

New Development Bank Board of Directors Governance Structure

Owner: Corporate Secretary

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Change Log

Revision Date	Chapter revised	Revision Details
31 March 2017	All	Attach as Annexure.

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Introduction

The Articles of Agreement of the New Development Bank (the “AOA”) set forth the responsibility of the Board of Directors (the “Board”) for the conduct of the general operations of the New Development Bank (the “Bank”), and for this purpose, shall exercise all the powers delegated to them by the Board of Governors.

In exercising these functions, Article 12 (f) of the AOA, the Board of Directors (the “Board”) stipulates that the Board shall appoint a Credit and Investment Committee and may appoint such other committees as it deems advisable for carrying out the general operations of the Bank. While several oversight mechanisms can be put in place to govern the Bank, depending on the stage of its evolution, it is felt appropriate to propose a structure wherein the Board would remain the decision making authority and the Committees would facilitate the Board in discharging its responsibilities. This structure would assist in adequate oversight on the one hand and at the same time facilitate effective decision making. It is proposed that the Board would directly look into matters concerning human resources and as regards matters relating to ethics, the Board may constitute an ad hoc committee as required to look into such matters.

In order to fulfill the functions of the Board of Directors and the requirement under the Articles of Agreement, having looked at the governance structure prevalent in other development banks, the Bank believes at this stage it is appropriate to have three committees:

- i. Audit, Risk, Budget and Compliance Committee (the “ARBC”) of the Board, composed by Board Members, to oversee audit, risk, budget, compliance, whistle blowing, etc.;
- ii. Credit and Investment Committee, composed by the Management and constituted in terms of Article 12(f) of AOA, is responsible for decisions on loans, guarantees, equity investments and technical assistance of no more than a limit amount to be established by the Board in accordance with Article 13(b)(ii) of AOA; and
- iii. Finance Committee, composed by the Management, is responsible for financial matters of the Bank relating to credit/operations, treasury and risk, facilitated by two sub-committees, namely Operations Committee and Treasury Committee.

This governance structure would be reviewed annually or as needed by the Board of Directors to see if any changes are needed and add additional layers of governance as necessary.

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The table below summarises the committees required, at this point in time, for discharge of general operations of the Bank along with their responsibilities:

	Responsibilities covered
Audit, Risk, Budget and Compliance Committee	Audit, Risk, Budget, Compliance, Whistle blowing, etc.
Credit and Investment Committee	Decision on loans, guarantees, equity investments and technical assistance (Article 13 (b)(ii) of AOA)
Finance Committee	Credit/operations, treasury and risks associated thereto

The terms of reference for each of the committees are attached in a separate appendix.

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Terms of reference of the Audit, Risk, Budget and Compliance Committee

1. Purpose

The purpose of the Audit, Risk, Budget and Compliance Committee (the “Committee”) of New Development Bank (the “Bank”) is to assist the Board with regard to fulfilling its corporate governance oversight responsibilities with regard to: i. the integrity of the Bank’s financial statements; ii. Review and monitoring of the Bank’s independent registered auditors’ and their qualifications and independence; iii. The performance of the internal audit function and independent registered auditors; iv. The deployment of policies and assessing adequacy of outcomes; v. Compliance with legal and other requirements with a view to ensure accurate, timely and proper disclosures, and transparency, integrity and quality of financial reporting; vi. Identification, evaluation and mitigation of credit, market and operational risks of the Bank; vii. Overall responsibility for monitoring and approving the risk management framework and associated practices of the Bank; viii. Reviewing and approving risk disclosures statements in public documents or disclosures; ix. Ensuring that the budgetary, staff and administrative resources of the Bank are directed towards its agreed priorities; and x. Monitoring efficiency, cost control and budgetary prudence.

