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BANK OF BOTSWANA

GUIDELINES ON CORPORATE GOVERNANCE FOR BANKS AND DEPOSIT-TAKING INSTITUTIONS LICENSED AND SUPERVISED BY THE BANK OF BOTSWANA

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1. AUTHORITY, PURPOSE AND SCOPE

(a) Authority

1.1 These guidelines are issued by the Bank of Botswana (Bank), pursuant to its authority set forth in the Bank of Botswana Act (Cap. 55:01).

(b) Purpose of the Guidelines

1.2 The purpose of these guidelines is to provide guidance for the implementation of provisions on fit and proper persons, disqualification, disclosure of interest by a director and offences by directors and penalties prescribed in the Banking Act, 2023 (Banking Act); to comply with core principle 14 of the Basel Core Principles for Effective Banking Supervision, and to merge the 2008 Guidelines on the Appointment of New Directors and Senior Management Officials of Banks and Circular to Banks Regarding Eligibility for Board Membership in Banks into these guidelines.

(c) Scope

1.3 These guidelines apply to any bank and deposit-taking institution licensed by the Bank under the Banking Act, statutory banks falling within the purview of the Bank's supervision in accordance with the provisions of the Banking Act or their respective statutes.

1.4 Implementation of these guidelines is intended to be proportionate to the size, complexity, structure and risk profile of a supervised bank, deposit-taking institution, or a banking group. Thus, implementation of the guidelines may require commensurate adjustments, where appropriate, for banks and deposit-taking institutions with lower risk profiles, while being sensitive to the higher risks that may be attendant to more complex and publicly listed banks. Systemically important banks should have in place corporate governance structures and practices commensurate with their role in and potential effect on national and global financial stability.

2. DEFINITION OF TERMINOLOGY

2.1 Accommodation: a loan, an advance or other credit facility, financial guarantee or other liability granted or incurred by a bank or deposit-taking institution to or on behalf of any person, natural or legal.

2.2 Audit committee: a committee established by and among directors of a board of a bank or deposit-taking institution for the purpose of overseeing the accounting and financial reporting processes and audits of the financial statements of a bank or deposit-taking

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institution and confirming the adequacy, efficiency and effectiveness of the bank or deposit-taking institution's internal control systems.

2.3 bank: a person, including a subsidiary of a foreign bank, which is licensed under the Banking Act to engage in banking business.

2.4 Bank: the Bank of Botswana established by the Bank of Botswana Act (Cap. 55:01).

2.5 Banking Act: Banking Act 2023

2.6 Bank holding company: an entity that owns a controlling interest in one or more banks but does not itself offer banking services as defined in the Banking Act.

2.7 Board of directors: the highest body of authority in a bank or deposit-taking institution, responsible for governing and setting the operating strategy for the bank or deposit-taking institution and effectively monitoring management and properly accounting to shareholders.

2.8 Corporate governance: the allocation of authority and responsibilities of running the business and affairs of a bank or deposit-taking institution by the board of directors and senior management officials, using a system of practices and processes to direct and control the operations of the bank or deposit-taking institution; forming board and management committees to ensure good risk management culture, with the objective of ensuring the safety and soundness of a bank or deposit-taking institution and enhancing shareholder value.

2.9 Cross-directorship: where an individual is a director in at least two deposit-taking institutions, either banks or deposit-taking institutions, including a deposit-taking institution not falling within the scope of the Banking Act.

2.10 Director: any person, by whatever title, who performs or is empowered to perform substantially the same functions in respect of a bank or deposit-taking institution as those performed by a director of a company, as defined in the Companies Act (Cap. 42:01).

2.11 Deposit-taking institution: a company, other than a bank, which is licensed under the Banking Act to engage in the business of accepting deposits from members of the public.

2.12 Independent non-executive director: an individual who is neither a shareholder, a representative of a shareholder, an employee of a bank nor its related entity nor a bank holding company nor deposit-taking institution and is appointed to exercise a duty of care on the affairs of a bank nor deposit-taking institution. For the purposes of these guidelines, a non-executive member of a board should not have any management responsibilities within that bank or deposit-taking institution and should not be under any potential or real undue influence, internal or external, political or ownership, which would impede the exercise of objective judgment by the board member or impair loyalty and duty of care to the bank or deposit-taking institution.

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2.13 Juridical/legal person: an entity created by law and recognised as a legal entity having distinct identity, legal personality, duties, and rights in law.

2.14 Large banks: a bank with total assets amounting to at least 10 percent of the banking sector consolidated assets as at December of every year or as may be determined by the Bank from time to time.

2.15 Natural person: means an individual.

2.16 Nominee of government: a person appointed by the government to represent its interest either as director or as board member.

2.17 Participation: an involvement of a board member in dealings that may result in a director or members of their family or business associates benefitting from their relationship with the board or being in direct financial competition with the bank or deposit-taking institution on whose board of directors the member is serving.

2.18 Principal officer: the chief executive officer or other person, by whatever title the person may be referred to, who is subject to the directions of the board of directors, responsible for the day-to-day management of the affairs of the bank or deposit-taking institution and participating in a major policy-making function of the bank or deposit-taking institution.

2.19 Regulations: regulations related or associated with the Banking Act.

2.20 Related party or related person: as defined in the Banking Act.

2.21 Risk governance framework: a framework through which the board of directors and management make decisions about a bank's strategy and risk approach, and monitor adherence to risk appetite and risk limits against the bank's strategy and identify, measure, manage and control risks.

2.22 Senior manager: chief financial officer, chief operating officer, chief accountant officer, and chief risk officer of the bank or deposit-taking institution and any person, other than a non-executive director, who reports directly to the board and the principal officer or participates or has authority to participate in major policymaking functions of the bank or deposit-taking institution or exerts influence in the granting or denial of credit and other accommodation by a bank or a deposit-taking institution.

2.23 Shareholder: an individual, a group, or an organisation that owns one share or more in a company, and the share ownership is registered with CIPA to which the shareholder can produce evidence.

2.24 Significant shareholder: a person (natural or juridical) who holds (directly or indirectly) (1) at least 5 percent of either the equity or the voting rights of a bank or deposit-taking

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institution or (2) such other interest in a bank or deposit-taking institution that enables the person to exercise significant influence over its strategic management or activity.

