. The board shall establish internal procedures to track and monitor such abuses and mechanism for reporting violation to the board for immediate remedial actions and evidence submitted to the Central Bank;
- (g) The Board should be aware of the bank's operating environment; be diligent in performing its job; exercise independent judgment; and be loyal to the bank's interests; and
- (h) Each board member shall ensure that he/she is fully and sufficiently familiar with all CBL regulations, directives, guidelines, etc, as well as other laws governing the operations of the financial institutions.

8.0 Board Meetings and Attendance

- (a) Each board member is required to attend at least 75% of the board meetings and actively participate in these meetings. At its annual general meeting, each financial institution is required to review the performance of any director who has failed to comply with this attendance rule without a valid reason. The attendance record of each board member shall be provided to the shareholders, a copy of which should be sent to the Central Bank;
- (b) There shall be no alternate director on behalf of any director without the approval of the CBL. The maximum number of alternate board members that may attend any board meeting shall not exceed two (2);
- (c) Board meetings shall be held at least once in every quarter of the financial year of the financial institution;
- (d) Meetings of the board may be conducted by teleconference, in which case, the requirement for forming a quorum locally as stated in Section 7.7 (f) above may not be applicable. However, in case of a meeting with the CBL, Section 7.7 (f) with respect to the majority requirement will apply; and

- (e) The Board shall be required to develop a policy on the compensation and payment of board fees, taking into account the commitment and performance of each board member”.

9.0 Duties and Responsibilities of Directors

- I) A Board of Directors must be strong, independent, and actively involved in performing its oversight function of the financial institution. The Board is ultimately responsible for the conduct of the affairs of the financial institution, with distinct duties, responsibilities, and liabilities, inter alia-
 - a) Understand their oversight role and their “duty of loyalty” to the financial institution and its shareholders;
 - b) Serve as a “checks and balances” function vis-à-vis the day-to-day management of the financial institution;
 - c) Recommend sound practices gleaned from other organizations;
 - d) Absent themselves from decisions where they are incapable of providing objective advice or, where they may be involved in a conflict of interest situation; and
 - e) Not participate in the day-to-day management of the financial institution;
- II) An important aspect of the board’s functions is the identification of key areas and key performance indicators. In this regard, the board must have a Charter, which as a minimum, should clearly set out:
 - (a) The adoption of a long-term strategic plan that contains a statement of the board’s philosophy and defines the board’s vision of the bank’s future. The plan should be assessed periodically to take into account new opportunities or unanticipated external developments;
 - (b) Monitoring of operational performance and management;
 - (c) Determination of policy and processes to ensure effective risk management and internal control; and
 - (d) Communication policy, and policies for selection, orientation and evaluation of board members;
- III) The Board of Directors shall set and enforce clear lines of responsibility and accountability throughout the organization, taking into account the following:

- (a) That there is a clear demarcation of responsibilities of the board and management to allow for an effective accountable regime;
 - (b) That it is the responsibility of the board to establish the approval authority of different levels of senior management;
 - (c) That the board shall recruit and develop job descriptions for the CEO and other senior officers and define the responsibilities of the management, taking into account the minimum standards set out herein these regulations. There shall be a clear line of distinction between the function of the Chairman of the Board and the CEO such that no one individual has unfettered powers of decision making;
 - (d) That it is the board's responsibility to approve the corporate objectives of the financial institution, which are entrusted to the CEO/MD and senior management to achieve and set out the basis for measuring their effectiveness in achieving such corporate objectives; and
 - (e) That the Board shall always remain responsible for the overall governance of the financial institution and must be ready to question, scrutinize and monitor, in a proactive manner, management's performance.
- IV) The Board of Directors shall ensure that there is appropriate oversight over senior management by observing the following-
- (a) Ensuring that senior management at all times, consist of a core group officers responsible for the financial institution, including the chief financial officer, heads of business lines and other key department and sectional heads who have the necessary skills to manage the business under their supervision as well as appropriate control over the key individuals in these areas;
 - (b) Meet regularly with senior management and internal audit to establish and approve policies, establish communication lines and monitor progress towards corporate objectives;
 - (c) Ensure that the financial institution puts in place a code of conduct for its employees, setting out the institution's ethical values and high standards expected of them; and
 - (d) Ensuring that management avoids situations where –
 - Senior managers are overly involved in business line decision making; and
 - Senior managers are assigned in area to manage without the requisite skills or knowledge.