The primary role of the Committee is to oversee: i. the financial reporting and disclosure process; ii. Compliance with the Bank’s Code of Business Conduct and Ethics; iii. Qualification and independence of the External and Internal Audit team; iv. Adequacy and reliability of the internal control systems, especially those relating to the reporting of the Bank’s financials; and v. Effective implementation of the risk management framework.

To fulfill this obligation, the Committee relies on: the Bank’s management (“Management”) for the preparation and accuracy of the Bank’s financial statements; both Management and the internal audit department for establishing and assessing effective internal control and procedures to ensure the Bank’s compliance with accounting standards, financial reporting procedures and regulations as applicable; the Bank’s independent auditors for an unbiased, diligent audit or review, as applicable, of the Bank’s financial statements and adequacy and the effectiveness of the Bank’s internal control systems; the Bank’s management in establishing an effective risk framework including governance and appropriate processes; and the Bank’s management in preparation and execution of budgets in accordance with organizational objectives.

The roles, responsibilities and powers of the Committee shall include matters set out in these terms of reference and such other items as may be prescribed by applicable law.

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2. Responsibilities

The Committee shall have the following authority and responsibilities.

- **Audit responsibilities**

- a. Make recommendations to the Board for appointment, retention, termination, remuneration/compensation, and terms of appointment of an independent registered public accounting firm to act as the Bank's independent auditor. The Committee shall oversee the work of the independent registered auditor (including resolving disagreements between Management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.
- b. Review and discuss with the Bank's independent auditors i. all critical accounting policies and practices; ii. All alternative treatments of financial information within International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") that have been discussed with the Management, the ramifications of the use of such alternative treatments and the treatment preferred by the auditors; and iii. Other material written communications between the auditors and Management.
- c. Provide an open avenue of communication between the independent auditor, internal auditor and the Board.
- d. Evaluate, monitor and discuss with the Management, the qualifications, performance and independence with the independent auditor and effectiveness of the audit process and confirm the objectivity of the internal auditor.
- e. Review with the independent auditor on the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts and the effective use of all audit resources.
- f. Evaluate internal financial controls and risk management systems, including by way of review of the following with the independent auditor, the internal auditor and the Management
 - The adequacy and effectiveness of internal controls, including any significant deficiencies or material weaknesses in the design or operation of, and any material changes in, the Company's internal controls and any special audit steps adopted in light of any material control deficiencies, any fraud involving Management or other employees with a significant role in such internal controls; and
 - Related findings and recommendations of the independent auditor and internal auditor, together with the Management's responses.

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- g. Consider and pre-approve all audit and permitted non-auditing services to be provided by the independent auditor to the Bank (including approval of payment of fees for all such audit and non-audit services), and establish policies and procedures for the Committee's pre-approval of permitted services by the Bank's independent auditors on an on-going basis. For the purpose of this clause, non-audit services shall mean any professional services provided to the Bank by the independent auditor, other than those provided to the Bank in connection with an audit or review of the financial statements of the Bank and includes (but is not limited to);
- Bookkeeping or other services related to the accounting records or financial statement of the Bank;
 - Financial information system design and implementation;
 - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
 - Actuarial services;
 - Internal audit outsourcing services;
 - Management functions or human resources;
 - Broker or dealer, investment advisor, or investment banking services;
 - Legal services and expert services, unrelated to the audit; and
 - Any other service that the Board determines impermissible.
- h. Review the audited financial statements of the Bank, prepared in accordance with IFRS
- The Committee shall additionally review a. Management discussion and analysis of financial condition and results of operations; b. Management letters/letters of internal control weakness issued by the independent auditor; c. internal audit reports relating to internal control weakness; and d. Appointment and dismissal of the Chief of Internal Audit.
- i. The Committee shall review the financial statements and the auditor's report thereon before submission to the Board for approval, with particular reference to;
- i. changes, if any in accounting policies and practices and reasons for the same;
 - ii. major accounting entries involving estimates based on exercise of judgments by Management;
 - iii. significant adjustments made in the financial statements arising out of audit findings;
 - iv. compliance with requirements relating to financial statements; and
 - v. qualifications in the draft audit report.
- j. Conduct a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to the Management by the independent auditor or the internal auditor.
- k. Review and discuss with the independent auditor, the overall adequacy and effectiveness of the Bank's legal and ethical compliance programs including the Code of Conduct and Ethics adopted for the Bank's service providers and Management's monitoring of compliance with the Bank's Code of Conduct and Ethics and applicable