2.25 Subsidiary company: an entity that is owned or controlled by another company, a parent or holding company.

2.26 Systemically important bank: a bank, as determined by a method prescribed by the central bank, whose failure may result in significant disruption to the essential services provided in the banking system and the overall economy, because of its size, cross-jurisdictional activities, complexity, interconnection, and lack of substitutability of the bank's operations.

3. BOARD OF DIRECTORS AND SENIOR MANAGEMENT OFFICIALS

(a) Composition of the Board

3.1 Banks or deposit-taking institutions should have the number of board members proportionate to the size, complexity and risk profile of the bank or deposit-taking institution, but no fewer than five members who are natural persons at any time in the case of banks or deposit-taking institutions (a majority of whom should be independent non-executive directors). The board should be composed of board members who are capable of exercising judgement independent of the views of management or any external interests, provided that if a board member resigns, and the composition of a board of directors falls below five, a bank will replace the board member within six months.

3.2 The board should comprise individuals with relevant skills, diversity, independence, and expertise that are commensurate with the size, complexity and risk profile of a bank or a deposit-taking institution. A person appointed to serve as a director should at a minimum hold a diploma or equivalent in any field and have a proven track record in business and demonstrable managerial and leadership ability to be able to understand a bank or deposit-taking institution's operations and business affairs. In addition, the board may consider attributes such as post-qualification experience, expertise, gender, and skills possessed.

3.3 Notwithstanding Clause 3.2, where a person without the requisite skills and qualifications served on a board of a bank before the coming into effect of these guidelines, such person shall continue to serve as a board member until expiration of the tenure of service. Thereafter, any such person shall not be eligible for reappointment unless the person has attained the requisite skills and qualifications.

3.4 To promote and enhance diversification, transparency, and independence of the board of directors, the representation of related persons on the board of a bank shall be restricted to one-third of the board membership.

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3.5 Each member of the board shall attend at least 75 percent of the board meetings of a bank or a deposit-taking institution annually as part of criteria for effective performance of a board member. At the annual general meeting, each bank or deposit-taking institution is required to review the suitability of non-executive board members who have, without valid reasons, failed to comply with the 75 percent requirement.

(b) **Assessment of Proposed Appointment of Board of Directors**

3.6 In accordance with the Banking Act, no person shall serve as a director of a bank or a deposit-taking institution unless the person is a fit-and-proper person in accordance with such criteria as may be determined by the Bank. Within 30 days from the date the Bank receives all information required and sufficient for making a decision whether to approve a proposed appointment, it shall make a decision on an application for a proposed new director and shall notify the bank or the deposit-taking institution of the decision in writing.

3.7 A bank or deposit-taking institution's request for a written consent by the Bank to a proposed new director position shall be made in writing in the form prescribed in the annex.

3.8 A person in full-time employment of a holding company or its subsidiaries, other than the concerned bank or deposit-taking institution may serve as a non-executive director of the concerned bank or deposit-taking institution, unless such individual, by his/her conduct or executive authority, may be construed to be directing the day-to-day management of the concerned bank.

3.9 A board candidate should not have any conflict of interest, because any conflict of interest might impede the person's ability to perform functions independently and objectively once appointed.

3.10 The Bank may request additional or supplementary information if, in its opinion, the founding application or notice submitted is incomplete or insufficient. Failure to provide the Bank with all the required information within 30 days will result in the returning of an application or notice without further assessment.

3.11 The decision of the Bank whether to approve a proposed appointment of a director of a bank or deposit-taking institution shall be based on the fitness and propriety of such an individual.

3.12 A non-executive member of the board of directors of a bank or a deposit-taking institution shall be restricted to a term not exceeding, cumulatively, a period of 10 years. Normally and in general, at any time upon reaching the age of 75, a non-executive member should cease to be a board member. Where a bank or a deposit-taking institution or its board of directors believe that a non-executive director over 75 years continues to be fit to serve as a board member, an application should be made to the Bank.

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(c) Appointment and Responsibility of Senior Management

3.13 No person shall serve as a senior management official of a bank or a deposit-taking institution unless the bank or the deposit-taking institution has informed the Bank of the intended appointment. Within 30 days from the date when the Bank receives all relevant information sufficient to make a decision whether to object to the proposed appointment, a bank or a deposit-taking institution shall be notified of the decision in writing.

3.14 Senior management should be selected through an appropriate promotion or recruitment policy of a bank or a deposit-taking institution as approved by the board. In addition, senior management should provide sufficient information to the board for those senior management positions that are subject to the board review.

3.15 A bank's or a deposit-taking institution's written notification of appointment of a senior management official shall be submitted in the form set out in Annex 2.

3.16 The decision of the Bank on whether to object to a proposed appointment of a senior management official of a bank or a deposit-taking institution shall be based on whether the person has been determined to be fit and proper for such a position.

3.17 Senior management should provide adequate oversight of the operations of a bank or a deposit-taking institution, ensuring that the conduct and performance of the staff are consistent with the business strategy, risk appetite and policies approved by the board.

3.18 Consistent with the direction given by the board, senior management should implement business strategies, policies, risk management systems, processes, and controls for managing risks—both financial and non-financial—to which a bank or a deposit-taking institution is exposed. Senior management is also responsible for ensuring that a bank or a deposit-taking institution complies with laws, regulations and internal policies and promotes a risk culture supportive of safe and sound conduct of the business of a bank or a deposit-taking institution.

(d) Suitability for Board Membership and Senior Management Fit and Proper Criteria

3.19 Before the Bank's approval, and subsequently annually, all persons nominated or appointed by a bank or a deposit-taking institution for board membership, or to senior management should be subjected to a fit-and-proper assessment to determine their initial and continued suitability for the function. The assessment of fitness and propriety should be conducted in accordance with predefined criteria, which is a continuing test, as follows:

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Probity and competence

3.20 A person's qualification, technical knowledge, and experience (as determined by the Bank) should be appropriate to the nature, scale and risk of a bank or a deposit-taking institution's actual operations and planned activities.

3.21 The person should not have been convicted of, or imprisoned for, any offence involving fraud, theft or any other offence involving acts of dishonesty, impropriety and/or breach of a fiduciary duty.

3.22 The person should not have been judged to be bankrupt by a court of law or have failed to satisfy creditors in full within the last 10 years.

