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Corporate Governance Framework

A. Foundations for Effective Corporate Governance

The Corporate Governance provides a framework for decision making from among available choices under conditions of risk and uncertainty, and for evaluation of the consequences of these decisions.

In practical terms, effective corporate governance guidelines have a direct impact on the Bank's ability to obtain favorable credit ratings (affecting cost of funds), prevent high employee turnover (affecting human resources costs), and presenting a good public image of the Bank (affecting public and corporate good will towards the Bank).

The Basel Committee on Banking Supervision issued in February 2006 the document "**Enhancing Corporate Governance for Banking Organizations**", whereby adapts for banking institutions the OECD Principles of Corporate Governance, which were adopted in 2004.

The OECD principles define corporate governance as involving "*a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.*"

The Basel Committee document states that "*From a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how they:*

- *Set corporate objectives;*
- *Operate the bank's business on a day-to-day basis;*
- *Meet the obligation of accountability to their shareholders and take into account the interests of other recognised stakeholders;*
- *Align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations.*"

In principle, the Basel Committee on Banking Supervision sets eight main principles of Good Corporate Governance, which cover both areas of what is known in the Bank to form corporate governance, that is Part I (which refers to the roles, functions, authorities, obligations and accountability of Governors and Directors, which are collectively referred to as supervisory authority) and Part II (which refers to the Management, as executive body, and staff, policies, rules, regulations, guidelines, control mechanism, systems and procedures):

Principle 1

Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank.

Principle 2

The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organisation.

Principle 3

The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation.

Principle 4

The board should ensure that there is appropriate oversight by senior management consistent with board policy.

Principle 5

The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors, and internal control functions.

Principle 6

The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.

Principle 7

The bank should be governed in a transparent manner.