- V) The Board of Directors shall get actively involved in the financial institution's affairs and risk management process and in particular -
- (a) Possess a reasonable (significantly more than peripheral) knowledge of the risks specific to the entire spectrum of the institution's activities;
 - (b) Formulate a clear philosophy for each risk management area;
 - (c) Design or approve structures that include clear delegation of authority and responsibility at each level;
 - (d) Review and approve policies that clearly quantify permissible risk, and those which specify the quantity and quality of capital required for the safe operation of the financial institution;
 - (e) Periodically review controls to ensure that they remain appropriate;
 - (f) Require explanations where positions exceed limits, including reviews of credit granted to major shareholders, directors and other related parties, significant credit exposures, and adequate provisions made;
 - (g) Ensure that the internal audit function includes a review of adherence to policies and procedures;
 - (h) Formally delegate to management, the authority to formulate and implement strategies; and
 - (i) Specify content and frequency of reports.
- VI) The board members shall give due attention to the internal and external auditors as their important partners and shall utilize their work as an independent check on the information received from management on the operations and performance of the financial institution. They shall also utilize the work conducted by internal and external auditors as an important component of the control function. Accordingly, the board and senior management shall—
- (a) Recognize the importance of the audit process and shall communicate its importance throughout the institution;
 - (b) Utilize, in a timely and effective manner, the findings of internal and external auditors;
 - (c) Ensure the independence and protection of the internal auditor through his or her direct access and reporting responsibility to the board or the board audit committee;
 - (d) Engage external auditors to judge the effectiveness of internal controls; and

(e) Require timely correction by management of problems identified by the external or internal auditors.

VII) In conducting corporate governance in a transparent manner—

- (a) The board shall satisfy itself that procedures are in place to ensure that the financial institution is satisfying its disclosure obligations and that the information being disseminated is true and accurate;
- (b) Take a lead in establishing and approving corporate values for itself, management and other employees, particularly emphasizing a timely and frank discussion of problem areas and covering aspects as corruption, management of conflict of interest, self-dealing prohibition of unduly favorable treatment of related parties and always acting in the best interest of the financial institution;

VIII) The board shall, through transparent manner, reinforce sound corporate governance which shall cover the following—

- (a) Board structure, including size, membership, qualification and committee;
- (b) Senior management structure, including responsibilities, reporting lines, qualifications and experience;
- (c) Basic organizational structure, including line of business;
- (c) Information about the incentive structure of the financial institution, including remuneration policies, executive compensation, bonuses, etc.
- (d) Nature and extent of transactions with affiliates and related parties;
- (e) Mandate of the board, its duties and responsibilities;
- (f) Composition of the board, indicating executive, non-executive and independent directors; and
- (g) The board expectations of management and its performance in meeting them;
- (h) Develop mechanism for receiving feedback from stakeholders of the financial institution and procedures to address any concerns from the stakeholders; and
- (i) Develop and enforce a code of professional and ethical conduct for the financial institution, which must at a minimum prohibits any form of corruption and conflict of interest for the board, management and staff.

10.0 Board Level Committees

Financial institutions, at a minimum, must establish Audit, Credit, Asset and Liability Management Committees, consistent with Section 15(1) (e) of the New FIA of 1999. In addition to the above committees, each bank-financial institution is required to have a risk management committee as required by the Risk Management Guidelines issued by the CBL. No board member shall serve on more than two committees at the same time.

10.1 Audit Committee

Composition

- a) Majority of the Board Audit Committee shall comprise of independent directors;
- b) Members must have relevant skills and experience to discharge the duties of the committee; preferably, with background in accounting or audit;
- c) The Chairman of the committee shall be an independent director; and
- d) The Chief Executive Officer/Managing Director shall not be a member of the Audit Committee.

The functions of the audit committee shall include, but not limited to the following:-

- a) Review of the integrity of the bank's financial reporting and overseeing the independence and objectivity of the external auditor;
- b) Have access to the external auditors to seek explanations and additional information about the bank without management's participation and/or knowledge;
- c) Have the authority to review and approve the annual audit plan and make necessary changes to the plan, the adoption of which must be subject to the full Board's approval giving due relevance to the committee's recommendation(s).
- e) Review the performance of the head of internal audit annually, the overall internal audit function quarterly, as well as approve the remuneration of staff in the internal audit section or department, subject to final approval of the full Board.
- f) Make recommendations to the full board on the appointment, re-appointment and change of the external auditor;
- g) Approve the remuneration and terms of engagement of the external auditors; and

- h) Review carefully the auditor's findings and bring key issues to the attention of the full Board; and require management to report periodically on progress in addressing problems raised by the audits so that the board can ensure that the necessary corrective actions are implemented in a timely manner.