3.23 The person's financial condition and history, including past employment, should not be questionable; that is, the person should not have been and is not being removed or suspended as a principal officer, director, senior manager, or significant shareholder of any bank or a deposit-taking institution licensed to operate in Botswana or in a foreign country, unless such removal or suspension and does not relate to the person's performance, conduct or competency as a director, officer or significant shareholder of a licensed institution.

3.24 The person is not and has not been a principal officer, senior manager, board member or significant shareholder of a bank or a deposit-taking institution licensed under the Banking Act or licensed in a foreign country and which the bank or a deposit-taking institution has been, or is being, wound up or liquidated compulsorily and such individual has held the position not more than 5 years immediately preceding the emergence of such problems at the bank

3.25 Where the Bank has reason to believe that any person, by virtue of a shareholding in a bank or deposit-taking institution, is in a position to influence a principal officer, senior manager or the board of directors of that bank or deposit-taking institution and is exercising his/her influence in a manner that is likely to be detrimental to the interests of depositors, the Bank may instruct the bank or the financial institution to sever connection with that person.

3.26 The person should never have supplied false or misleading information to a bank or a deposit-taking institution regarding the person's qualifications, experience, professional and moral reputation that would otherwise render the person unfit and not proper according to these guidelines, or ability to serve a bank and has never been involved in any acts of impropriety. Examples of impropriety are criminal acts and failure to comply with any obligations to which one is subject.

3.27 The person should not have been barred from practising his/her profession in accordance with the code of conduct or other regulation applicable to his/her profession.

3.28 The person should not be under 18 years of age.

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Diligence in fulfilling responsibilities to a bank or deposit-taking institution

3.29 For senior management officials of a bank or deposit-taking institution, the person should be a resident of Botswana and, in the case of non-citizens, have a work permit and/or resident permit issued by an appropriate government agency

3.30 For directors, the proposed candidate should be a resident of Botswana or, if not, two-thirds of directors should be resident in Botswana, and the proposed candidate who is not resident in Botswana should reasonably be able to regularly attend meetings of the board of directors and committees thereof. Virtual meeting attendance is allowable, subject to a bank's or deposit-taking institution's policies and procedures.

3.31 The person should not be serving as a director of another bank, statutory bank, or any other deposit-taking institution within the Botswana financial sector, except where the person is serving as an executive director of a deposit-taking institution within the banking group of the bank or deposit-taking institution group.

3.32 A person who has served on the board of a bank or a deposit-taking institution shall be eligible for appointment as director on the board of another bank or deposit-taking institution only after a cooling-off period of at least 12 months.

3.33 A person who has served as a governor/deputy governor of the Bank shall be eligible for appointment as director of a board of any bank or deposit-taking institution only after a cooling-off period of at least 12 months.

3.34 The person should not be employed directly by another bank, statutory bank, or non-bank deposit-taking institution, or any other deposit-taking institution that falls within the supervisory purview of the Bank at the time of expected assumption of duty.

3.35 The person under consideration should not have been found to be mentally incompetent to manage his/her affairs in any official proceeding under the laws of Botswana or elsewhere.

3.36 The person (directly or indirectly, alone, or acting in concert with others) should not have accommodation from a bank or other exposures that exceed the limit prescribed by section 28 of the Banking Act and the Bank's Guidelines on Transactions with Related Persons of a Bank.

3.37 The person should have disclosed all material interests in accommodation, other exposures, and transactions with a bank or a deposit-taking institution.

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Absence of evidence of adverse record of previous conduct

3.38 The person should have no adverse record of business or professional misconduct, for example, involvement in fraud or other acts of dishonesty, impropriety and/or breach of a fiduciary duty.

3.39 The person under consideration should not have been convicted of an offence involving fraud, breach of trust, or any other acts of dishonesty, including money laundering and terrorist financing.

3.40 The person should not have been convicted by a court of law of contravention of any provisions of the Banking Act or other pieces of legislation designed to protect members of the public against financial loss because of the following:

(a) dishonesty, incompetence, or malpractice by persons in the banking business or in the management of companies.

(b) engaging in any of the following prohibited activities at a bank, non-bank deposit-taking institution, or other previous employment:

(i) making false or misleading statements, false or misleading book entries, or false or misleading omissions from any book, account, report or statement;
(ii) obstructing any audit or examination of a regulated entity;
(iii) failing to take all reasonable steps to ensure compliance with the laws and regulations;
(iv) revealing to the concerned person that a suspicious transaction report or related information is being filed with the Financial Intelligence Agency for money laundering or terrorist financing investigation; or
(v) knowingly failing to report an offence, improper or unlawful activity to the board of directors or relevant authority.

(c) conducting business in an unlawful or unsound manner or in a way that resulted in an unsound financial condition;

(d) declared bankrupt and has not been lawfully rehabilitated;

(e) being under suspension or removed from office by order of the Bank pursuant to the Banking Act, or by the home-country supervisor; or

(f) having a negative employment record or having otherwise conducted oneself in a manner that appears to the Bank to be deceitful, or the person is considered to be incompetent or of unsound mind.

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Persons not eligible for board membership of banks and deposit-taking institutions, and exemption

3.41 The following categories of persons are not eligible for board appointment:

(a) Central and local government officials, employees and board members of statutory corporations and other wholly owned state enterprises, which includes entities where the government of Botswana by virtue of its shareholding is a related entity (20–50 percent) or parent (51 percent or more), except nominees of government;
(b) Partners and other senior auditors who, at the time of consideration for board membership, are practising auditors for public accounting firms or had been auditors of the bank within the last 3 years;
(c) Board members of an oversight authority responsible for overseeing other deposit-taking institutions;
(d) President, members of a legislative body, such as members of parliament and house of chiefs, cabinet ministers or equivalent designation of foreign governments and local authorities such as land boards and similar government agencies;
(e) Bank of Botswana staff, except as nominees of government;
(f) Member of the diplomatic corps (Botswana and other embassies); and
(g) Chief executive officers of state-owned enterprises and statutory corporations.

3.42 In a similar manner, to avoid the potential conflict of interest, chief executive officers, senior management officials and any other employees of banks or deposit-taking institutions may not be board members of state-owned enterprises.

