



**CORPORATE GOVERNANCE FRAMEWORK  
FOR  
KANBAWZA BANK (“KBZ BANK”)**

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**For**  
**KANBAWZA Bank Limited (“KBZ Bank”)**

**INTRODUCTION**

The Kawbawza Bank (“**KBZ Bank**”) Corporate Governance Framework sets out the system of rules, practices and processes by which the Bank is directed and controlled. The Board of Directors are responsible for the governance of the Bank. The shareholders’ role in governance is to appoint the directors and the auditors, and to satisfy themselves that an appropriate governance structure is in place. This framework comes in exercise of the power conferred by the policies and procedures of the Central Bank of Myanmar (the “**CBM**”) under the Financial Institution Law (the “**FIL Law**”), the Myanmar Companies Law 2017(the “**MCL 2017**”), KBZ Bank’s policies and the Basel Committee Guidelines on Corporate Governance Principles for Banks. This framework provides an overview of the corporate governance structures, principles, policies and practices of KBZ Bank.

**1. BUILDING EFFECTIVE CORPORATE GOVERNANCE IN KBZ BANK**

KBZ Bank is a separate legal entity and it complies with MCL 2017, FIL and other existing laws of Myanmar.

**1.1 SHAREHOLDERS RESERVED MATTERS AND SHAREHOLDERS RIGHTS**

The corporate governance framework shall protect and facilitate the exercise of shareholders’ rights and ensure the equitable treatment of all shareholders. Each fully paid share carries one vote in the event of a poll of shareholders in making any resolution including dividend payments and distribution of assets of the Bank.

The shareholders have decision-making power to:

- (i) request shareholder meetings of the company;
- (ii) vote on resolutions at shareholder meetings; and
- (iii) approve members’ resolutions such as changes to company constitution, changes of company name and company type, changes to share rights and share conversions, capital reductions, share buy-backs and consolidations, the company giving financial assistance, remuneration and benefits to directors.

**1.2 NOTIFICATION TO SHAREHOLDERS FOR THE ANNUAL GENERAL MEETING (“AGM”)**

With respect to the AGM,

- (a) It must be held within 18 months from the date of incorporation and thereafter once every calendar year not more than fifteen months from the last meeting;
- (b) It requires an annual financial report, directors’ report and auditor’s report;
- (c) It shall consider the re-election of directors;
- (d) It can be called by chairman or directors;

- (e) The notice of the AGM must be sent to all members and every director within 21 days of the AGM. If all members agree, the AGM can be held on less than 21 days' notice;
- (f) A written notice shall be given to every member, director and auditor;
- (g) The notice may be given personally, by post or other direct delivery to a member's address and recorded as registered post book or by fax or by email or subject to the constitution;
- (h) One vote for every share held by a shareholder is permitted (one vote per shareholder present on show of hands); and
- (i) A proxy may be appointed instead of a shareholder to attend the meeting and to exercise the right of the member to vote on their behalf, subject to the constitution. The proxy need not be a member of a company and the proxy form shall be made by directors' decision and that form must be sent to all members.

### **1.3 ORDINARY RESOLUTION AND SPECIAL RESOLUTION**

#### **(i) Ordinary Resolution**

An ordinary resolution is passed by a simple majority of votes of members entitled to vote as are present in person or by proxy (where allowed) at the general meeting of which notice specifying the intention to propose the resolution as an ordinary resolution has been duly given.

The following matters may be passed by ordinary resolution:

- (a) To appoint a director and remove a director
- (b) To appoint an auditor
- (c) To approve the financial reports
- (d) To approve benefits and pay for directors (directors' remuneration)
- (e) A shareholder resolution must be passed as an ordinary resolution except where the Law or the Bank's constitution expressly requires the matter to be approved by a special resolution or other specified percentage or number of members.

#### **(ii) Special Resolution**

A special resolution is passed by at least 75% or more of votes of members entitled to vote as are present in person or by proxy (where allowed) at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

The following matters must be passed by special resolution:

- (a) Change of company name,
- (b) Change of company type,
- (c) Change of company constitution,
- (d) Approving a capital reduction,
- (e) Share buy-back and consolidations
- (f) Issuing preference shares
- (g) Conversion of shares

## 2. BOARD MATTERS

Under the Constitution, the Board of Directors (the “**Board**”) has ultimate responsibility for the Bank’s business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. In discharging these matters, the Board shall take into account the legitimate interests of depositors, shareholders and other relevant stakeholders. The Board may delegate some of its functions, though not its responsibilities, to board committees where appropriate.

The board should establish and be satisfied with the Bank’s organizational structure. This will enable the board and senior management to carry out their responsibilities and facilitate effective decision-making and good governance. This includes clearly laying out the key responsibilities and authorities of the board itself and of senior management and of those responsible for the risk management and control functions.

The members of the Board owe duties to the Bank, to its shareholders, and to others dealing with the Bank. The Board must act honestly in what they believe to be the best interests of the Bank and with such care as may reasonably be expected of them in the circumstances under the existing laws and supervisory standards.