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- anti-corruption legislations in jurisdictions as applicable.
- l. Review and discuss with the Board, the reports provided by the Compliance officer.
 - m. Review, in conjunction with the Management and the independent auditor, any correspondence with agencies and any published reports that raise material issues regarding the Banks' financial statements or accounting policies. Review in conjunction with the General Counsel, any legal matters that could have a significant impact on the Bank's financial statements or the Bank's compliance procedures.
 - n. Review the Bank's compliance with employee benefit plans.
 - o. Oversee and review the Bank's policies regarding Information Technology and Management Information Systems.
 - p. If necessary, institute special investigations into any matter provided in these terms of reference or referred to it by the Board, with full access to the internal auditors, chairperson of the Board, Management and the independent auditor, as well as books, records, facilities and personnel of the Bank. The Committee shall also review findings of internal investigations by the internal auditor into matters of suspected fraud/irregularity or failure of internal controls of a material nature and report to the Board.
 - q. As appropriate, engage independent counsel or other advisors as it deems necessary or appropriate to carry out its duties. The Committee shall set the compensation, and oversee the work of, any independent counsel or other advisors retained by it. The Bank will provide appropriate funding, as determined by the Committee, to pay the independent auditor, any other registered public accounting firm and any independent counsel and any other outside advisors hired by the Committee and any administrative expenses of the Committee that are necessary or appropriate in carrying out its activities.
 - r. Review its own terms of reference, structure, processes and membership requirements.
 - s. Review and assess its own performance once every three years.
 - t. Establish procedures for receiving, retaining and treating complaints received by the Bank regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees, of concerns regarding questionable accounting or auditing matters.
 - u. Consider and review the following with the Management, internal auditors and the independent auditor:
 - Significant findings during the period, including the status of previous audit recommendations;
 - Any major issues regarding accounting principles and financial statement presentation, including any significant changes in the Bank's selection or application of accounting principles;

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- Effect of the regulatory and accounting initiatives and off-balance sheet structures on the Bank's financial statements;
 - Any difficulties encountered during audit work including any restrictions on the scope of activities or access to required information, and Management's response;
 - Any significant disagreements between the management and the independent auditor; and
 - Any changes required in the planned scope of the internal audit plan.
- v. Set hiring policies with regard to employees and former employees of the independent auditor and oversee compliance to such policies.
- w. Review the adequacy of and approve the overall purpose, scope, organization structure, responsibilities, resources, activities, reporting structure coverage of the internal audit function. Discuss with auditor the responsibilities, budget and staffing of the internal audit function. Review and discuss with the Management the performance and effectiveness and frequency of audit of the internal audit function.
- x. Review and approve the Internal Audit Plan, Risk assessment proposals submitted by the Internal Audit Department.
- y. To seek information from any employee.
- **Risk responsibilities**
 - a. To periodically assess risks to the effective execution of business strategy and review key leading indicators.
 - b. To annually review the Risk Management Framework, risk appetite and stress testing framework of the Bank.
 - c. To periodically review the risk management processes and practices of the Bank and ensure that the Bank is taking the appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities.
 - d. To formulate and implement optimal Asset Liability Management (ALM) strategies, both at the product and enterprise level and meeting risk versus reward objectives.
 - e. To evaluate significant risk exposures of the Bank and assess Management's actions to mitigate the exposures in a timely manner.
 - f. To make regular reports to the Board including with respect to risk management and minimization procedures.
 - g. To review the adequacy of the terms of reference annually and recommend any proposed changes to the Board for approval.
 - h. The Committee shall have access to any internal information necessary to fulfill its oversight role. The Committee also has the authority to obtain advice and assistance from internal or external legal, accounting or other advisors.