3.43 As a board member or a senior management official of a bank or deposit-taking institution, a person may not be a board member or a senior management official of another bank or deposit-taking institution or accept appointment as board member or senior management official of any of the institutions outlined in clause 3.41 above.

3.44 The following categories of persons are exempted from 3.41:

(a) Employees/lecturers of the University of Botswana, Botswana International University of Science and Technology, Botswana University of Agriculture and Natural Resources, Botswana National Productivity Centre, Botswana Bureau of Standards, Botswana Investment and Trade Centre, Botswana Innovation Hub and any other category that the Bank may from time to time consider necessary to be exempt.

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Submission of annual declaration and removal from office

3.45 A board member or senior management official of a bank or a deposit-taking institution shall complete and submit to the Bank, by 31 January of each year, a newly completed personal questionnaire for the year ended 31 December of the preceding year.

3.46 If it transpires that any director or senior management official submitted false or misleading information at the time of his/her appointment, the Bank shall require removal of such a person from office with immediate effect.

3.47 The requirement for fit-and-proper status is continuous; at any point of breach by any person, a bank or a deposit-taking institution shall be required to remove from office such person as director or senior management official, and the bank or the deposit-taking institution shall inform the Bank of such breach within 7 days of discovery of the breach by the bank or the deposit-taking institution.

3.48 The Bank also applies the fit-and-proper assessment to board members and senior management officials of bank-holding companies domiciled in Botswana. The appointment thereof shall be subject to prior written approval of the Bank. The board of a bank-holding company and the banking institution shall be separate. The chairman of a holding company, irrespective of residence, shall not be a chairman of a banking institution. The board of a bank or deposit-taking institution should also be separate from the boards of its local subsidiaries.

4 RESPONSIBILITIES OF A BOARD OF DIRECTORS

(a) Broad Board Responsibilities

4.1 A board of directors has the ultimate responsibility for a bank or a deposit-taking institution's business strategy and financial soundness, key personnel decisions, internal organisation and governance structures and practice, as well as risk management and compliance obligations in accordance with the board charter. The board may delegate some of its functions, not its accountability, to board committees, where appropriate.

4.2 In line with Section 152 (3) of the Companies Act (Cap. 42:01), all directors shall remain liable in relation to acts and omissions, and decisions made while the person was a director. Consistent with Section 154 of the Companies Act, the acts of a person as a director shall be valid even though the person's appointment was defective, or the director is deemed not to be qualified for appointment.

4.3 The duty of care requires a board member to at a minimum participate effectively in board and committee meetings and to communicate and work effectively with the chairperson of the board and the CEO. A board member owes a fiduciary duty to exercise good

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business judgement and to use ordinary care and prudence in the operation of the business. Board members ought to discharge their obligations in good faith, with care and in the best interests of a bank or a deposit-taking institution.

4.4 The duty of loyalty prohibits board members and officers from participating in a competing entity. Board members should disclose any potential conflict of interest relating to transactions to which the banking institution or a deposit-taking institution is a potential party.

4.5 A board should ensure that transactions with related parties (including internal group transactions) are reviewed to assess risk and are subject to appropriate restrictions and are conducted at arm's length.

4.6 In discharging these responsibilities, a board should take into account the legitimate interests of depositors, shareholders and other relevant stakeholders. It should also ensure that the bank or the deposit-taking institution maintains an effective relationship with its supervisors.

4.7 A board should ensure that a bank or deposit-taking institution's organisational structure enables the board and senior management to carry out their responsibilities and facilitates effective decision-making and good governance. The board mandate includes laying down the key responsibilities and authorities of the board itself, senior management and of those responsible for the risk management and control functions.

4.8 As part of the overall corporate governance framework, the board is responsible for overseeing a strong, effective risk-governance framework. An effective risk-governance framework includes a strong risk culture, a well-developed risk appetite articulated through a risk appetite statement, and well-defined responsibilities for risk management, in particular, and control functions, in general.

4.9 Developing and conveying the bank or deposit-taking institution's risk appetite is essential to reinforcing a strong risk culture. The risk-governance framework is as outlined in paragraph 3.15 of the Guidelines on Risk Management issued to banks on 15 May 2018, including its revised version. The risk management policies and procedures must be approved by the board in line with the Guidelines on Risk Management.

(b) Specific Board Responsibilities

4.10 In addition to the duties and responsibilities of the directors as specified in the Companies Act, the board jointly and severally has the following responsibilities:

(a) actively engage in the affairs of the bank or the deposit-taking institution and keep up with material changes in its business and the external environment as well as act in a timely manner to protect the long-term interests of the bank or deposit-taking institution;

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(b) oversee the development of and approve the bank or deposit-taking institution's business objectives and strategy and monitor implementation of the strategy;

(c) play a lead role in establishing the bank or the deposit-taking institution's corporate culture and values;

(d) oversee implementation of the bank's or the deposit-taking institution's governance framework and periodically review it to ensure that it remains appropriate in the light of material changes to the bank or deposit-taking institution's size, complexity, geographical footprint, business strategy, markets and regulatory requirements;

(e) establish, with senior management and the chief risk officer (CRO), the bank's or deposit-taking institution's risk appetite, considering the competitive and regulatory landscape, long-term interests, exposure to risk and ability to manage risk effectively;

(f) ensure that the bank or the deposit-taking institution complies with its own risk-appetite statement, risk policy and risk limits and prudential requirements prescribed by the supervisory authority;

(g) approve the approach and oversee the implementation of key policies pertaining to the bank or the deposit-taking institution's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations, and the internal control system;

(h) require that the bank or the deposit-taking institution maintain a robust finance function responsible for accounting and financial data;

(i) approve the annual financial statements and require a periodic independent review of critical areas;

(j) approve the selection and oversee the performance of the chief executive officer, members of senior management and heads of the control functions and ensure that there is proper succession planning for all key positions;

(k) play a lead role in establishing the bank's or the deposit-taking institution's corporate culture and values. In addition, the board should develop a bank's or deposit-taking institution's code of conduct or code of ethics, or comparable policy, defining acceptable and unacceptable behaviours;

(l) oversee the bank's or the deposit-taking institution's approach to remuneration, including monitoring and reviewing executive emoluments and assessing whether they are aligned with the bank's risk culture and appetite;

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(m) oversee the integrity, independence and effectiveness of the bank's or the deposit-taking institution's policies and procedures, mitigating or reporting any acts of dishonesty and/or fraud;

(n) ensure compliance with the laws of Botswana and/or any jurisdiction of its business operation.