10.2 Asset and Liability Management Committee (ALCO)

Composition

- a) Members of the ALCO shall comprise mainly of non-executive directors.
- b) At least two members of the ALCO must have accounting or related financial management expertise or knowledge.

The functions of the committee shall include, but not limited to the following:-

- a) The Committee must be familiar with all activities of the bank, as reflected on its balance sheet; and
- b) The Committee shall define the risk tolerance limit of the bank as it relates to the asset composition of the bank, including its loan assets, investments and trading position.

10.3 Credit Committee

Composition

- a) The Chairman of the committee shall be an independent or non-executive director.
- b) Either a member or the chairman of the Board Credit Committee shall be knowledgeable in credit analysis, administration and risk management in general.

The functions of the committee shall include, but not be limited to the following:-

- a) Reviewing and overseeing the overall lending policy of the banking institution;
- b) Deliberating on and approving loan applications in excess of the defined limits for Management;
- c) Directing the formulation of, reviewing and monitoring the credit principles and policies of the banking institution;
- d) Ensuring that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries;

- e) Directing, monitoring, reviewing and considering all issues that may materially impact on the present and future quality of the financial institution's credit risk management; and
- f) Delegating and reviewing lending limits to the various levels of the banking institution.

10.4 Risk Management Committee

Composition

- a) The Committee shall be headed by an independent director. The Chief Executive Officer/Executive Director and Chairman of the board shall not be members of the committee. However, they may be invited to attend the committee's meeting;
- b) At least two members of the committee should be independent directors; and
- c) The members should be conversant with financial and accounting matters as well as risk management.

The functions of the committee shall include, but not limited to the following:-

- a) Ensure quality, integrity and reliability of the financial institution's risk management system. The committee shall assist the full board of directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting;
- b) Ensure that the bank is not exposed to undue fluctuations in its balance sheets, including liquidity risk, foreign exchange position and credit risk;
- c) Regularly review the balance sheet of the bank to ascertain areas of high risk, and ensure that the risk level is consistent with the risk tolerance limit set by the bank;
- d) Ensure that the assets of the bank are properly protected. As such, it should ensure that there is adequate risk management framework in place, covering all key risk activities of the bank;
- e) Develop effective mechanism for ensuring compliance with anti-money laundering and combating financing of terrorism (AML/CFT) standards;
- f) Review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed;
- g) Set out the nature, role, responsibility and authority of the risk management function within the financial institution and outline the scope of risk management duties and responsibilities;

- h) Monitor external developments related to the practice of corporate accountability and the reporting of specifically associated risk, which may have emerging and prospective impact on the operations of the financial institutions;
- i) Provide independent and objective oversight and review of the information presented by the management on corporate accountability and specifically associated risk, also taking account of risk concerns raised by management in the Audit Committee, Asset and Liability Committee meetings on financial, business and strategic risk; and
- j) In carrying out its tasks as defined above, the committee may obtain such outside or other independent professional advice as it considers necessary to carry out its duties. The board should ensure that the committee has access to professional advice both internally and externally of the financial institution in order to perform its duties. The committee shall have access to any information it needs to fulfill its responsibilities.

11.0 Corporate Secretary

- a) The board should appoint a corporate secretary who will play a crucial role in supporting the effectiveness of the board by monitoring that board policies and procedures are followed and coordinating the completion and dispatch of board agenda and briefing materials. The corporate secretary is accountable to the board through the chairperson on all governance matters.
- a) The corporate secretary should be an executive officer and shall be subject to a fit and proper test in the same manner as is recommended for the appointment of directors.
- b) The corporate secretary shall provide a central source of guidance and advice to the Board, and within the financial institution on matters of ethics and good governance.

The corporate secretary shall provide the board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interest of the financial institution.

12.0 Compliance Function

The board shall set up an independent compliance function and appoint a Compliance Officer who shall be responsible for coordinating, monitoring and facilitating compliance with existing laws and regulations, and improve the bank's compliance policy and procedures; and

The board shall under a regular review and/or assessment of the compliance performance of the financial institution with the view of correcting weaknesses, where required.

13.0 Board of Directors' Evaluation

A formal and rigorous evaluation or self-assessment of the performance of the full board, individual directors and board committees should be undertaken using the form set out in **Appendix I**.

The evaluation or self-assessment shall be conducted annually and the findings disclosed to the shareholders. The Managing Director (Chief Executive Officer) shall submit a copy of such evaluation/self-assessment to the Central Bank not later than 31st January of each subsequent year.