### 2.1 BOARD ROLE AND KEY RESPONSIBILITIES

The Board’s role and key of responsibilities are

- (a) keeping up with material changes in the Bank’s business and external environment as well as making necessary changes in a timely manner to protect the long-term interests of the Bank;
- (b) overseeing the development and approval of the Bank’s business objectives and strategies and monitoring their implementation;
- (c) playing a lead role in establishing the Bank’s corporate culture and values;
- (d) overseeing implementation of the Bank’s governance framework and periodically reviewing that it remains appropriate in the light of material changes to the Bank’s size, complexity, geographical footprint, business strategy, markets and regulatory requirements;
- (e) establishing, along with the Bank’s officers, the Bank’s risk appetite, taking into account the competitive and regulatory landscape in the banking industry and the Bank’s long-term interests, risk exposure and ability to manage risk effectively;
- (f) overseeing the Bank’s adherence to its risk policy and risk limits;
- (g) approving the policy and overseeing the implementation of key policies and rules pertaining to the Bank’s capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations, and the internal control system;
- (h) periodically reviewing key policies and rules to ensure their continued applicability and changing or updating them where necessary;
- (i) requiring the Bank to maintain a robust finance function responsible for accounting and financial data;
- (j) approving the annual financial statements and requiring an annual independent audit;
- (k) approving the selection and performance of the CEO and other Officers;

- (l) overseeing the Bank's policies on salaries and benefits, including monitoring and reviewing executive compensation and assessing whether it is aligned with the Bank's risk culture and risk appetite;
- (m) overseeing the integrity, independence and effectiveness of the Bank's policies and procedures for reporting fraud and other illegal activities;
- (n) overseeing the development of, and approving the Bank's policy on transactions with related parties; and
- (o) overseeing the compliance of the Bank with the FI Law, regulations and directives issued there under.

**2.1.1** The Board may delegate the authority to make decisions to any Board Committees or Management Committee but without abdicating its role and responsibilities.

**2.1.2** The Board should be able to allocate sufficient time to the Bank to discharge its responsibilities effectively.

**2.1.3** The Bank shall prepare a document with guidelines setting forth the following items and the Bank shall consider disclosing such guidelines in the Annual Report:

- (a) the key responsibilities and authority of the Board, including matters reserved for the Board's decision;
- (b) the key delegated responsibilities of Senior Management, including clear directions to Senior Management on matters that must be approved by the Board; and
- (c) The types of material transactions that require Board approval under such guidelines.

## **2.2 BOARD AUTHORITY**

The Board derives its authority from the Constitution and other laws governing companies and banks in Myanmar. The Board shall have full power and authority to do everything which may be required or desirable for Bank's management and operations and to attain its objectives. Such powers shall not be limited except as provided by the Constitution, the Financial Institutions Law (2016), the Myanmar Companies Law (2017), other laws, rules and regulations of Myanmar, or the general meeting of shareholders.

## **2.3 CORPORATE VALUES**

**2.3.1** A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behavior. These norms are especially critical in terms of a Bank's risk awareness, risk-taking behavior, risk management and its overall risk culture.

**2.3.2** In order to instill the "tone at the top" and promote a sound corporate culture, the Board should:

- (a) set and adhere to corporate values that create expectations that all business should be conducted in a legal and ethical manner, and oversee the adherence to such values by senior management and other employees;

- (b) promote risk awareness within a strong risk culture, convey the Board's expectation that it does not support excessive risk-taking and that all employees are responsible for helping the Bank operate within the established risk appetite and risk limits;
- (c) confirm that appropriate steps have been or are being taken to communicate throughout the Bank the corporate values, professional standards or codes of conduct it sets, together with supporting policies; and
- (d) confirm that employees, including senior management, are aware that appropriate disciplinary or other actions will follow unacceptable behaviors and transgressions.

**2.3.3** The Bank's conduct of code or code of ethics, or any other comparable policies, should define acceptable and unacceptable behaviors, including:

- (a) explicitly disallowing illegal activities, such as financial misreporting and misconduct, economic crime including fraud, breach of sanctions, money laundering, anti-competitive practices, bribery, corruption, and any violations of consumer rights.
- (b) making clear that employees are expected to conduct themselves ethically and perform their job with skill, due care and diligence in addition to complying with laws, regulations and Bank policies.

**2.3.4** The Bank's corporate values should recognize the critical importance of timely and frank discussion and escalation of problems to higher levels within the organization.

- (a) Employees should be encouraged and able to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices. This can be facilitated through a well-communicated policy and adequate procedures and processes, consistent with the law, which allow employees to communicate material and bona fide concerns and observations of any violations in a confidential manner (e.g., 'whistleblower' policy). This includes communicating material concerns to the Bank's supervisor.
- (b) The Board should have oversight of the whistleblowing policy mechanism and ensure that Senior Management addresses legitimate issues that are raised. The Board should take responsibility for ensuring that the members of staff who raise a concern are protected from detrimental treatment or reprisals.
- (c) The Board should oversee and approve how and by whom legitimate material concerns are to be investigated and addressed by an objective independent internal or external body, Senior Management and/or the Board itself.

## **2.4 BOARD STRUCTURE, BOARD SIZE, BOARD COMPOSITION, BOARD MEMBERS SELECTION, TERM OF BOARD AND VACANCY IN THE BOARD**

### **2.4.1 BOARD STRUCTURE**

Based on the principle of good corporate governance and best practice recommendations, a company should "structure the Board to add value". The principle seeks to ensure the board has an effective composition, size and commitment to adequately discharge its

responsibilities and duties. The recommendations include that the Chairperson should be an independent director, the role of the Chairperson and CEO should be performed by separate individuals, a majority of board should be independent. The board structure is a foundation for an effective board. It focuses on the background interests, affiliations and position of its members. It is deals with the balances of power and is at the center of board performance and accountability.

#### **2.4.2 BOARD SIZE**

It is important that the board be of a size and composition that is conducive to making decisions expediently, with the benefit of a variety of perspectives and skills, and in the best interests of the Bank as a whole rather than of individual shareholders or interest groups. Based on the Bank's constitution, the size of the board should be limited so as to encourage efficient decision-making.