Role of Chairperson

4.11 A board chairperson plays a pivotal role in the proper functioning of the board. The chairperson provides overall leadership to the board and oversees its functions and should maintain a relationship of trust with board members. To fulfil these responsibilities, the chairperson should possess the requisite experience, competencies, and congenial personal qualities. The chairperson should ensure that board decisions are well informed, encourage and promote discussions, and that dissenting views can be freely expressed in the process. To promote checks and balances, the board chairperson should be an independent non-executive board member and should not chair any board committee.

4.12 All board committees should consist of at least three board members. To enhance objectivity of committees, each board committee should have a majority of independent non-executive members, except for an audit committee, all members of which should be independent non-executive directors, and the chairperson of any board committee shall be an independent non-executive director. Committee members should be rotated regularly at the frequency stipulated in each committee charter. In addition, the board chairperson should neither be a member nor participate in any activities of an audit committee.

Board Committees and other Risk Governance Structures

4.13 Every board committee of a bank or a deposit-taking institution shall have a charter that shall include the mandate, scope, oversight procedure, reporting lines, tenure limits and rotation cycle of board members. In the interests of transparency, a board shall disclose the committees it has established, their mandates and composition, including independent members of such committees in the annual report. Each committee shall maintain a record of committee deliberations and decisions. The record will reflect the committee's fulfilment of its mandate and will be used by regulators and other interested parties to assess committee effectiveness.

Risk Committee

4.14 Section 53(1) of the Banking Act requires a bank/deposit-taking institution to establish a risk committee.

4.15 A board risk committee is responsible for advising the board on the bank or the deposit-taking institution's risk appetite, providing oversight of implementation by management of the bank or the deposit-taking institution's risk assessment system (RAS), reporting on the state of risk culture in the bank, and interacting with and guiding the chief risk officer (CRO). The committee's function also includes oversight of the strategies for capital and

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liquidity management and assessment of whether common risks, such as credit, market, operational and reputational risks are aligned with the stated risk appetite of the bank or the deposit-taking institution.

4.16 A majority of members of a risk committee should be independent non-executive board members who have experience in risk management and practices. The chairperson of the risk committee shall be an independent non-executive director who shall not be the chairperson of any other board committee of the bank or deposit-taking institution.

4.17 The risk committee should be regularly apprised, by the CRO, of the risk status of the bank or the deposit-taking institution, detailing the risk profile of the bank or the deposit-taking institution and its current state of the risk culture, utilisation of capital against the established risk appetite, limits, risk tolerance levels and mitigation plans.

4.18 The risk committee should maintain effective communication and coordination with the audit committee to identify emerging risks and any needed adjustments to the risk-governance framework of a bank or a deposit-taking institution. Further, the risk committee should have oversight of the strategies for capital and liquidity management and all relevant risks of the bank or deposit-taking institution, such as strategic, credit, market, operational, compliance and reputational risks, to ensure consistency with the stated risk appetite.

Audit Committee

4.19 Section 52(1) of the Banking Act requires a bank or a deposit-taking institution to have a board audit committee, some responsibilities of which are stated under clause 4.20. Therefore, each bank or deposit-taking institution shall have an audit committee, which shall consist of at least three board members, all of whom shall be independent non-executive directors. The committee shall be made up of members with experience in audit practice, financial reporting, and accounting. The chairperson of the board and the chief executive officer shall be ineligible for membership of an audit committee. The chief executive officer could, however, be invited to sit in on an audit committee meeting whenever it is deemed necessary, to provide guidance on specific issues.

4.20 Responsibilities of the audit committee shall include the following:

(a) reviewing and approving the audit scope and its frequency;
(b) providing oversight of both the external and internal auditors and engaging them on matters that might need to be addressed to promote integrity of financial reporting;
(c) ensuring that a bank or a deposit-taking institution has resources to be used in a timely preparation of the bank or the deposit-taking institution's financial reports and accounts;
(d) recommending to the board of directors, appointment, compensation, and dismissal of external auditors;

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(e) assessing any related-party transactions within the bank or the deposit-taking institution or any of the entities' affiliates; formulating policy on internal audit and financial reporting, among others;
(f) assisting the board of directors with evaluation of adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the bank or the deposit-taking institution;
(g) facilitating and promoting communication on risk management and other related matters within the bank or the deposit-taking institution.

4.21 To fulfil the requirement to be independent and objective, the audit committee shall be distinct from all other committees in both form (composition) and function (all activities) for large banks, while for other banks and deposit-taking institutions, cross-membership, if any, should be minimal to promote objectivity and effective oversight. Any such cross-membership shall nevertheless not be between an audit committee and a risk committee.

4.22 The internal audit function plays a crucial role in sustained maintenance and assessment of a bank's or a deposit-taking institution's internal controls, risk management and governance systems and processes, areas in which supervisory authorities have a keen interest. A bank or a deposit-taking institution shall therefore establish an internal audit function for that purpose in line with paragraphs 4.9 and 4.10 of the Guidelines on Risk Management.

4.23 The board and senior management should respect and promote independence of the internal audit function by ensuring that internal audit reports are provided to the board or its audit committee without management's filtering, and that the internal auditors have direct access to the board or the board's audit committee.

4.24 If the chief internal auditor is removed from the position, the decision should be publicly disclosed, and the bank or the deposit-taking institution concerned should discuss the reasons for the action with the regulator.

Compliance Committee

4.25 Section 57(1) of the Banking Act requires a bank or a deposit-taking institution to establish an independent compliance function that shall be commensurate with the volume, size and complexity of the operations of the bank or deposit-taking institution.

4.26 A compliance committee ensures that a bank or deposit-taking institution has the appropriate means for promoting proper decision-making, due consideration of the risks to the bank's or the deposit-taking institution's reputation, and compliance with laws, regulations, and internal rules. In that regard, the board compliance committee should be separate from the audit and risk committees. The requirement to separate compliance committee from audit and risk committees will apply to large banks, as may be determined by the Bank from time to time.