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- **Budget responsibilities**

- a. To review the proposed annual expenditure budget, before submission to the Board for approval;
- b. To consider any other aspects of the expenditure budget as the President/CFO may request and report thereon to the Board; and
- c. To review and monitor periodic reports on budget performance.

- **Compliance responsibilities**

The main responsibilities of the Committee as regards to compliance are:

- a. To review the Compliance Management Policy, Anti-Corruption / Anti-Fraud & Anti-Money Laundering Policy, Code of Business Conduct & Ethics and ensure that these policies are consistent with other policies of the Bank;
- b. To review the whistleblowing mechanism and its functioning;
- c. To review and approve the compliance management plan on an annual basis;
- d. To consider the compliance assessment report and the AML work report on an annual basis put up by the Compliance Division of the Bank; and
- e. To consider the quarterly Compliance update covering the compliance self-certification (with regards to the policies of the Bank), compliance testing results and whistleblowing investigations undertaken by the Compliance division, etc.

3. Composition

The Committee shall comprise of all members of the Board. The Chairperson of the Committee shall be appointed through a consultative process of the Board facilitated by the Chairperson of the Board. The Chairperson of the Committee shall not be the Chairperson of the Board of Directors. In the event that the Chairperson is not present at the meeting, the Committee shall elect an acting Chair.

The members of the Committee will be appointed for a term starting on 1 January of the appointment year and ending on 31 December 2 years later. If a member of the committee ceases to be a member of the Board, a replacement will be appointed for the remaining term of the Committee. The duties and responsibilities of a member are in addition to those applicable to a member of the Board. The Corporate Secretary shall act as the secretary to the Committee.

4. Attendance

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The four Vice Presidents, Chief of Internal Audit, 2 Directors General of Risk and Compliance, and independent auditors will have a standing invitation to attend Committee meetings and may not vote. Other members of the Management and staff may, by special invitation of the Chairperson, be in attendance at the Committee meetings and may not vote.

5. Relationship with independent and internal auditors and responsibilities in connection thereof

- a. The Committee has the ultimate authority and responsibility to select, evaluate and recommend to the Board for appointment, retention, replacement, remuneration/compensation, and terms of appointment of the independent auditors of the Bank. All possible measures must be taken by the Committee to ensure the objectivity and independence of the independent auditor. These include:
- Reviewing the independent auditors' proposed audit scope, approach and timing before commencement of audit. Overseeing and, at least annually, evaluating the work of the independent auditor or any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, which evaluation shall include a review and evaluation of the lead partner of the independent auditor. The Committee shall review, in consultation with the independent auditor, the annual audit plan and scope of audit activities and monitor such plan's progress.
 - Annually obtaining and reviewing a report by the independent auditor that describes (i) the independent auditor's internal quality control procedures, and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding any independent audit performed by the independent auditor, and any steps taken to deal with any such issues.
 - Reviewing and discussing with the independent auditor the written independence disclosures required by the applicable requirements.
 - Overseeing the rotation of the independent auditor's lead audit and concurring partners and the rotation of other audit partners, with applicable time-out periods, in accordance with the multilateral development bank practice.
 - Actively engaging in dialog with the auditors with respect to any disclosed relationships or services that may impact their objectivity and independence and /or recommend that the entire Board take appropriate action to ensure their independence.