#### **2.4.3 BOARD COMPOSITION**

(a) The Board shall consist of 5 [and not more than 15] members and shall include:

- (i) a chairperson appointed by majority vote of the members of the Board of Directors.
- (ii) at least one Non-Executive Director for the Board.

The appointment of Board shall be staggered to ensure the continuity of the duties and functions of the Board.

- (b) The number of directors constituting a Board is an important factor in determining the effectiveness of the Board in providing direction and guidance to the Senior Management and in performing its oversight role effectively. To be effective, the Board should have an appropriate number of directors that is commensurate with the complexity, the size, the scope and operations of the Bank.
- (c) The Board shall determine the appropriate size of the Board and in determining the size, consideration should be given to ensure an efficient and effective conduct of Board deliberation.
- (d) The Board shall be comprised of directors who as a group provide a mixture of diversity and core competencies such as finance, accounting, legal, business management, information technology and investment management, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the Bank and therefore facilitate effective oversight.
- (e) In assessing the collective suitability of the Board, the following should be taken into account:
  - (i) Individual board members should have a range of knowledge and experience in relevant areas and varied backgrounds to promote diversity of views. Relevant areas of competence may include, but are not limited to capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation,



regulation, corporate governance and management skills;

- (ii) The board collectively shall have a reasonable understanding of local, regional and, if appropriate, global economic and market forces and of the legal and regulatory environment. International experience, where relevant, should also be considered; and
  - (iii) Individual board members' attitude regarding facilitating communication, collaboration and critical debate in the decision-making process.
- (f) The participation of non-executive directors on the Board enables a balanced and objective consideration of issues and enhances accountability in the decision-making process. Thus, a higher proportion of non-executive directors could mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the Bank.
- (g) The presence of suitably qualified independent directors can help to provide the necessary checks and balances in ensuring the Bank operates in a safe and sound manner. Such directors can also bring new perspectives from other businesses that may enhance the effectiveness of the Board.

**2.4.4** Where there are directors who have been nominated by specific shareholders, the Board should ensure that such directors understand their duties. Directors have responsibilities to the Bank's overall interests, regardless of who appoints them. In cases where directors are selected by a controlling shareholder, the Board may wish to set out specific procedures or conduct periodic reviews to facilitate the appropriate discharge of responsibility by all directors.

#### **2.4.5 ELECTION OF DIRECTORS**

The Annual General Meeting of the Bank shall formally elect the directors from the list of candidates who have been approved by the CBM.

#### **2.4.6 TERM OF BOARD OF DIRECTORS**

The term of a director shall be 3 years and can be renewed not more than 3 consecutive times.

#### **2.4.7 VACANCY IN THE BOARD OF DIRECTORS**

When a Director of the Board of Directors position becomes vacant, the Board of Directors by a majority vote can approve the appointment of a new director subject to the prior approval of the CBM and such appointment must be ratified at the next annual general meeting of the shareholders.

### **2.5 TYPE OF DIRECTORS**

- (i) **Executive Director:** A member of the board (e.g., director) who holds a senior management position of the Bank with full board responsibilities.
- (ii) **Non-Executive Director:** A member the board who is not paid by the Bank as a member of its staff nor employed under the service contract and not involved in the daily management of the Bank.
- (iii) **Independent Non-Executive Director:** A director of a bank is a person who holds less than 5% of the voting shares of the Bank and is not a related party.
- (iv) **Independent Director:** An independent director is a non-executive member of the board who does not have any management responsibilities within the Bank and is not under any undue influence of any other board member or group of shareholders that would impede the board member's exercise of objective judgement.

## 2.6 NUMBER OF EXECUTIVE DIRECTOR

**2.6.1** As the function of the Board is to provide effective oversight of Management, if there is any executive director on the Board, the number of executive directors on the Board should be kept to the very minimum. In this regard, there should not be more than one executive director sitting on the Board. The Board may however invite other Senior Management officers to attend Board meetings to provide input as and when necessary.

## 2.7 RESPONSIBILITES OF DIRECTORS

**2.7.1** Bank shall ensure that at least a majority of the board members are independent directors.

**2.7.2** Responsibilities of Independent Directors

- (a) Independent directors should ensure a strong element of independence on the Board, both in thought and actions.
- (b) The effective participation of independent directors enhances accountability in the Board's decision-making process. The responsibilities of an independent director should therefore include the following:
  - (i) to provide and enhance the necessary independence and objectivity to the Board;
  - (ii) to ensure effective checks and balances on the Board;
  - (iii) to mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the Bank;
  - (vi) to constructively challenge and contribute to the development of business strategy and direction of the Bank; and
  - (a) to ensure that adequate systems and controls to safeguard the interests of the Bank are in place.
- (c) In addition to the other similar rights accorded to directors generally, independent directors may request that their views, comments and stance are minuted to enable them

to effectively discharge their duties.

- (d) Given the increased responsibilities and expectations imposed on independent directors, their remuneration should be commensurate with their level of expertise and experience as well as the responsibilities assumed and their contribution to the effective functioning of the Board.