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4.27 The board and senior management should establish an independent compliance function. The compliance function is a key component of a bank's or a deposit-taking institution's second line of defense. This function is responsible for, among others, ensuring that the bank or the deposit-taking institution operates with integrity and in compliance with applicable laws, regulations, and internal policies.

4.28 The compliance function should advise the board and senior management on the bank's or the deposit-taking institution's compliance with applicable laws, rules and standards and keep them informed of developments in the area. It should also help educate staff about compliance, act as a contact point within the bank or the deposit-taking institution for compliance queries from staff members and provide guidance to staff on the appropriate implementation of applicable laws, rules and standards in the form of policies and procedures and other documents, such as compliance manuals, internal codes of conduct and practice guidelines.

4.29 The compliance function should, among others, routinely monitor compliance with laws, corporate governance requirements, regulations, codes, and policies to which a bank or a deposit-taking institution is subject. The board shall approve compliance policies that are communicated to all staff. The compliance function should assess the extent to which policies are observed and report to senior management and, as appropriate, to the board, on the bank's or the deposit-taking institution's management of the compliance risk. The compliance function should be independent, report directly to the board and be sufficiently resourced to effectively carry out its mandate. Further, the head of compliance should have direct access to the board of directors or to a board committee.

4.30 Other responsibilities of the compliance function are outlined at paragraphs 10.7 through 10.11 of the Guidelines on Risk Management.

Remuneration Committee

4.31 Section 54(1) of the Banking Act requires all banks and deposit-taking institutions to establish a remuneration committee, or alternatively a compensation committee, consisting of a majority of independent non-executive directors, to oversee the design and operation of the remuneration system.

4.32 The committee should support the board in overseeing the design and operation of the remuneration system and in ensuring that remuneration is appropriate and consistent with the bank's or deposit-taking institution's culture, long-term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements.

4.33 The remuneration committee should be constituted in a way that enables it to exercise competent and independent judgment on remuneration policies and practices and the incentives they create. The remuneration committee should work closely with the bank's or the deposit-taking institution's risk committee in evaluating the incentives created by the remuneration system. The risk committee should, without prejudice to the activities of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity, earnings and profitability.

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4.34 A remuneration system forms a key component of the governance and incentive structure through which the board and senior management promote satisfactory performance, convey acceptable risk-taking behaviour, and reinforce the bank's or the deposit-taking institution's operating and risk culture. The board of a bank or a deposit-taking institution must pay sustained attention to the design and operation of remuneration practices for the whole bank, not just for the most senior executives. The board (or, by delegation, its remuneration committee) should also be responsible for the overall oversight of management's implementation of the remuneration system for the entire bank. In addition, the board or its committee should regularly monitor and review assessed impact of the implementation of the remuneration system to assess whether the bank-wide remuneration system is creating the desired incentives for managing risk, capital and liquidity. The board or remuneration committee should review the remuneration plans, processes, and results at least annually.

4.35 The board, together with its remuneration committee, should approve the remuneration of senior executives, including the chief executive officer, chief risk officer, head of compliance and head of internal audit, and should oversee development and operation of remuneration policies, systems and related control processes. The remuneration structure should be in line with the business and risk strategy, objectives, values, and long-term interests of the bank or deposit-taking institution. It should also incorporate measures to prevent conflict of interest.

4.36 The remuneration for employees in control functions (risk, compliance and internal audit) should not be determined by employees falling under the business lines that they oversee, and performance measures should be based primarily on the achievement of those employees' objectives so as not to compromise their independence. That is, a bank or a deposit-taking institution should ensure that the remuneration for staff members in control functions are designed in a way that avoids conflict of interest.

4.37 Remuneration policies should encourage a sound risk culture in which risk-taking behaviour is appropriate and which encourages employees to act in the interests of the bank (also taking account of client interests) rather than for themselves or only their business lines. In particular, incentives embedded in the remuneration structure should not influence staff to take excessive risk.

4.38 The remuneration structure should reflect risk-taking and risk outcomes. Practices by which remuneration of officers is based on potential future revenues whose timing and likelihood remain uncertain should be carefully evaluated by means of both qualitative and quantitative key indicators. The remuneration framework should provide for variable remuneration, taking account of the full range of risks, including breaches of risk appetite limits, internal procedures or legal requirements.

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4.39 Banks and deposit-taking institutions must set specific provisions for employees with a significant influence on the overall risk profile, the so-called material-risk takers. Remuneration should be sensitive to the resultant risk over time.

Credit Committee

4.40 Section 55(1) of the Banking Act requires a bank or deposit-taking institution to establish a credit committee, consisting of a majority of independent non-executive directors.

4.41 A credit committee oversees the credit and lending strategies, and the committee's responsibilities are detailed in chapter five of the Guidelines on Risk Management. The primary responsibilities, however, are summarised below:

(a) review and oversee the overall lending policy of a bank;
(b) direct the formulation of, review and monitor the credit policies and procedures of a bank;
(c) ensure the existence of effective procedures and resources to identify and manage non-performing loans;
(d) direct, monitor, review and consider all issues that may materially affect the present and future quality of a bank's credit risk management; and
(e) delegate and review lending limits set for the respective senior management officials.

Nomination Committee

4.42 Section 55A (1) of the Banking Act requires that the board of directors of a bank or deposit-taking institution establish a nomination committee, consisting of majority of independent non-executive directors.

4.43 A nomination committee or, alternatively a human resources committee, is required for all banks and deposit-taking institutions. To promote objectivity and impartiality, the committee should have a majority of independent non-executive directors.

Responsibilities of the committee are as summarised below:

(a) The nomination committee analyses and defines the role and responsibilities of directors and the knowledge, experience and competence required by the roles.

(b) The nomination committee recommends appointment of board of directors to the board. Further, the committee assists the board in identifying directors for recommendation to shareholders for re-election. The procedure for the nomination of directors for appointment and re-election should be transparent and documented.

(c) The committee should ensure diversity in the board composition with respect to age, gender, professional history, and skills. The diverse requirements will enhance

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problem-solving capabilities and ensure comprehensive identification of potential risks and opportunities.

(d) The committee is responsible for succession planning for executive and non-executive directors to ensure the long-term stability and effectiveness of the bank or the deposit- taking institution. A bank's or a deposit-taking institution's succession plan should ensure that the end of term for directors does not occur concurrently, to minimise disruption of the flow of work of the board.