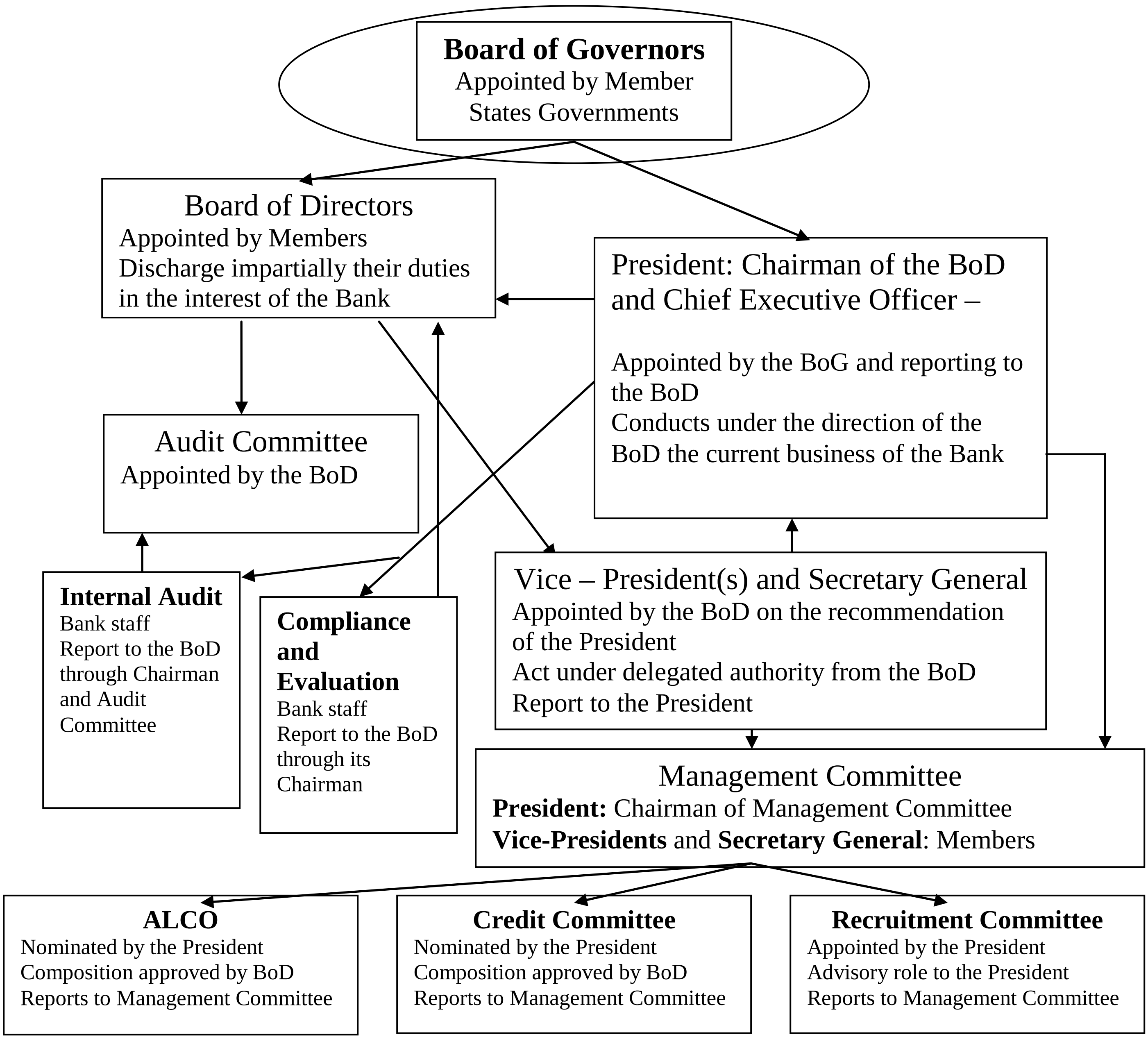
Principle 8

The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or through structures, that impede transparency (i.e. "know-your-structure").

The above mentioned basic Principles constitute the foundation of sound Corporate Governance that rests upon clear roles of the Board of Directors and Senior Management in the context of a well defined, communicated and understood control culture. In the words of the Basel Committee guiding document "**Enhancing Corporate Governance for Banking Organizations**": "*As the functions of the Board of Directors and Senior Management with regard to setting policies, implementing policies and monitoring compliance are key elements in the control functions of a bank, effective oversight of the business and affairs of a bank by its board and senior management contributes to the maintenance of an efficient and cost-effective supervisory system.*" Consequently, the composition, role, function and responsibilities of the Board of Directors and of Senior Management shall be to the extent possible (given the Bank's Corporate Governance Structure as established in the Agreement Establishing BSTDB) in conformity with the principles outlined in the "**Framework for Internal Control Systems in Banking Organizations**", issued by the Basel Committee in September 1998.

B. BSTDB GOVERNANCE STRUCTURE

The governance structure of the Bank is depicted in the following diagram:



C. AUTHORITY AND RESPONSIBILITY

The Bank's governing constitution is the Agreement Establishing BSTDB, which provides that the Bank will have a Board of Governors, a Board of Directors, a President, Vice Presidents (President and Vice-Presidents, including the Secretary General, form the Senior Management) and staff.[1]

All the powers of the Bank are vested in the Board of Governors.[2] Except for the powers and functions specifically reserved to it by the Agreement Establishing the Bank, the Board of Governors has delegated the exercise of its powers to the Board of Directors while retaining overall authority. The Board of Governors has overall supervisory authority over the entire activity of the Bank. The Governors represent in the Bank the Member States as shareholders interested in mandate fulfilment and maximization of shareholder value.

1. Role and Functions of the Board of Directors

Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the Bank's general operations.

Under Article 26 the Board of Directors "*shall be responsible for the direction of the general operations of the Bank and for this purpose shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular take decisions concerning the business of the Bank and its operations in conformity with the general directions of the Board of Governors*."

Directors shall discharge their duties only in the interest of the Bank, free from undue staff, Senior Management or political influence, professionally, independently and impartially, in conformity with the letter and the spirit of Article 31 of the Agreement Establishing BSTDB. Furthermore, in order to strengthen the prohibition of political activity and to underline the independent and impartial character of the decision making process that shall take into consideration only the best interest of the Bank according to its purpose, the Agreement Establishing the BSTDB mentions in Article 31 paragraph 3 that: "*Each Member of the Bank shall respect the international and non-political character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties*."