### **2.7.3 Responsibilities of Non-Executive Directors**

Non-Executive Directors shall:

- (a) Constructively challenge and help develop proposals on strategy; and
- (b) Review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

## **2.8 RESPONSIBILITIES OF THE CHAIRMAN OF THE BOARD**

The responsibilities of the Chairman of the Board are critical and shall include, among other things:

- (a) Providing leadership to the Board;
- (b) Ensuring proper and effective overall functioning of the Board;
- (c) Maintain a relationship of trust with and between Board members;
- (d) Ensuring that the Board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues
- (e) Ensuring Board decisions are taken on a sound and well-informed basis and that adequate and timely information is provided to meetings, with the assistance of the Board secretary;
- (f) Ensuring efficient and timely discussion of all main issues by the Board;
- (g) Ensuring that dissenting views can be freely expressed and discussed within the decision-making process;
- (h) Being mainly responsible, with the assistance of the Board secretary, for drafting and approving the agenda of every meeting of the Board taking into consideration any matter proposed by the other Directors;
- (i) Encouraging all Directors to fully participate in handling the affairs of the Board and ensure that the Board is working in the best interests of KBZ Bank and the Group;
- (j) Encouraging participation of the Non-Executive and Independent Directors and promoting constructive relations between them and the executive Directors;
- (k) Ensuring Directors receive appropriate training and development in order to effectively discharge their duties and responsibilities.
- (l) Promote a high standard of corporate governance

## **2.9 DIVIDENDS AND OTHER DISTRIBUTIONS**

### **2.9.1 POWER OF DETERMINING DIVIDENDS VESTED IN DIRECTORS**

According to the Bank Constitution, the Board of Director may determine that dividend is payable to its shareholders and fix the amount, the time for payments and the payment method. All shares in the same class shall receive the same dividend and the rights and

restrictions attached to or imposed on any class of shares, dividends should be apportioned, and paid among the members in proportion to the number of shares.

The payment method may include cash, the issue of shares, the grant of options and the transfer of assets which shall be agreed by each member to the distribution to them of any property or assets. The determination of a dividend shall not cause the company to incur a debt and may be revoked at any time before payment. A debt only arises when the time fixed for payment arrives.

### **2.9.2 CRITERIA OF DIVIDEND PAYMENT**

The Bank may pay dividends or make any form of distribution to its shareholders from its profits after ensuring compliance with the MCL, FIL and instructions of the Central Bank of Myanmar. The Bank has to satisfy the following requirements before paying a dividend:

- (i) the Bank shall, immediately after the payment of the dividend, satisfy the solvency test such as the bank is liable to pay its debts, the bank assets exceed its liabilities in accordance with the accounting standards, the aggregate book value of its assets would be less than the sum of the book values of its liabilities and unimpaired capital funds, etc.;
- (ii) the making of the dividend is fair and reasonable to the Bank's shareholders as a whole; and
- (iii) the payment of the dividend does not materially prejudice the Bank's ability to pay its creditors.

If the above requirements may not be met, the dividends shall not be paid and if such dividend is paid by the Bank, it shall be deemed not to have been authorized.

### **2.9.3 DIRECTORS' DISCRETION**

All matters concerning dividends or other distributions including valuations of property and assets shall be determined by the Directors, and in particular the Directors may:

- (i) settle any difficulty, dispute or matter regarding any dividend or other distribution;
- (ii) fix the value for distribution of the specific property or assets or any part of that property or those assets;
- (ii) determine that cash payments will be made to, or at the direction of, any member on the basis of the value so fixed; and
- (iii) vest any specific property or assets in trustees on trust for any member.

### **2.10 CONFLICTS OF INTEREST**

- (a) The Board shall adopt a formal written conflicts of interest policy which shall apply to the members of the Board of Directors as well as the Officers of the Bank and compliance process for implementing the policy.
- (b) The conflicts of interest policy shall require all members of the Board of Directors and all Officers to disclose all direct and indirect substantial financial and commercial interests of

the directors and officers, and his or her relative in the Bank.

- (c) The conflicts of interest policy must include:
- (h) a director's duty to avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest;
  - (ii) examples of where conflicts can arise when serving as a director;
  - (iii) a rigorous review and approval process for directors to follow before they engage in certain activities so as to ensure that such activity will not create a conflict of interest;
  - (iv) a director's duty to promptly disclose any matter that may result, or has already resulted, in a conflict of interest;
  - (v) a director's responsibility to abstain from voting on any matter where the director may have a conflict of interest or where the director's objectivity or ability to properly fulfill duties to the Bank may be otherwise compromised;
  - (vi) adherence to the Bank policy on related party transactions;
  - (vii) the way in which the Board of Directors will deal with any non-compliance with the policy;
  - (viii) format to follow in reporting information; and
  - (ix) annual updates to the disclosure.

## 2.11 RELATED PARTY TRANSACTIONS

### 2.11.1 DEFINITION REGARDING RELATED PARTY TRANSACTIONS

- (i) **Related Party in relation to the Bank** means a person who has substantial interest in the bank or the bank has significant interest in the person such as a director or an officer of the bank or of a body corporate that control the bank or relative in relation to a natural person or an entity that is controlled by a person who are described in the below definitions or a person or class of persons who have been designed by the CBM.
- (ii) **Substantial Interest** means owning, directly or indirectly, 10% (ten percent) or more of the capital or the voting rights of a financial institution or directly or indirectly, exercising control over the management of the Bank as the CBM may determine.
- (iii) **Relative in relation to a natural person** includes the spouse, brother or sister of the individual, brother or sister of the spouse of the individual, any lineal ascendant and descendant of the individual or spouse of the individual and his dependents; and any such relationship created through adoption.
- (iv) **Officer in relation to a bank** includes the chief executive officer or his deputies, the chief financial officer and the other person performing executive functions at the bank.

### 2.11.2 TRANSACTIONS WITH RELATED PARTIES

KBZ Bank shall not lend to any related parties and shareholders holding more than five percent of the voting shares of the Bank unless such transaction has been approved by a vote of two thirds or more of the Board excluding the involved Director and secured by collateral and made on market terms and conditions.