(e) The nomination committee is also responsible for facilitating evaluation of the performance of individual directors, principal officer, board committees and the board. The evaluation should provide insights into the strengths and weaknesses of the overall governance structure, identify areas for improvement, and improve accountability. By evaluating performance, the board, through the nomination committee, should be able to assess how a bank or a deposit-taking institution can optimise decision-making, align strategic goals, and foster a culture of transparency and responsibility.

Risk appetite, management, and control

4.44 As part of the overall corporate governance framework, the board is responsible for establishing and overseeing a strong risk governance framework. A risk-governance framework should comply with the minimum requirements of the Guidelines on Risk Management. The framework should include well-defined organisational responsibilities for risk management, typically referred to as the three lines of defence, viz., business unit, independent risk management and compliance units, and the internal audit unit. The business units should be adequately resourced to identify, assess, and report risk exposures, given a bank's risk tolerance level and the available risk-mitigation measures.

4.46 The board oversight structure is dependent on the bank's nature, size and complexity, and the risk profile of its activities. Regardless of the structure, responsibilities for each line of defence should be well defined and communicated.

4.47 To have an effective oversight of the activities of a bank, the board shall ensure that the three roles, namely, risk management, compliance and internal audit functions are adequately resourced to execute their functions effectively, independently and objectively through constitution of the following committees:

Corporate Culture and Values

4.48 A fundamental component of good governance is a demonstrable corporate culture of reinforcing appropriate norms for responsible and ethical behaviour. These norms are especially crucial to a bank's risk awareness, risk-taking and risk management.

4.49 To promote a sound corporate culture, the board should take the lead in

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establishing the tone by

(a) setting and adhering to corporate values for itself, senior management and other employees to create expectations that all business should be conducted in a legal and ethical manner.

(b) promoting risk awareness within a strong risk culture, conveying the board's indisposition to excessive risk-taking and that all employees are responsible for helping ensure that the bank operates within the agreed risk appetite and risk limits.

(c) ensuring that appropriate steps are taken to communicate throughout a bank or a deposit-taking institution the corporate values, professional standards, or codes of conduct it has set, together with supporting policies; and

(d) ensuring that employees, including senior management, are aware that appropriate disciplinary or other actions will be taken against unacceptable behaviours and transgressions.

4.50 A bank's or a deposit-taking institution's code of conduct or code of ethics, or comparable policy, should define acceptable and unacceptable behaviours by

(a) explicitly disallowing behaviour that could lead to any reputational risks or improper or illegal activity, such as financial misreporting, money laundering, fraud, anti-competitive practices, bribery and corruption, or the violation of consumer rights.

(b) making clear that employees are expected to conduct themselves ethically in addition to complying with laws, regulations, and bank policies.

4.51 A bank's or a deposit-taking institution's corporate values should recognise the importance of timely and frank discussion and escalation of problems to higher levels within the bank by

(a) encouraging employees to confidentially communicate, without the risk of reprisal, legitimate concerns about illegal, unethical, or questionable practices. Communication can be facilitated through an adequately disseminated policy and adequate procedures and processes, consistent with applicable laws, which allow employees to communicate material and bona fide concerns and findings of any violations in a confidential way (for example, a whistle blowing policy). The procedure includes communicating material concerns to the bank's supervisor.

(b) allowing direct or indirect communication to the board (for instance, through an independent audit or compliance process or through an ombudsman independent of the internal chain of command).

(c) determining a process through which legitimate concerns shall be investigated and addressed by an objective independent internal or external body, senior management and/or the board itself.

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5. GOVERNANCE OF GROUP STRUCTURES

5.1 When a bank or a deposit-taking institution operates within a group structure, the board of the parent company should be aware of the material risks and matters that might affect both the bank or the deposit-taking institution as a whole and its subsidiaries. The board should exercise adequate oversight of subsidiaries, while respecting the independent legal and governance responsibilities that might apply to boards of subsidiaries.

5.2 Boards and senior management of subsidiaries remain the focal point of responsibility for developing effective risk-management processes for their entities. Methods and procedures applied by subsidiaries should support effectiveness of risk management at a group level. While holding (parent) companies should conduct strategic, group-wide risk management and prescribe corporate risk policies, subsidiary management and boards should have appropriate input to their local or regional peculiarities and to the assessment of local risks. Holding companies should ensure that adequate tools and authority are available to the subsidiary, and that the subsidiary understands the reporting obligations it has to the head office. It is the responsibility of subsidiary boards to assess the compatibility of group policy with local legal and regulatory requirements and, where appropriate, amend those policies.

5.3 While the strategic objectives, risk governance framework, corporate values and corporate governance principles of a subsidiary should align with those of the parent company (group policies), the subsidiary board should make necessary adjustments where a group policy conflicts with an applicable legal or regulatory requirement or prudential rule or would be detrimental to the sound and prudent management of the subsidiary.

5.4 In the case of a regulated subsidiary (due to its risk profile or systemic importance or its size relative to the parent company), the board of the subsidiary should take such further steps as are necessary to help the subsidiary meet its own corporate-governance responsibilities and the legal and regulatory requirements that apply to it.

6. DISCLOSURE AND TRANSPARENCY

6.1 Each bank or deposit-taking institution should be adequately transparent to its shareholders, depositors, other relevant stakeholders, and market participants. Transparency is necessary in that it enables stakeholders, such as shareholders, depositors, and market participants to effectively monitor and properly hold the board and senior management accountable for their business decisions. Therefore, the objective of transparency is to provide stakeholders with the information necessary to adequately assess the effectiveness of the board and senior management.

6.2 Disclosure requirements for unlisted banks, notably those wholly owned, may be less detailed than those of listed banks, which must comply with disclosure requirements prescribed by stock exchanges. However, to the extent that unlisted banks pose the same

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contagion risk as publicly traded banks through, inter alia, participation in the payments systems and retail deposit-taking, all banks, even those for whom disclosure requirements may differ because they are unlisted, should disclose relevant and useful information that supports the key areas of corporate governance identified by the Basel Committee on Banking Supervision. Such disclosure should be proportionate to the size, complexity, structure, economic significance, and risk profile of a bank.