The Board of Directors is ultimately responsible for the operation and financial soundness of the Bank.

The Board of Directors is non- resident. Its activity is governed by two documents: (i) "Board of Directors Rules and Procedures"; and (ii) the "By-Laws of BSTDB", both approved by the Board of Governors.

[1] Agreement Establishing the Bank (Article 21).
[2] Agreement Establishing the Bank (Article 23).

The Board of Directors has the following broad authority and related responsibilities

- Approve and periodically review strategies and policies of the Bank;
- Set acceptable limits for risks undertaken by the Bank and ensure the Senior Management takes the necessary steps to identify, measure, monitor and control those risks;
- Ensure the effectiveness of the internal controls system;
- Approve the Organizational Structure;
- Ensure adequate functional/departmental/divisional segregation of duties (e.g. transaction origination, assessment of adequacy of documentation, monitoring after origination, approval of disbursement and actual disbursement, etc) and avoidance of conflict of interest;
- Avoid participation in day-to-day management of the Bank, in order to provide effective and objective oversight of the Senior Management;
- Board Members are expected to maintain appropriate level of expertise and promote Bank safety and soundness;
- Provide incentives for long-term financial sustainability;
- Avoid excessive focus on short-term profitability and volumetric targets when is not given adequate consideration to risk factors and mandate fulfilment;
- Approve budgets;
- Evaluate performance of Senior Management;
- Provide governance, guidance and oversight to senior Management;
- The Board of Directors shall approve all financing proposals (including debt, equity, guarantees, or any combination thereof).

The Audit Committee

The members of the Audit Committee, one of whom is acting as Chairperson, are appointed for a 1 year term by the Board of Directors. The President may not be member of the Audit Committee. Composition, authorities, responsibilities and functions are described in the “Audit Committee: Procedures and Terms of Reference” approved by the Board of Directors.

Adequate safeguards shall be put in place to maintain the independence and non-executive character of the position of Audit Committee members, with a view to increase the effectiveness of the oversight role of the Board of Directors. The Audit Committee Chairman’s role shall include oversight of Senior Management and specialized Bank Committees functions and would report regularly its findings and recommendations to the Board of Directors, after consultations with other members of the Audit Committee.

2. Role and Functions of Senior Management

As regards the role of Management and internal relations within the banking organization, issues which are subject to what is known in the Bank as Corporate Governance Part II, the Basel Committee guidelines state that:

"*Senior management is responsible for delegating duties to the staff and establishing a management structure that promotes accountability, while remaining cognisant of senior management's obligation to oversee the exercise of such delegated responsibility and its ultimate responsibility to the board for the performance of the bank*",

and:

"*Senior management consists of a core group of individuals, including, for example, the chief financial officer and division heads, who are responsible for overseeing the day-to-day management of the bank. These individuals should have the necessary skills to manage the business under their supervision as well as have appropriate control over the key individuals in these areas*",

and further:

"*Senior managers contribute a major element of a bank's sound corporate governance by overseeing line managers in specific business areas and activities consistent with policies and procedures set by the bank's board of directors. One of the key roles of senior management is the establishment, under the guidance of the board of directors, of an effective system of internal controls. Even in very small banks, for example, key management decisions should be made by more than one person ("four eyes principle").*"

From the above, it becomes evident that the corporate governance in the Bank is collectively reflected by the way in which: (i) the Bank is structured; (ii) its business activities are planned and conducted; and (iii) the role, functions, authorities and responsibilities which are assigned to the executive body and staff are defined.

3. Legal Basis for the Delegation of Authority

A key internal challenge is managing the delegation of authority from the Bank's shareholders down to the level of day-to-day decision making, The starting point for internal allocation of authorities is the Agreement Establishing the Bank.

According to Article 29 and 30 the Management of the Bank consists of the President (Article 29), and the Vice President(s) (Article 30). By the decision of the Inaugural Meeting of the Board of Governors, the Secretary General's position was equalized to that of a Vice President.