### **2.11.3 COMPLIANCE IN RELATED PARTIES TRANSACTIONS**

KBZ Bank shall record the minutes regarding all related party transactions approved by the Board of Directors, and if a director concerns in the matter as a related party, such director shall not present or vote at such meeting to avoid any conflict of interests.

All related party transactions and relationships are fully disclosed and recorded in all the transaction documents such as the credit facilities, payment of service rendered, granted assets and repayment schedule, etc.

## **2.12 PROCEEDING OF DIRECTORS**

### **2.12.1 BOARD MEETINGS**

The Board is collectively responsible for the overall control and performance of a Bank, and by meeting frequently enough, the Board will receive sufficient information from the Senior Management to monitor the financial condition and enable the Board to deliberate and discuss important strategic issues.

Meetings of the Board of Directors shall be carried out as follows:

- (a) Meetings of the Board of Directors must be held at least 12 times a year, provided that the interval between two meetings shall not exceed two months.
- (b) The Chairperson may also call for a special meeting at any time when at least two-thirds of the Directors request a meeting in writing.
- (c) Meetings of the Board of Directors shall be presided over by the chairperson.
- (d) In the absence of the chairperson, the meeting shall be presided over by a Director selected by majority of the Directors present at the meeting.
- (e) Half of the members of the board including at least one independent non-executive director shall constitute the quorum.
- (f) The decision of a majority in the meeting of the Board of Directors shall be binding and in the event of a tie, the Chairman shall have the deciding vote.
- (g) Minutes of the meeting including the names of Directors present in the meeting and the decisions taken shall be recorded, and such minutes shall be signed by all Directors present in the meeting.
- (h) Minutes of the meeting shall include the names of any person attending the meeting who is not a member of board.
- (i) A Director must attend all meetings of the Board of Directors if there is no reasonable cause for absence.
- (j) The position of a Director who misses more than 3 consecutive meetings without reasonable cause and prior notice, shall be considered vacant.
- (k) The minutes of the meeting must record any opinion opposed to all differing from the decision taken at the meeting.

**2.12.2** The secretary shall record and maintain detailed minutes of the meetings of the Board, signed by all the Directors attending the meeting and board secretary. Matters considered and decisions taken by the Board including such qualifications or controversial opinions as expressed by any Directors shall be recorded in minutes of meetings held by the Board. Drafts of such minutes, before being approved, shall be circulated to all the Directors for comments which shall be incorporated, and approved by all members at the succeeding meeting of the Board.

**2.12.3** The Board is responsible for ensuring that the Bank maintains an effective relationship with its regulator and is responsible for the Bank's compliance with all applicable laws of Myanmar.

#### **2.12.4 BOARD COMMITTEES AND ITS TERM OF REFERENCE**

(1) For the purposed of a good corporate governance, the Board has established certain specialized board committees as follows;

**(a) Board Credit Committee ("BCC")**

The purpose is to recommend to the Board the amount of credit and the Bank should take and sets limits on potential credit risk.

**(b) Board Audit and Risk Committee ("BARC")**

The purpose is to operate as the reviewer of management recommendations on financial and operational risk.

**(c) Nomination and Remuneration Committee ("NRC")**

The purpose is to assist the Board to identify and screen specific candidates for nomination and to determine remuneration based on strategic aims of the Bank.

All committees have terms of reference containing provisions on the scope of authority, role, composition, working procedures and rights and responsibilities of the committee members. Final authority and decision-making on all Board-designated matters ultimately rests with the full Board. The Board shall delegate certain responsibilities to the committees for review and approval for decision. The Board remains collectively responsible for the decisions and actions taken by any committee. A committee may only perform the tasks delegated to it by the Board and may not exceed the authority or powers of the Board as a whole.

(2) Terms of Reference of Each Committee

Each Committees are sub-committees of the Board and supports the Board in the execution of its duties. All the committees are accountable to the full Board to properly consider and evaluate any matter that all has been mandated. The Board of Directors has ultimate responsibility for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for recognizing all material risks to which the Bank is exposed to and ensuring that the requisite policies, resources and systems are in place to manage and mitigate these risks.

The Board has to play a critical role in overseeing amongst other things the Bank's investment and loan approval process and the credit risk management process. Therefore, the Committees take approval decisions relating to credit facility, remuneration process and audit and risk process on behalf of the Board. Each Committee will also assess management portfolio reporting. Each Chairperson may propose that any decision within its mandate be escalated to the full Board for approval if necessary. Terms of Reference of each Committee include role and responsibilities of the Committees, authority, membership, frequency of meeting, quorum, etc.

### **3. BOARD SUCCESSION**

The Board of Directors need to be comprised of the right people to reflect the strategic priorities of the shareholders. As the Bank's long-term succession planning develops, it is important to ensure that the Board composition is in alignment. The key considerations shall be included as follows:

- Board size and composition
- Criteria for Board appointment
- Plan for potential new Board members
- Minimum qualification of the Board

### **4. FIT AND PROPER CRITERIA FOR ELECTION PROCESS**

Regarding the appointment of Board of Directors, Chief Executive Officer ("CEO") and Officers<sup>1</sup>, the criteria for determining whether an individual meets the fit and proper test include but are not limited to the following three main areas:

- (a) Honesty, integrity and reputation;
- (b) Competence and capability; and
- (c) Financial soundness.