14.0 Reporting of Resignation/Removal of Directors

The Chairman of the Board shall report to the Central Bank resignation and/or removal of any member of the Board by the full Board or the shareholders not later than seven (7) days as of the date of such decision.

15.0 Appointment of Senior Management

Appointment of all senior officers, including the Managing Director or Chief Executive Officer, of a financial institution shall be done in keeping with Section 74 of the new FIA of 1999 which requires the Central Bank's written approval of such appointment.

15.1 All senior officer appointments of a financial institution shall be subject to the requirements set out CBL Amended Regulation Concerning Banking Licensing.

16.0 Responsibilities of the Management

16.1 It is critical to the effectiveness of the Board that the Board and senior management work together as a team to further the best interest of the financial institution. Both must understand, however, that management works for the Board; and not the reverse.

16.2 Management shall be responsible for creating an accountability framework for its staff and is ultimately responsible to the Board for the performance of the financial institution.

16.3 The board shall have the primary responsibility for defining the responsibilities and functions of the senior officers of a financial institution. Notwithstanding this requirement, the following minimum requirements shall be considered as important responsibilities of the chief executive officer:

- (a) Ensuring sound operation of the financial institution. This means that the CEO must be suitably qualified with the appropriate experience and proven track record at senior management level;
- (b) The Chief Executive Officer is directly responsible for the day-to-day operations of a financial institution. Accordingly, the CEO must be

conversant with the operations of the financial institution, the state of internal controls, requirements of statutes, directions, guidelines, regulations, as well as current issues and policies affecting the industry in general. He/she must also have the necessary knowledge and professional competence in the conduct of banking business;

- (c) The CEO should ensure that the bank's risk management and internal compliance and control system are operating efficiently and effectively in all material respect; and
- (d) The CEO should ensure effective communication with all stockholders.

16.4 Other general responsibilities and/or competencies required of the Management

- (a) Management shall provide the board with information needed by the directors to perform their responsibilities, responding timely to such requests;
- (b) A key indicator of management success is sound business performance, which should be seen in their efforts to run the financial institution profitably.
- (c) Management should ensure accurate and timely reporting to the CBL. This requires having in place adequate and effective management information system; and
- (d) Management should ensure that the financial institution's policies are appropriately and clearly communicated through all levels of the institution;

17.0 Data Integrity and Disclosure

- 17.1 Timely and accurate disclosure should be made on all material matters regarding the financial institution, including a fair presentation of its the financial situation at any point in time, performance, ownership, and its governance structure to the Central Bank and other stakeholders. In the specific case of returns and reports submitted to the CBL, the CEO, the Deputy CEO and/or the Chief Financial Officer must sign off on all such reports.
- 17.2 Members of the board and key executives are required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.
- 17.3 Disclosure should include, but not be limited to, information on the following:
 - (i) Board structure, management structure, basic organizational structure, incentive structure of the bank, nature and extent of transactions with affiliate and related parties;
 - (ii) The financial and operating results of the financial institution as required by

CBL's Regulation on Audit of Financial institution and Publication of Financial Statements;

- (iii) The financial institution's objectives;
- (iv) The financial institution's ownership structure and voting rights;
- (iv) The financial institution's remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships, etc
- (vi) Related party transactions;
- (vii) Foreseeable risk factors;
- (viii) Issues regarding employees and other stakeholders;
- (ix) Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented; and
- (x) Other disclosure standards that may be defined by the Central Bank in the future.

18.0 Tenure of Senior Management and Board Members

- (a) No person shall serve as Chief Executive Officer or Deputy Chief Executive Officer of any financial institution for more than ten (10) consecutive years or as an independent board member of any financial institution for more than seven (7) years, except in the case of the CEO or deputy CEO.
- (b) In keeping with 18(a) above, no retired CEO, deputy or board member shall be allowed to provide service to another related financial institution for a period of three years after retirement, following which such person may provide any service (s) to any financial institutions; and
- (c) The financial institution shall be required to develop the appropriate retirement package commensurate with the above-mentioned positions.