- Article 29, para 4: "*The President as the chief executive of the Bank, shall be its legal representative and shall conduct, under the direction of the Board of Directors, the current business of the Bank. The President shall, subject to the provisions of Article 30 of this Agreement, be responsible for the organization, appointment, and dismissal of officers and staff in accordance with rules and regulations adopted by the Board of Directors*."
- Article 30: "*One or more Vice President(s) shall be appointed by the Board of Directors on the Recommendations of the President. They shall hold office for*

such term, exercise such authority and perform such functions in the administration of the Bank, as may from time to time be determined by the Board of Directors. In the absence or incapacity of the President, one of the Vice Presidents nominated by the President shall exercise the authority and perform the functions of the President…"

These articles stipulate that the Vice Presidents, in addition to the President are entitled to executive authority delegated directly by the Board of Directors.

It is standard industry and corporate practice that the Vice Presidents/Secretary General executive level in turn delegates authority to the level of line managers according to the latter's areas of expertise provided that the control is being ascertained. This delegation is based on the following provisions:

- Article 31, paragraph 1 of the Agreement Establishing the Bank mentions the role of other officers and staff of the Bank in the decision-making process and thus in exercising certain level of authority as might be deemed necessary: "*The Bank, its President, Vice President(s), Directors, officers, and staff shall, in their decisions, take into account only considerations relevant to the Bank's purpose, functions, and operation as set out in this Agreement*".
- Article 31, paragraph 2 states that this delegation of authority and the decision making process shall only be in the interest of the Bank: "*The Bank, its President, Vice President(s), Directors, officers and staff shall, in their decisions, take into account only considerations relevant to the Bank's purpose, functions and operation as set out in the Agreement*."

In addition, for the purposes of allocating authorities to run the current business of the Bank, the Board of Directors can also create committees and other subsidiary bodies.

- Article 24, paragraph 5: "*The Board of Governors, and the Board of Directors, to the extent authorized, may establish such subsidiary bodies as may be necessary or appropriate to conduct the business of the Bank*."

4. Framework for the Allocation of Authorities

At the operational level, the authority of conducting the current business of the Bank must be delegated significantly in order to achieve this goal effectively. Given time pressures, increasing specialization within the Bank's Divisions, and the sheer volume of decisions to be taken in day-to-day management, no one person can assume overall authority, as well as underlying direct and personal responsibility for all activities pertaining to the mandate and objectives of the Bank, including those related to the protection, utilization and growth of the shareholder's equity.

Within this framework of defining the overall pattern of hierarchical delegation of authorities, specific limits for the different types of commitment of the Bank's funds must be set in the various policies, rule and regulation documents of the Bank and approved by the Board of Directors.

The President

The President is the Chief Executive Officer and Chairman of the Board of Directors. As stated in Article 29 of the Agreement Establishing the Bank, the President shall conduct, under the direction of Board of Directors, the current business of the Bank. He is appointed by and accountable to the Board of Governors, and reports to the Board of Directors.

The President's functions can be defined more specifically as follows:

- Ensuring compliance with the Agreement Establishing the Bank and policies approved by the Board of Governors and the Board of Directors
- Chairing the Board of Directors and recommending policies and operational and financial proposals, created in accordance with the Bank's internal institutional order
- Conducting, as the Chief Executive, the current business of the Bank under the direction of the Board of Directors
- Being responsible for the organization, appointment and dismissal of officers and staff, under the provisions of Articles 29 and 30 of the Agreement Establishing the Bank and the decision of the Inaugural Meeting of the Board of Governors, related to the Secretary General
- Directing the creation, promotion and review of the Bank's overall institutional development
- Promoting the Bank's image within the international financial community
- Exercising the authorities related to the Bank's activities
- Overseeing the functional divisions of the Bank (currently Banking, Finance, Operations and Administration Divisions), following the hierarchical line of command as delineated in the Organizational Chart of the Bank and the delegated authority to Vice-Presidents and Secretary General, who act as supervising Heads of Division
- Issuing administrative orders regarding the internal functioning of the Bank
- Approving within the given budget limits joint proposals of Divisions for transfers of funds in the framework of a specific budget line
- Exercising administrative authority over the departments reporting directly to the President's office, including the allocation of the divisional budget among them.