#### **4.1 BOARD MEMBERS SELECTION**

The Bank, generally, elects the directors from the list of candidates who have been approved by the CBM. The Board shall have a clear and easy process for identifying, assessing and selecting board candidates unless required by law, the Board nominates candidates and promotes appropriate succession planning of board members. The selection process shall include reviewing whether board candidates as follows:

- possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind given their responsibilities on the board and in the light of the bank's business and risk profile;

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<sup>1</sup> Officer means:

- (i) the Chief Financial Officer;
- (ii) persons performing executive functions at the Bank including:
  - (aa) Chief Operating Officer;
  - (bb) Chief Compliance Officer;
  - (cc) Chief Internal Auditor;
  - (dd) Chief Risk Management Officer; and
  - (ee) Chief Credit Officer



- have a record of integrity and good repute;
- have sufficient time to fully carry out their responsibilities; and
- have the ability to promote a smooth interaction between board members.

#### **4.1.1 MINIMUM QUALIFICATION FOR DIRECTORS**

Based on the CBM's directive, candidates should meet the following minimum requirements:

- (i) Education and training: (a) Has a bachelor's or master's degree majoring in accounting, economics or business administration from an accredited university in Myanmar or abroad or has a professional certification and training in accounting and banking, or  
 (b) Has direct and hands on experience in banking operations and procedures, auditing, risk management, compliance management, credit and lending experience, banking or accounting.

(ii) Experience: Has at least 7 to 10 years of experience in a bank, financial institution, and other institutions that provide financial services.

- (iii) Knowledge, skills and abilities: (a) Has knowledge of banking operations and procedures, auditing, risk management, compliance management, credit and lending experience, and banking or accounting.  
 (b) Understands applicable laws including Financial Institutions Law, regulations, directives, instructions and guidelines issued by the Central Bank of Myanmar.

#### **4.2 HONESTY, INTEGRITY AND REPUTATION**

Honesty, integrity and reputation are values that are demonstrated over time and does not include persons who have committed acts or exhibit traits as follows:

- (a) the person is or has been the subject of any proceedings of a disciplinary or criminal nature, or has been notified of any impending proceedings or of any investigations, which might lead to such proceedings either in Myanmar or abroad;
- (b) the person has contravened any provision made by or under any written law designed to protect members of the public against financial loss due to dishonesty, incompetence or malpractice either in Myanmar or abroad;
- (c) the person has contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies either in Myanmar or abroad;
- (d) the person, or any business in which he has a controlling interest or exercises significant influence, has been investigated, disciplined, suspended or reprimanded by a regulatory or professional body, a court or tribunal, whether publicly or privately either in Myanmar or abroad;

- (e) the person has been engaging in any business practices which are deceitful, oppressive or otherwise improper (whether unlawful or not), or which otherwise reflect discredit on his professional conduct either in Myanmar or abroad;
- (f) the person has been dismissed, asked to resign or has resigned from employment or from a position of trust, fiduciary appointment or similar position because of questions about his honesty and integrity either in Myanmar or abroad;
- (g) the person has been associated, in ownership or management capacity, with a company, partnership or other business association that has been refused registration, authorization, membership or a license to conduct any trade, business or profession, or has had that registration, authorization, membership or license revoked, withdrawn or terminated either in Myanmar or abroad;
- (h) the person has held a position of responsibility in the management of a business that has gone into receivership, insolvency or involuntary liquidation while the person was connected with that business either in Myanmar or abroad;
- (i) the person has been a director of, or directly concerned in the management of, any corporation which is being or has been wound up by a court or other authority competent to do so within or outside Myanmar or of any licensed financial institution, the license of which has been revoked under any written law;
- (j) in the past, the person has acted unfairly or dishonestly in his dealings with his customers, employer, auditors and regulatory authorities either in Myanmar or abroad;
- (k) the person has at any time shown a strong objection or lack of willingness to cooperate with regulatory authorities and failure to comply with legal, regulatory and professional requirements and standards, including compliance with tax requirements and obligations either in Myanmar or abroad;
- (l) the person has contributed significantly to the failure of an organization or a business unit;
- (m) the person has at any time shown strong objection or a lack of willingness to maintain effective internal control systems and risk management practices either in Myanmar or abroad; and
- (n) the person is associated with any business or other relationship which could materially pose a conflict of interest or interfere with the exercise of his judgment when acting in the capacity of a covered position which would be disadvantageous to the Bank or Bank's business in Myanmar.

#### **4.3 COMPETENCE AND CAPABILITY**

- (a) Competence and capability are demonstrated by a person who possesses the relevant experience and ability to understand the technical requirements of the business, the inherent risks and the management process required to perform his role effectively.
- (b) In determining competence and capability, the following shall be considered:
  - (i) whether the person has the appropriate qualifications, training, skills, practical experience and commitment to effectively fulfill the role and responsibilities of the position and in the case of directors, having regard to their other commitments;
  - (ii) whether the person has satisfactory past performance or expertise in the nature of the business being conducted; and
  - (iii) The Board of Directors may adopt qualifications and experience specific to the Bank requirement while ensuring fitness and propriety of its officers.

#### **4.4 FINANCIAL SOUNDNESS**

Financial soundness shall not alone disqualify a person from holding an officer position because of limited financial means if they meet the other criteria and the following shall be considered:

- (a) whether the person has been and will be able to fulfill his financial obligations, whether in Myanmar or abroad, as and when they fall due; and
- (b) whether the person has been the subject of a judgment debt or Bankruptcy proceeding either in Myanmar or abroad.

#### **5. BOARD PERFORMANCE AND DIRECTOR EVALUATION**

The Board is encouraged to undertake a formal, regular and several evaluations of its own performance and that of its committees and individual directors and produce a development plan on an annual basis.