19.0 Appointment and Responsibilities of External Auditors

- (a) In keeping with Section 21 of the New FIA of 1999, every financial institution shall appoint an external auditing firm to conduct a full review of its financial condition, internal controls and risk management system for each year end. For each annual audit, the appointment of the external auditor shall require the prior approval of the Central Bank, before the commencement of any such audit;

- (b) An annual audit should be conducted in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the financial institution in all material respects;
- (c) The external auditor shall be required to attend the general meeting of the shareholders as well as the board to provide information on the conduct of the audit of the financial institution and the preparation, content of the report and the key deficiencies noted in the report;
- (d) The external auditing firm must be a registered and licensed public accounting firm certified by the Liberian Institute of Certified Public Accountants (LICPA) or a recognized competent authority in Liberia or abroad;
- (e) In keeping with sound corporate governance practices, no external auditing firm shall continuously provide auditing services for any financial institution for more than seven (7) consecutive years. Upon coming into force these regulations, external audit relationships that have existed in excess of this timeframe shall be granted a regulatory forbearance to continue for a period not to exceed one year as of the date of issuance of this regulation; and
- (f) Pursuant to (e) above, the financial institution shall be required to contract a new external auditing firm. However, the financial institution may re-contract the services of its previous external auditing firm after a period of three (3) years, subject to CBL's approval.

20.0 Responsibilities of Internal Auditor

An effective internal audit function plays a key role in assisting the Board to discharge its governance responsibilities. The following minimum requirements shall be required of an internal audit function in a financial institution:

- (a) Conduct an objective evaluation of the risk, internal control and compliance environment of the financial institution;
- (b) Review operational and financial performance;
- (c) Implement ad-hoc review of areas of concern;
- (d) Provide feedback on adherence to the financial institution's value and code of conduct/ethics;
- (e) The internal auditor shall be largely independent and have a direct reporting line to the Board Audit Committee or the Board, where necessary; and
- (f) The financial institution shall ensure adequate staffing of the internal audit unit/section/department with the appropriate staff with the requisite competencies and taking into account the size and complexity of the activities of the financial institution.

21.0 Board Relationship with the Central Bank of Liberia

- (a) The Board may wish to maintain an open communication with the Central Bank of Liberia for the purpose of obtaining guidance and/or clarification on supervisory concerns relating to a financial institution. Meeting with CBL examiners after an onsite examination to discuss the results of supervisory reviews is encouraged. However, the board is independently responsible for the condition of their bank and must not rely on the examiners to identify or correct problems of the financial institution;
- (b) The CBL may bring to the attention of the board emerging issues of concerns of their financial institutions. During the course of their examination review, the CBL examiners may share information with management, and also with the board through a variety of supervisory communications. The board must ensure that it is up-to-date on the situation of their financial institution and that any specific follow-up actions arising from the CBL's assessment are completed in a timely manner; and
- (c) The board shall review and discuss any written supervisory communications from the CBL. If the Board wishes to raise questions or discuss any issues of concerns, it may request to meet with the Supervision Department. In some instances, the Board may choose to meet with the examiners without management presence.

22.0 Reporting Requirements

The financial institution shall be required to report to the CBL immediately all unethical dealings and corporate governance breaches.

PART III—REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

The Central Bank may reserve the rights, in accordance with Section 39 of the new FIA of 1999, by its order, remove from office a chairperson, director or the chief executive officer of a financial institution if it deems it necessary, in the public or the institution's interests, to do so.

The Central Bank may impose any or all of the following administrative sanctions with regard to a financial institution that is not in compliance with these Regulations or whose compliance with these Regulations indicates that the financial institution is in unsound condition—

- (a) dissolution of ineffective Board or Board-level Committee; removal of members of a Board and/or Senior Management;
- (b) payment of a fine of not less than two hundred thousand Liberian dollars (L\$200,000.00) for each day the deficiency exists; and
- (c) any other supervisory sanctions as may be deemed necessary.

These regulations take effect upon publication in the Official Gazette, and shall remain in force until otherwise advised by the Central Bank of Liberia.

Issued this _____ day of _____, 2011 in the City of Monrovia.

BY ORDER OF THE PRESIDENT

TOGA GAYEWEA MCINTOSH
MINISTER OF FOREIGN AFFAIRS

MINISTRY OF FOREIGN AFFAIRS
MONROVIA, LIBERIA

JANUARY _____, 2012

APPENDIX I

BI-ANNUAL CORPORATE GOVERNANCE SELF-ASSESSMENT RETURN
(To be submitted to the Central Bank not later than June 30 and December 31 every year)

1. Self-Assessment Activity

Every financial institution (licensed bank and non-bank financial institutions) is expected to carry out a self-evaluation to determine whether the principles of good corporate governance are being observed in their own institution. Through this assessment exercise, the institution can identify its strengths and weaknesses. This valuation system will help in developing, prioritizing and implementing action plans that are necessary to bring out improvements in their own institution.

2. Parts of the Self-Assessment Activity

- a. **The Summary of Self-Assessment** – licensed financial institutions are required to summarize their overall assessment of their observance of corporate governance principles/standards practices. Where principles/standards are not observed, financial institutions should include reasons and action plans for attaining observance.
- b. **The Self-Assessment Questionnaire** – licensed financial institutions are required to present a qualitative assessment of their observance of each corporate governance principle/standard by completing the questionnaire. Responses to this questionnaire will form the basis for the Summary Assessment.