4.2. The Vice Presidents and the Secretary General

The next level of executive authority related to the conducting of the current business of the Bank rests with the Heads of Division, who are the Vice Presidents and the Secretary General.

They are appointed by and thus are accountable to the Board of Directors and report to the President.

The Vice Presidents/Secretary General are authorized to make operational decisions following their functional responsibilities as determined by the Board of Directors. More specifically the Vice Presidents and the Secretary General, subject to provisions of policies and procedures approved by the Board of Directors are authorized to take decisions on all matters, pertaining to their domains of responsibilities, unless these matters are explicitly reserved for the Board of Governors, Board of Directors, the President or pertain to the Terms of Reference of a Committee.

The Vice Presidents and the Secretary General have executive and oversight authority over the activities of (day-to-day running of) their divisions, including the allocation of the divisional budget among their departments.

They shall also have the authority to delegate certain powers to their Head of Departments/Function, following departmental procedures, manuals and job descriptions.

Conditional on the above, Administrative Order 99/03 issued June 18, 1999 with subsequent modifications, “Signature of Written Documents – Designation of Officers” lays down the list of matters for exercising such authorities by the Vice Presidents and the Secretary General with respect to their functional domains.

5. The Committees

Important role in the authority allocation blueprint of the Bank belongs to the Committees. Committees are hierarchically horizontal bodies of the Bank, mandated by the Board of Directors with specific decision-making authorities. The rights of the members of the Committees are defined in each Committee’s “Terms of Reference”.

The Board of Governors on the recommendation of the Board of Directors has created the following committees with decision-making authority:

5.1. The Management Committee

It is comprised of the President as Chairman, the Vice Presidents and the Secretary General.

It is the main committee of the Bank and has the mandate to consider and decide on all issues pertaining to key aspects of the Bank’s strategy, structure, operation, risk management and performance. All other Committees established in the Bank have a subsidiary role and report to the Management Committee.

With respect to the operations of the Bank, the Management Committee has the authority to:

- Consider for approval, on the recommendation of the Credit Committee, trade, corporate, project finance and related financing applications and rollovers
- Establish specific parameters (policies, limits, targets, guidelines), to be endorsed by the Board of Directors, within which tactical and operational financing decision making must take place
- Approve changes to the manuals that prescribe how operations are to be analysed, approved, administered and monitored
- Approve remedial management strategies, restructuring and rescheduling for problem operations
- Establish ad-hoc and/or permanent Working Groups for dealing with specific issues of interest
- Approve rules, regulations, methodologies and procedures necessary for the implementation of strategies, policies and guidelines approved by the Board of Directors and/or Board of Governors

Functions, authority and responsibility of the Management Committee are detailed in the “Management Committee Rules and Procedures” document.

5.2. The Credit Committee

Its composition is recommended by the President and approved by the BoD. The BoD shall review the composition and the effectiveness of the Credit Committee at intervals not longer than four years.

The Credit Committee’ responsibility is to guide the Operation Teams through the approval process from Concept Clearance to Final Review, in conformity with the Bank’s Operations Cycle Policy and its attendant Operations Manual. It considers all matters related to the financing operations of the Bank and expresses opinions with respect to the appropriateness of the due diligence and appraisal process.

The Credit Committee rejects financing proposals that do not meet mandate/strategy criteria, are not economically/financially viable and sustainable, and/or are not in conformity with existing Bank regulatory framework.

Submits for approval by the Management Committee financing proposals that have reached Final Review phase, in case such proposals have not been approved by consensus in the Credit Committee.

Composition, functions, authority and responsibility of the Credit Committee are outlined in Financial Policies Chapter 4 and detailed in the “Credit Committee Composition, Terms of Reference and Procedures” document.

5.3. The Assets and Liabilities Committee (ALCO)

Its composition is recommended by the President and approved by the BoD. It is the key institutional unit in the Bank’s financial management process.