##### **5.1 EVALUATION CRITERIA FOR DIRECTORS**

An evaluation for the Board of directors shall include several elements as follows:

- the structure of the Board and its committees (this includes Board and committee organization and dynamics, such as the mix of skills, knowledge, diversity, experience and independence);
- how the Board works as a unit, and the tone set by the Chairman and CEO;
- Board efficiency and effectiveness (this includes individual performance; clarity of purpose, direction and values of the organization; quality of leadership and key Board relationships);
- risk management and governance;
- strategic review and resource allocation;
- people issue and succession planning;
- ethics management;
- business performance, including the level and quality of reporting measures.

The indicative criteria to assess the directors include but not limited to the following:

- Attendance at Board Meetings
- Attendance at Committee Meetings
- Member of the Board Committees
- Chairmanship of Board Committees
- Guidance and support provided to senior management of the Bank at outside the Board meetings
- Contribution to the discussions at board meetings

The Board shall review and evaluate the performance annually against the Board's key areas of responsibility, and specifically review areas where the Board and/or management contribution may be improved.

##### **5.2 EVALUATION CRITERIA FOR CHAIRMAN OF THE BOARD**

Regarding in evaluating the Chairman, the following parameters for reviewing the performance of Chairman of the Board may include as follows;

- Managing relationship with the members of the Board and management
- Demonstration of leadership of the Board
- Relationship and communication within the Board; providing ease of raising of issues and concerns by the Board members
- Promoting constructive debate and effective decision making at the Board
- Relationship and effectiveness of communication with the shareholders and other stakeholders;
- Promoting shareholder confidence in the Board; and
- Personal attributes, i.e., integrity, honesty and knowledge, etc.

The Chairman typically leads the evaluation of the Board while the Directors jointly review the performance of the Chairman annually. The Board as a whole also reviews the performance of the CEO at least once a year.

## **6. DELEGATION TO SENIOR MANAGEMENT**

The Board delegates to the Chief Executive Officer of Bank (“**CEO**”) and Deputy Chief Executive Officers (“**DCEOs**”) the authority and power to manage the day-to-day business affairs of KBZ Bank subject to such limits the Board imposes from time to time. The CEO and DCEOs have the authority to sub-delegate such authority and power to such members of the management team as the CEO shall determine as appropriate from time to time.

## **7. OVERSIGHT OF SENIOR MANAGEMENT**

### **7.1 SELECTION OF CEO AND KEY PERSONNEL**

The Board shall select the CEO and may select other key personnel, including members of senior management.

### **7.2 OVERSIGHT**

The Board shall provide oversight of senior management. It should hold members of Senior Management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the Board’s performance expectations. This includes adhering to the Bank’s values, risk appetite and risk culture, under all circumstances. In doing so, the Board should:

- (a) monitor that Senior Management’s actions are consistent with the strategy and policies approved by the board, including the risk appetite;
- (b) meet regularly with senior management;
- (c) question and critically review explanations and information provided by senior management;
- (d) set appropriate performance and remuneration standards for senior management consistent with the long-term strategic objectives and the financial soundness of the Bank;

- (e) assess whether the Senior Management's collective knowledge and expertise remain appropriate given the nature of the business and the Bank's risk profile; and
- (f) be actively engaged in succession plans for the CEO and other key positions, as appropriate, and ensure that appropriate succession plans are in place for senior management positions.

### **7.3 MANAGEMENT SUCCESSION PLAN**

It is important for senior management to identify potential internal candidates to fill key leadership positions by ways of developing in systematically that will help them succeed in carrying out the Bank' goals and objectives. The Bank shall make the key considerations and it may include as follows:

- the Bank's key leadership plan
- the plan for unexpected situations for existing key management people
- Management retention
- Development of future leaders

### **7.4 PERFORMANCE EVALUATION FOR SENIOR MANAGEMENT**

The evaluation of CEO and other executive positions shall be as per the extant annual performance evaluation of the Bank.

Objective goals shall be included as follows:

- Fair and transparent assessment of performance
- Recognizing and rewarding performance
- Differentiating high performance
- Understanding and developing current and future competencies

The goals are derived from KBZ Bank's vision which is interpreted in the Annual Business Plan. These goals flow from the Board and senior management to the various level of staff of the Bank.

### **7.5 MINIMUM QUALIFICATION FOR CHIEF EXECUTIVE OFFICER**

Candidates should meet the following minimum requirements.

- (i) Education and training:** (a) Has a bachelor's or master's degree, ideally in accounting, economics or business administration from an accredited university in Myanmar or abroad or professional certification and training in banking, accounting and management, or  
(b) In the case of existing Chief Executive Officer, the person has direct and hands on experience in banking operations and procedures, auditing, risk management, compliance management, credit and lending experience, banking or accounting.

- (ii) Experience:** Has at least 10 to 15 years of progressive management experience within the banking industry, the last 7 years of which have been in a position of executive management.

**(iii) Knowledge, skills and abilities:**

- (a) Thorough knowledge of the banking industry, financial and accounting policies and practices and related laws and regulations of Myanmar;
- (b) Advanced knowledge of financial management and financial operation;
- (c) Strong leadership, organizational and analytical skills;
- (d) Ability to identify, develop and direct the implementation of business strategy;
- (e) Ability to plan and direct the organization to achieve its goals;
- (f) Ability to apply himself exclusively to the management of the bank;
- (g) Ability to define and articulate the organizations vision to develop strategies for achieving that vision;
- (h) Proven track record in business management, planning and financial oversight;
- (i) High ethical standards and integrity in both their personal and professional dealings;
- (j) Excellent written, verbal and communication skills.

**8. RISK MANAGEMENT**

KBZ Bank considers robust risk management as vital to its success and takes a holistic and integrated approach, where management systematically identifies, monitors and manages all material risks that the Bank is exposed to.