3. Assessment Methodology

Compliance with each corporate governance principle/standard shall be assessed using three categories: **observed, not observed** and **not applicable**.

For a principle/standard to be considered **observed**, it is usually necessary that the Board has the legal authority to perform its tasks and that it exercises this authority to a satisfactory level.

A principle/standard will be considered **not observed** where compliance is not at a satisfactory level, where weaknesses have been noted and no substantive progress toward observance has been achieved.

A principle/standard would be considered **not applicable** whenever the standard does not apply given the structural, legal and institutional features of the institution.

4. Details on Submission of Returns

Licensed financial institutions are requested to submit both the summary assessments and the self-assessment questionnaire to the Central Bank not later than January 31st each subsequent year.

A. Self-Assessment Summary

Licensed financial institutions are required to summarize their assessment of observance of corporate governance principles/standards. This should be accomplished after the detailed assessment (using the Self-Assessment Questionnaire) has been carried out.

Name of Financial Institution: _____

Date of Assessment: _____

Corporate Governance Principles	Level of Observance			Total Number of question	Remarks/ Explanations
	Observed	Not Observed	Not Applicable		
1. Shareholders				5	
2. Board of Directors				40	
3. Committees:				3	
Audit Committee				18	
ALCO				6	
Risk Management				5	
Credit Committee				9	
4. Management				21	
5. Code of Conduct				14	

Submitted by:

Chairman of the Board – (Name and Signature) _____

Chief Executive Officer – (Name and Signature) _____

A. SELF ASSESSMENT QUESTIONNAIRE ON CORPORATE GOVERNANCE FOR LICENSED FINANCIAL INSTITUTIONS

	O	NO	NA	Remarks/Explanation
I. SHAREHOLDERS				
1. Have appointed a competent and dedicated board of directors.				
2. Have jointly and severally protected, preserved and actively exercised supreme authority through their general meetings.				
3. Have ensured that only credible persons of good standing in society have been elected or appointed to the board of directors.				
4. Have ensured that, in general meetings and related forums, the board is constantly held accountable and responsible for the efficient and effective governance of institution.				
5. Have changed the composition of a board of directors that does not perform to expectation or in accordance with the mandate of the institution.				
II. BOARD OF DIRECTORS				
The board of directors has performed the following tasks:				
1. To lead the institution and to oversee the conduct of the institution's business to ensure that the business is being properly managed and that dealing with stakeholders are fair and equitable.				
2. To set the institution's strategic aims and to provide clear objectives and policies within which senior executive officers are to operate.				
3. To put in place policies and systems capable of promptly identifying, measuring, assessing, reporting and controlling both financial and non-financial risks of the institution.				
4. To set the institution's corporate values and standards.				
5. To establish clear lines and limits of authority for all levels of staff and to deal with any infringement of such in a serious manner.				
The board of directors has undertaken the following responsibilities:				
1. Has reviewed and adopted the company's strategic plans.				
2. Has overseen the proper conduct of the company's business.				
3. Has identified and implemented the appropriate risk management system for the institution.				
4. Has approved corporate policies in the core areas of operations of the institution.				
5. Has drawn-up a formal charter that sets out its roles and responsibilities.				
6. Has sought clearance/approval from the central bank for each director prior to taking the director's position.				
7. Has formulated a management succession plan, business continuity plan and disaster recovery plan.				
8. Has established and reviewed internal control systems, internal audit function and management information systems for the institution.				
9. Has ensured that the internal auditor has put in place an audit charter, an audit manual and comprehensive set of internal control questionnaires to help establish and maintain the best possible internal control environment within the institution.				
10. Has ensured that internal auditor reports with management's comments are issued after each audit and copies of which are submitted to the Board Audit Committee and the Central Bank.				
11. Has defined the duties of management and appointed those				