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- Encouraging the independent auditors to have open and frank discussions on their judgments about the quality, not just the acceptability, of the Bank's accounting principles as applied in its financial reporting. This covers issues such as the clarity of the Bank's financial disclosures, and degree of aggressiveness or conservatism of the Bank's accounting principles and underlying estimates, and other significant decisions made by the Management in preparing the financial disclosure and audited by them.
 - Reviewing reports submitted to the Committee by the independent auditor in accordance with the applicable requirements.
- b. The internal auditors are in the best position to evaluate and report on the adequacy and effectiveness of internal controls. Keeping in view the need for the internal auditor's independence from the management to remain objective, a formal mechanism should be created to facilitate confidential exchanges between the internal auditors and the Committee, regardless of irregularities or problems. The work carried out by each of these auditors needs to be assessed and reviewed with the independent auditors and appropriate recommendations made to the Board.

6. Disclosure requirements

- a. The Committee terms of reference should be published on the Bank's website.
- b. The Committee shall disclose in the Bank's Annual Report whether or not with respect to the concerned fiscal year:
- The Management has reviewed the audited financial statements with the Committee, including a discussion of the quality of the accounting principles as applied, and significant judgments affecting the Bank's financial statements.
 - The independent auditors have discussed with the Committee their judgments of the quality of those principles as applied and judgments referred to above under the circumstances.
 - The members of the Committee have discussed among themselves, without the Management or the independent auditors being present, the information disclosed to the Committee as described above.
 - The Committee, in reliance on the review and discussions conducted with the Management and the independent auditors pursuant to the requirements above, believes that the Company's financial statements are fairly presented in conformity with IFRS in all material respects.
 - The Committee has satisfied its responsibilities in compliance with its terms of reference.

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7. Meetings and reports

- a. The Committee shall meet at least four times a year.
- b. The Committee will separately meet with the independent auditors and Chief of Internal Audit of the Bank in separate closed sessions, at such times as it deems appropriate to fulfill the responsibilities of the Committee under these terms of reference. Each regularly scheduled meeting of the Committee will conclude with a closed session of the Committee without the members of Management.
- c. The Committee may invite to its meetings any director, officer or employee of the Bank and such other persons as it deems appropriate in order to carry out its responsibilities with the concurrence of the President. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.
- d. The Committee will summarize its examinations and recommendations to the Board as may be appropriate, consistent with the Committee's terms of reference.
- e. The Committee shall regularly report to the Board with respect to the Committee's activities, including any significant issues that arise with respect to the quality or integrity of the Bank's financial statements, the risk exposures of the Bank, the Bank's compliance with legal or other requirements, the performance of the internal audit function or the performance and independence of the Bank's independent auditor, as applicable, and shall make recommendations to the Board as appropriate.
- f. The Committee is governed by the same rules regarding meetings, action without meetings, notice, and waiver of notice and voting requirements as are applicable to the Board. The quorum for any meeting of the Committee shall be three members.

Terms of reference of the Credit and Investment Committee

1. Purpose

The purpose of the Credit and Investment Committee (the “Committee”) of New Development Bank (the “Bank”) is to assist the Board with regard to fulfilling its responsibilities for the credit activities of the Bank.

2. Responsibilities

The Committee will be expected to satisfy itself that the Bank’s credit activities are adequate and effective. In this regard, the specific responsibility that the Committee will carry out on behalf of the Board is:

Responsible for decisions on loans, guarantees, equity investments and technical assistance of no more than a limit amount to be established by the Board in due course.

3. Composition

The Committee shall comprise of the President and 4 Vice-Presidents of the Bank. The Chairperson of the Committee would be the President of the Bank. In the absence of the President, the Vice-Presidents may elect amongst themselves to appoint one of the Vice-Presidents to chair the meeting. The Corporate Secretary shall act as the secretary to the Committee.

4. Attendance

The 4 Directors General from Treasury, Risk, Operations will have a standing invitation to attend the Committee meetings and may not vote. Other members of staff may, by special invitation of the Chairperson, be in attendance at the Committee meetings and may not vote.

5. Disclosure requirement

- a. The Committee terms of reference should be published on the Bank’s website.
- b. The Committee shall disclose in the Bank’s Annual Report whether or not with respect to the concerned fiscal year, the Committee has satisfied its responsibilities in compliance with its terms of reference.