This ensures that any risks are continuously managed and mitigated in line with the Bank's strategies and risk appetite. A wide variety of risks are considered in our approach, including credit, market, operational, liquidity, business, and reputational risks, as well as the environmental and social shifts and risks that could impact our business.

**8.1 HOLISTIC APPROACH TO RISK MANAGEMENT**

There are three main components to Risk Governance Framework: (i) Board of Directors of the Bank, (ii) Three Lines of Defence, and (iii) a comprehensive governance process.

**(i) The Board of Directors ("BODs")**

The BODs ensure that best practices in risk management are integrated into all management initiatives and business activities, and that they are constantly updated to keep up with Myanmar's fast-evolving business and regulatory environments. The Board works with two Board Committees, the Board Executive Committee and Board Risk Committee, to achieve these goals.

The BARC is the Board Committee primarily responsible for providing oversight on risk management activities, and ensuring that the necessary material controls and processes are in place and functional. The BARC's risk control functions actively monitor the Bank's operations for compliance, and manage incidences of non-compliance, thereby ensuring that the Bank remains within predetermined risk parameters at all times. These functions form part of our second and third lines of defense, and include:

- **Risk and credit management**
- **Compliance**

- **Internal Audit**

The first two functions provide oversight, as well as governance and support to business and functional units on risk and compliance matters. The Internal Audit function, meanwhile, provides independent assurance to the Board and the BARC that risk and compliance management is functioning effectively.

All risk control functions provide regular updates and reports to the BARC.

However, the Board remains ultimately responsible for ensuring that the Bank's operations comply with Board approved policies, as well as applicable laws and regulations, and are consistent with sound and prudent practices.

Senior managers support the Board by promptly reporting any significant developments that may change the types or levels of risk.

**(ii) Three Lines of Defence**

A triple line of defence forms the core of our risk governance framework

1. Our **business and support units** serve as the first line of defence, systematically identifying, assessing, controlling, mitigating, and reporting the risk exposures of their business and operational activities.
2. **Dedicated Risk Management units**, such as the Credit, Market, IRRBB, Liquidity and Operational Risk management departments, and the Legal and Compliance and Financial Crime Compliance units, form a second line of defence. They continually conduct independent reviews, assessments, monitoring, and reporting of their respective risk areas.
3. **Internal Audit** is the third line of defence. It independently tests and verifies the efficacy and robustness of the processes of the business and support units, and ensures they comply with the relevant laws and regulations, as well as various risk management and control policies and procedures.

**(iii) Governance Process:**

The Risk Appetite & Statement ("**RAS**") guides our business and support units on risk-taking, monitoring and control measures. It articulates the level and the nature of the risks that the Bank is willing to take or avoid on behalf of shareholders, while maintaining its commitments to all other stakeholders. Specifically, it articulates the strategies in place to mitigate returns, volatility, solvency, liquidity, operational and other risks in the short-, medium- and long-term.

Environmental, social, and governance ("**ESG**") factors are an important consideration.

A Responsible Financing Framework is being put in place as part of our commitment to Sustainability Risk Management. As part of that Framework, we consider the secondary impact of our business activities. In lending, for instance, we assess sustainability risks alongside financial performance, and ensure borrowers are socially responsible and compliant with Myanmar's social development and environmental protection goals. The Bank is in the process

of developing an exclusion list for sustainability financing, and sustainability risk assessments will be integrated into the credit evaluation process by the third quarter of 2020.

In addition, the Bank also has a Reputation Risk Appetite & Statement, which articulates its zero appetite for legal, regulatory, and industry risks, and states that business units must comply with all laws and regulations and industry standards. The Bank also has no appetite for data security risks and will not tolerate the loss or unauthorised or accidental disclosure of customer or other sensitive information.

The Board of Directors is responsible for approving our risk management positions and any amendments made to keep them current and relevant. The Board also ensures procedures are in place to implement these positions, and to effectively monitor and report on all key risk indicators.

## **9. CREDITOR'S RIGHTS**

The creditors' rights are important in determining bank risk-taking and it may be based on bank capital structure, loan structure, property rights protection, property rights enforcement, bank deposits and bank monitoring system within the period of financial crisis.

### **9.1 PROTECTION OF CREDITOR RIGHTS**

All creditors are entitled to obtain the required information and the protections of creditor rights of the Bank include the ability to repay its depositors and other creditors without delay, and to ensure financial liability or obligations incurred under the Law and return all funds and other property by it in a fiduciary capacity and to send the notice to the debtors to repay the loan to the Bank immediately, and to publish the information in the newspaper.

According to Financial Institution Law 2016, states (i) winding up or voluntary liquidation shall not prejudice the rights of a depositor or other creditor of an incumbent Bank to payment in full of any claim, or other rights of an owner of funds or other property held by the Bank, and (ii) any lawful claims shall be paid promptly and all funds and other property held by the incumbent Bank shall be repaid to their rightful owners within the described time as the CBM may determine.

Therefore, the Bank ensures to comply with the protections of creditor rights according to the existing laws.

## **10. REFERENCE LIST OF KEY POLICIES AND GUIDELINES**

Below is a reference of key policies and guidelines with regard to corporate governance and mentions in Annex for each policy:

- (1) Childcare Time-off Policy
- (2) Code of Conduct
- (3) No Gift Policy
- (4) Whistleblowing Policy
- (5) Professional Behaviour Policy
- (6) Retirement Policies
- (7) Disciplinary Procedure
- (8) Grievance Procedure



- (9) Conflicts of Interest Policy
- (10) Anti-Bribery and Corruption Policy

Regular reviews of this Framework are conducted by our Board to ensure they remain timely and relevant. Our most recent review was done in BOD meeting and approved by the Board dated on 13 February 2022.