ALCO is responsible for setting strategic direction in asset and liability risk management and establishes specific numerical limits, targets, and guidelines within which tactical and operational ALM decision-making must take place. The Committee is responsible for decisions on issues concerning the relationship between the Bank’s assets and liabilities - capital adequacy, liquidity, foreign exchange risk, interest rate sensitivity and off-balance sheet risks.

Functions, authority and responsibility of the ALCO are detailed in the “ALCO Composition, Terms of Reference and Procedures” document.

5.4. The Recruitment Committee

The composition of the Recruitment Committee is decided by the President, but normally consists of representatives of all Divisions and is coordinated by the Director, Human Resource Department, who act as Chairman of the Recruitment Committee.

The Recruitment Committee acts in an advisory role. It provides support to the Management Committee with recommendations on issues concerning recruitment (e.g. number of staff, skills, position title, etc.) in conformity with the Board of Governors approved Medium-term Strategy.

Per its approved structure, the Head of the relevant Department(s) will be included as a member to assist recruitment for vacant positions. Decisions are taken on the basis of a structured and independent evaluation of the applicants by all Committee members. The majority vote is the decision-making mechanism in the Recruitment Committee with a decisive vote of the Chairman in the case of split decisions.

The best suited candidates for advertised positions are recommended for employment. The final decision concerning recruitment pertains to the President, after consideration by the Management Committee, in conformity with the provisions of Article 29, paragraphs 4 and 5 of the Agreement Establishing BSTDB.

Functions, authority and responsibility of the Recruitment Committee are detailed in the “Recruitment Committee Composition, Terms of Reference and Procedures” document.

6. Transparency and Accountability

Transparency and accountability are integral elements of the Bank's corporate governance framework. The corporate governance structure is further supported by a system of reporting, with information appropriately tailored for and disseminated to each level of responsibility within the Bank to enable the system of checks and balances on the Bank's activities to function effectively.

In addition, detailed information shall be available to permit Senior Management to monitor the implementation of strategies, business plans and the execution of budgets. This information aims at enhancing accountability throughout the organisation.

7. Disclosure of Information

The Bank's corporate governance structure is supported by appropriate financial and management reporting. The Bank shall present financial statements in its Annual Report, prepared in accordance with the International Financial Reporting Standards.

The Bank shall have in place a comprehensive Management Information System of reporting to the Board of Directors, in particular information referring to:
- Operations and investment pipeline; and
- Financial results

The Senior Management of the Bank, following the above-explained lines of responsibilities and allocation of authorities, is responsible for disclosing to the shareholders through the Board of Governors all relevant information, pertaining to its operations. Senior Management shall also regularly disclose to the Board of Directors relevant information, which shall be adequate in content and in format to enable the Board to accomplish its functions. The Audit Committee will play an important role in the oversight of this process.

In its reporting the Bank aims at providing appropriate information on risk and performance of its activities. Industry best practice will guide the evolving disclosure practice.

There shall also exhibit openness and transparency in its dealing with other interested stakeholders and the general public. Disclosure of this information will occur in accordance with the Bank's "Policy on Disclosure of Information".

8. Complaints Receipt and Retention Mechanism

The Bank shall establish and maintain procedures for:

(i) the receipt, retention and treatment of complaints received by the Bank from any source, either internally or externally, in connection with any operations, accounting, or internal control matters; and

(ii) the submission by employees of the Bank, on a confidential and anonymous basis, of communications that involve any employee concerns regarding questionable operational, accounting or internal control matters.

D. Execution

Corporate Governance rules and practices are determined by the structure and legal framework under which the Bank operates, the appropriateness of its code of conduct and the corporate culture. Therefore, the Bank shall strive to adopt rules and practices which are in compliance with the principles of effective corporate governance. The approved set of strategies, policies, guidelines, rules, regulations, methodologies and procedures governing essentially all main Bank activities (e.g. organization, financial management, investment policies, appraisal and due diligence, risk management, evaluation, procurement of goods and services, environment, recruitment, staff relations, grievances and appeals, etc), form the core body of internal legislation ensuring corporate governance in line with best practices.