persons who were competent, qualified and experienced to administer the institution's affairs.				
12. Has dispensed with the services of staff considered undesirable.				
13. Has established clear lines and limits of authority for all levels of staff.				
14. Has submitted any change in policies and systems to the Central Bank.				
15. Has established a Board Audit Committee and other committees.				
16. Has set up an independent Compliance Function and appointed a Compliance Officer.				
17. Has ensured that the licensed financial institution maintains an adequate level of capital base and solvency margin at all times with respect to the New FIA of 1999 and or any directives or regulations that may be issued.				
18. Has informed the shareholders of the institution's capital adequacy and margin solvency and advised them on the appropriate manner of increasing their levels when necessary.				
19. Has obtained a working knowledge of all applicable laws, regulations, guidelines and directives affecting the institution.				
20. Has ensured that the Compliance Function has provided training of personnel in these matters.				
21. Has reviewed the Central Bank's supervision reports and auditors' reports and also ensured implementation of all recommendations made.				
22. Has obtained information about the business condition and performance of the institution on a regular basis.				
23. Has conducted board meetings regularly to discharge its duties and functions.				
24. Has exercised independent judgment collectively and individually in evaluating the performance of the management.				
25. Has ensured that every member of the board has attended at least 75% of the board meetings of the institution in any financial year.				
26. Has ensured that the institution's Annual Report includes:				
a. The operation and various decisions made by the Board.				
b. The attendance of board members				
c. Number of meetings.				
Constitution of and Effective Board				
1. Has ensured compliance with the required number of (at least 5) board members.				
2. Has ensured separation of role and functions for Chairman and Chief Executive Officer.				
Multiple Board Seats				
1. Has ensured that no person holds the position of a director in more than one licensed financial institution.				
Appointments to the Board				
1. Have there been formal, rigorous and transparent procedures for the appointment of a new director?				
2. Have all appointment to the Board been based on merit and against subjective criteria?				
3. Have careful deliberations and consideration been done to ensure that all appointees have enough time for the job?				
4. Has it been ensured that no individual shareholder with a significant shareholding has been appointed as a Chairman of the Board of Directors?				

5. Has it been ensured that no two members of the same extended family have occupied the position of Chairman and that of Chief Executive Officer or Executive Director of the institution at the same time?				
6. Have all resignations and/or removals in the board of directors been reported to the Central Bank within seven (7) days?				
Self-Assessment/Evaluation				
1. Has this self-assessment/evaluation of the performance of the Board, individual directors and board committees been done in a formal and rigorous manner?				
2. Has this self-assessment/evaluation been conducted annually and was it disclosed to the shareholders?				
3. Has the Managing Director/CEO submitted a copy of this evaluation/self-assessment to the Central Bank on time (by 31 st January of every year)				
III. BOARD COMMITTEES				
Mandate of the board committees				
1. The Board committees have assisted the board and its directors in discharging their duties and responsibilities				
2. There has been a formal procedure for certain functions of the board to be delegated.				
3. Independent directors have played an important role in board committees.				
Structure of the Board Committees				
1. Consists of not less than three (3) members.				
2. The Chairperson of the Board does not chaired any committee				
Board Audit Committee				
Effective Constitution				
1. The Chairman is an independent director				
2. Has at least (2) independent directors				
3. The members are conversant with financial and accounting matters.				
4. The Board Chairperson is not a member of the Audit Committee.				
5. The Chief Executive Officer is not a member of the Audit Committee.				
6. Membership of the Audit Committee has been disclosed in the annual report.				
Responsibilities of Board Audit Committee				
1. Has ensured that the accounts are prepared in a timely and accurate manner.				
2. Has reviewed internal controls, including the scope of the internal audit program, the internal audit findings, and recommended actions to be taken by management.				
3. Has reviewed internal audit reports and their overall effectiveness.				
4. Has reviewed coordination between the internal audit function and the external auditors.				
5. Has nominated external auditors for appointment by shareholders.				
6. Has reviewed and monitored the external auditors' independence and objectivity, taking into consideration relevant professional and regulatory requirements.				
7. Has reviewed the external auditors audit plan, their evaluation of the internal control systems, their required assistance from management and staff, and their recommended actions to address audit findings.				