6.3 At a minimum, a bank or a deposit-taking institution shall annually disclose in the annual report, the following information:

(a) the recruitment approach for the selection of members of the board and their qualifications, knowledge, skills, and expertise; and

(b) whether the bank has set up board committees and the number of times key standing committees have met.

6.4 In general, a bank or a deposit-taking institution should apply the disclosure and transparency section of the Organisation for Economic Cooperation and Development principles. Accordingly, the disclosure should include material information regarding the bank's or the deposit-taking institution's objectives, organisational and governance structures and policies (in particular, the content of any corporate governance or remuneration code or policy and the process by which it is implemented), major share ownership and voting rights, related-party transactions, and the incentive and remuneration policy. In this regard, an annual report on remuneration should be disclosed to the public and should cover the most important design characteristics of the remuneration system, including the criteria used for performance measurement and risk adjustment and aggregate quantitative information on remuneration.

6.5 A bank or deposit-taking institution should also disclose key points concerning its risk exposures and risk-management strategies without breaching necessary confidentiality.

6.6 Overall, a bank or deposit-taking institution should have an annual corporate governance-specific and comprehensive statement in a clearly identifiable section of the annual report or the bank's or the deposit-taking institution's websites. In addition, all material developments that arise between regular reports shall be disclosed, without undue delay, to the Bank and relevant stakeholders as required by law.

7. EVALUATION AND BOARD PERFORMANCE

7.1 The board of a bank or a deposit-taking institution should, through a nomination committee, review the combination of technical skills, expert knowledge, experience and diversity of board members to assess effectiveness of a board. Such reviews of the board, its committees and all directors, including the chairperson, shall be internally and externally facilitated.

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7.2 The board should establish a formal framework, with appropriate tools, for regular assessment of the performance of the board, board committees and individual directors. The framework shall include the description of the performance evaluation undertaken during the reporting period, including the scope and whether it was internally or externally facilitated.

7.3 The evaluation should be conducted internally on an annual basis and externally facilitated every two years. Every bank or deposit-taking institution is required to disclose, in its annual report, that the evaluation was conducted. The report on the evaluation of board effectiveness, including the consequent remedial actions taken, if any, shall be submitted to the Bank on request.

8. GENERAL PROVISION

8.1 To safeguard and maintain integrity of the banking system (broadly interpreted to include deposit-taking institutions), banks and deposit-taking institutions are required to conduct due diligence as part of their recruitment processes to ensure that persons with a negative disciplinary record, including resignation by employees before completion of disciplinary processes for staff charged with disciplinary offences, are not employed.

8.2 Any bank or deposit-taking institution that fails to conduct sufficient due diligence in its recruitment process and end up employing persons with a negative disciplinary record will attract supervisory punitive action, as the Bank may deem fit.

9. EFFECTIVE DATE

9.1 The guidelines shall come into effect three months from the date of issue.

10. RESCISSION

10.1 The 2008 Guidelines on the Appointment of New Directors and Senior Management Officials of Banks and Circular to Banks Regarding Eligibility for Board Membership in Banks are hereby rescinded and shall be replaced by these guidelines upon their coming into effect.

10.2 These guidelines will substitute for the Guidelines on Corporate Governance for Banks/Financial Institutions Licensed and Supervised by the Bank of Botswana upon coming into effect.

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Annex 1

(a) Application for Appointment of a New Director

Form of Notice

The original and one signed official copy of the request shall be submitted to the Bank.

Information Required

1. Name of bank or deposit-taking institution.

2. Name of contact person, address and telephone number in Botswana.

3. Name of proposed director.

4. Certified copy of the national identity card (*Omang*) for citizens of Botswana; otherwise, a certified copy of the passport pages bearing passport number, dates of issue and expiry and personal details and photograph of a passport holder.

5. Security Vetting Authorisation and Consent Form, completed in full.

6. Police Clearance Report.

7. Business and professional history included in a detailed *Curriculum Vitae.*

8. Information on whether the person is, or has ever been, a significant shareholder, director, or senior management official of any bank or deposit taking institution located anywhere in the world;

9. Information on the person's involvement in companies, partnerships, associations, and groups of persons acting together with a common purpose whether or not organised as a formal business entity;

10. A list of all "related persons" who will be so designated if the person serves as a director of a bank or deposit-taking institution. (For definition, refer to Clause 2.20 of the Guidelines);

11. Personal questionnaire with two passport-size photos; and

12. An official resolution of the board of directors, authorising the appointment notice to the Bank, indicating the decision taken on the appointment of the person to the board of directors. The resolution shall specifically state that the appointment is subject to the

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written approval of the Bank and the person shall not act in the capacity until receipt of the Bank's approval.

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Annex 2

(b) Notice of Appointment of a Senior Management Official

Form of Notice

The original and one signed official copy of the request shall be submitted to the Bank.

Information Required

1. Name of bank or deposit-taking institution;
2. Name of contact person, address and telephone number in Botswana;
3. Proposed position at senior management level and functional responsibilities;
4. Name of proposed senior management official;
5. Certified copy of the national identity card (*Omang*) for citizens of Botswana; otherwise, a certified copy of the passport pages bearing passport number, dates of issue and expiry and personal details and photograph of a passport holder;
6. Security Vetting Consent and Authorisation Form, completed in full;
7. Police Clearance Report;
8. Business and professional history included in a detailed Curriculum Vitae.
9. Information on whether the person is, or has ever been, a significant shareholder, director or senior management official of any bank located anywhere in the world;
10. Information on the person's involvement in companies, partnerships, associations, and groups of persons acting together with a common purpose whether or not organised as a formal business entity;
11. A list of all "related persons" who will be so designated if the person serves as a senior management official of a bank or deposit-taking instituion. (For definition, refer to Clause 2.20 of the Guidelines);
12. Personal questionnaire with two passport-size photos; and
13. An official resolution of the board of directors, authorising the appointment notice to the Bank and indicating that the board has thoroughly evaluated the proposed new senior management official according to each and every criteria of the "fit and proper" test prescribed by the Bank in clause 3.19 of the Guidelines and has determined that the person

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is "fit and proper" for the position of senior management official of a bank or deposit-taking institution.

Issued this 18th day of December 2025

DIRECTOR
PRUDENTIAL AUTHORITY AND PAYMENTS OVERSIGHT DEPARTMENT