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6. Meetings and reports

- a. The Committee shall meet monthly or as needed.
The Committee may invite to its meetings any officer or employee of the Bank and such other persons as it deems appropriate in order to carry out its responsibilities with the concurrence of the President. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.
- b. The Committee will summarize its examinations and recommendations to the Board as may be appropriate, consistent with the Committee's terms of reference.
- c. The Committee is governed by the same rules regarding meetings, action without meetings, notice, and waiver of notice and voting requirements as are applicable to the Board. The quorum for any meeting of the Committee shall be three members.

Terms of reference of the Finance Committee

1. Responsibilities

The Finance Committee will be expected to have oversight responsibility on financial matters of the Bank relating to credit/operations, treasury and risks associated thereto. In this regard, the specific responsibilities relating to oversight of and recommendations to the Board would be on the areas as follows:

- a. Financial policies and guidelines
- b. Financial operations including loan loss provisioning
- c. Asset Liability management (ALCO functions)
- d. Financial risk management

2. Composition

The Committee shall comprise of the President and 4 Vice-Presidents. The Committee would be chaired by the President. In the absence of the President, the Vice-Presidents may elect amongst themselves to appoint one of the Vice-Presidents to chair the meeting. If a member of the Committee ceases to be a staff of the Bank, a replacement will be appointed. The designated person from the Treasury department shall act as the Secretary to the Committee.

3. Attendance

The 3 Directors General from Treasury, Risk, and Accounting, will have a standing invitation to attend the Committee meetings and may not vote. Other members of staff may, by special invitation of the Chairperson, be in attendance at the Committee meetings and may not vote.

4. Meetings and reports

- a. The Committee shall meet monthly or as needed.
- b. The quorum for any meeting of the Committee shall be three members.

Terms of reference of the Operations Sub-Committee

1. Responsibilities

The Operations sub-committee will be expected to satisfy itself that Bank's credit management activities are adequate and effective. In this regard, the specific responsibilities that the Committee will carry out on are as follows:

- a. Monitor credit specific financial policies
- b. Credit risk management
- c. Review of loan loss provisioning

2. Composition

The Committee shall comprise of two groups of members. Group A would comprise of the 4 Vice-Presidents and Group B would comprise of 6 Directors General from Treasury, Risk, Operations, Compliance and the General Counsel. The Committee would be co-chaired by the Vice-Presidents. If a member of the Committee ceases to be a staff of the Bank, a replacement will be appointed. The designated person from the Risk department shall act as the Secretary to the Committee.

3. Meetings and reports

- a. The Committee shall meet quarterly or as needed.
- b. The quorum for any meeting of the Committee shall be at least 2 members from Group A (of which the Vice President responsible for Operations is mandatory) and at least three members from Group B.

Terms of reference of the Treasury Sub-Committee

1. Responsibilities

The Treasury sub-committee will be expected to satisfy itself that Bank's treasury activities are adequate and effective. In this regard, the specific responsibilities that the Committee will carry out on are as follows:

- a. Develop and monitor the treasury business strategy
- b. Treasury risk management including limit monitoring, liquidity
- c. Monitor Treasury specific policies
- d. Asset Liability Management (ALCO functions)

2. Composition

The Committee shall comprise of two groups of members. Group A would comprise of the 4 Vice-Presidents and Group B would comprise of 6 Directors General from Treasury, Risk, Operations, Compliance and the General Counsel. The Committee would be co-chaired by the Vice-Presidents. If a member of the Committee ceases to be a staff of the Bank, a replacement will be appointed. The designated person from the Treasury department shall act as the Secretary to the Committee.

3. Meetings and reports

- a. The Committee shall meet monthly or as needed.
- b. The quorum for any meeting of the Committee shall be at least 2 members from Group A (of which the Vice President responsible for Treasury is mandatory) and at least three members from Group B.