8. Has reviewed management reports and reports from internal and external auditors concerning deviations and weaknesses in accounting and operational controls.				
9. Has ensured that external and internal auditors have free access to the Board Audit Committee				
10. Has reviewed the institution's compliance plan, with specific reference to the procedures for identifying regulatory risks and controlling their impact on the institution.				
11. Has considered all significant issues regarding risk management raised during meetings conducted by other committees.				
12. Has reviewed all transactions with connected persons				
Asset & Liability Committee (ALCO)				
Mandate of ALCO				
1. The ALCO has assisted the board to formulate a consistent mix of assets and liabilities for the company.				
2. The ALCO has ensured that the financial institution has set aside assets to cover its liabilities.				
3. The ALCO has ensured that all strategies conform to the goals of the Risk Management Committee				
Responsibilities of Asset and Liability Committee (ALCO)				
1. Has formulated the most appropriate strategy for the financial insurance in terms of mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate and foreign exchange.				
2. Define the risk tolerance limit of the bank as it relates to the asset composition of the bank, including its loan assets, investments and trading position.				
Risk Management Committee				
Mandate of Risk Management Committee				
1. The Risk Management Committee has assured itself that Management has identified the company's principal risks and implemented systems to enable, to measure and adequately manage them.				
2. The Risk Management Committee has assured itself of the integrity and effectiveness of the financial institution's risk systems.				
3. The Risk Management Committee has assured itself that the integrated risk management activities have a sufficient degree of independence, sufficient status and visibility and that they have been subject to periodic reviews.				
Responsibilities of Risk Management Committee				
1. Has ensured quality, integrity and reliability of the financial institutions' risk management system.				
2. Has assisted the board of directors in the discharge of its duties relating to corporate accountability and associated risks.				
3. Has reviewed and assessed the integrity and effectiveness of the risk management systems.				
4. Has ensured that all material risks are identified, measured, monitored and reported.				
5. Has set out the nature, role responsibility and authority of the risk management function of the financial institution and outlined the scope of risk management work.				
6. Has monitored external developments relating to the practice of corporate accountability.				

Credit Committee				
Mandate of Credit Committee				
1. Review and oversee the overall lending policy of the banking institution				
2. Deliberate and consider loan applications beyond the discretionary limits of the Risk Management Committee;				
3. Direct the formulation of, review and monitor the credit principles and policies of the banking institution;				
Responsibilities of Credit Committee				
1. Has reviewed and consider loan applications exceeding the minimum set by the Board of Directors from time to time.				
2. Has ensure that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries;				
3. Has review and oversee the overall lending policy of the banking institution from time to time;				
Management				
1. Managing Director/Chief Executive Officer				
Major duties and responsibilities of Managing Director/Chief Executive Officer				
1. Has ensured that the policies spelt out by the board in the institution's overall corporate strategy have been implemented;				
2. Has identified and recommended to the board competent officers to manage the operations of the institution.				
3. Has co-ordinated the operations of the various departments within the institution.				
4. Has established and maintained efficient and adequate internal control systems.				
5. Has designed and implemented the necessary management information system.				
6. Has ensured that the institution has complied with all the relevant laws and regulations applicable to its operations.				
7. Has ensured that the board has been frequently and adequately informed about the operations of the institution through presentation of relevant board papers, which must cover, but not limited to, the following areas:				
1) Actual performance compared with the past performance.				
2) Capital adequacy and margin of solvency.				
3) Performance of the investment portfolio				
4) Income and expenses				
5) All transactions with connected persons.				
6) Report on non-compliance with laws and regulations.				
7) Large exposures				
8) Reports from internal and external auditors and the Board Audit Committee				
Management				
Major Duties and Responsibilities of Management				
1. Has implemented and adhered to the policies, practices and standards as laid down by the Board of Directors				
2. Has implemented systems that have been established to facilitate efficient operations and communications.				
3. Has a formal planning process that has been developed to facilitate achievement of targets and objectives.				

4. Has adhered to the established code of conduct and with all the relevant laws and regulations.				
5. Has maintained the adequate records to comply with all the reporting requirements.				
6. Has included corporate governance compliance status report in the audited financial statements.				
V. CODE OF CONDUCT				
1. Has no director or officer engaged directly or indirectly in any business activity that competes or conflicts with the institution's interest?				
2. Where a director or officer has a financial interest in a transaction did such director or officer discloses such an interest immediately to the management?				
3. Has no officer or staff member conducted business other than the institution's business during office hours?				
4. Has no staff member served as a director of another corporation without approval of the Board of Directors?				
5. Has no director, officer or staff member used the institution's name or facilities for personal advantage in political, investment or retail purchasing transactions?				
6. Has no director, officer or staff member used their connection with the institution to obtain preferential treatments for themselves or for their relatives?				
7. Has no director, officer or staff members misused any information obtained by virtue of employment or connection with the institution?				
8. Have accounting records and reports been complete and accurate and the integrity of records and transactions been ensured?				
9. Has confidentiality of relations and dealings between the institution and its customers been held as paramount in maintaining the institution's reputation?				
10. Have directors, officers and staff members taken precaution to protect the confidentiality of customers' information and transactions?				
11. Have all directors, officers and staff members acted honestly, in good faith and with loyalty to the best interest of the institution?				
12. Have all business dealings on behalf of the institution been conducted fairly and equitably?				
13. Are all decisions made strictly on an arms-length basis and those preferential transactions with connected persons been avoided?				
14. Have directors, officers and staff members not used their positions to further their personal interests?				