Efficient and effective Corporate Governance is essential for safe and sound functioning of the Bank, and therefore its implementation through the set of policies, strategies, guidelines, rules, regulations, procedures, processes, systems and controls shall, inter alia, draw upon and rely on the sound practice papers issued by the Basel Committee in recent years, "*which describe the roles of the Board of Directors and Senior Management in managing risk and underscoring the need for the banks to set strategies for their operations and establish accountability for executing these strategies. These sound practice papers have highlighted strategies and techniques for managing risk and include a number of common elements that are basic to sound corporate governance.*" ("**Enhancing Corporate Governance for Banking Organizations**")

Sound corporate governance at operational level consists of a number of elements outlined in the following table:

Management	**Independent Auditing**	**Main Control Functions:** (compliance, risk, evaluation)
Transparency and Accountability Reporting rules • CEO report • Financial statements • Budgets Decision matrix Operating Procedures Financial Management Organizational Structure Position descriptions Evaluation of CEO and top managers Internal controls Relationships with: • Board of Governors • Board of Directors • Independent external and internal auditors	External Auditors Engagement letter Audit program Final report Auditor independence Auditor rotation Non-audit assignments Relationships with: • BoG • BoD • Management Internal Audit Department Evaluation: • Internal control systems • Control functions • Risk management • Governance process	Program of activities Control culture Communication Autonomy Assignments Reporting Assessment Relationships with: • Other control functions • Internal Audit • Board of Directors • Management

In addition, the Bank shall make all efforts to comply with the Basel II Framework: "**Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version**", which would allow the Bank: (i) to identify the underlying risks it may face both in the short and long run, and (ii) to improve its ability to manage those risks.

E. INTERNAL AND EXTERNAL AUDIT; CONTROL FUNCTIONS

Compliance with the institutional framework of authority allocation shall be evaluated by the Internal Audit Department of the Bank and monitored by the Head of the Compliance function. The External Auditors and the Audit Committee are expected to provide guidance for improvement of the corporate governance – internal allocation of authorities.

Periodic reports to the BoD by the Management and the Audit Committee on various issues of interest for the Directors complement the framework, ensuring thus transparency and accountability.

1. Internal and External Auditors

Internal Audit Department: the Bank's Internal Audit Department is an independent, objective, assurance, and consulting activity that examines and evaluates the activities of the Bank as a service to Senior Management and the Board of Directors. The Internal Audit Department reports functionally to the President as Chairman of the Board of Directors, and directly to the Audit Committee. It has the responsibility, inter alia, of satisfying itself that the internal audit process is adequate and efficient through reviewing the policy, the scope, the work programme and the reporting relating to the Internal Audit Department. The primary objective of the Internal Audit activity is to help Senior Management and the Board of Directors of BSTDB discharge their responsibilities and accomplish the objectives of the Bank by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.

The Internal Audit Department carries out its work according to the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and the Information Systems Audit and Control Association (ISACA). Its authority and responsibility is defined in the Bank’s Internal Audit Charter, which is approved by the Audit Committee. Additionally, Internal Audit carries out any specific audit requests or investigations upon the request of Senior Management and the Board of Directors and also acts as coordinator with the external auditors of the Bank.

External Auditors: the Board of Governors appoints the External Auditors on the recommendation of the Board of Directors, for a one-year term, and they are reappointed by the Board of Directors as per Article 35 of the Agreement Establishing BSTDB. At the conclusion of their annual audit, the External Auditors provide a signed auditor's opinion on the truth and fairness of the Bank's Financial Statements and separate signed auditor's opinions for each of the Bank's special operations. Additionally, they prepare a Constructive Comments Letter and/or a Management Letter, setting out the Auditors’ views and Management’s responses on the effectiveness and efficiency of controls. This Letter(s) is reviewed in detail and discussed with the Audit Committee. The performance of the External Auditors is subject to regular review by the Audit Committee.

2. Control Functions: Compliance, Evaluation, Risk Management

The Board of Directors through the Audit Committee should assess regularly the extent to which the Bank is managing its risks effectively. The control functions assist Senior Management in managing effectively the risks faced by the Bank. The scope and breath of the activities of control functions are subject to independent, periodic review by the Internal Audit Department.

The responsibilities of the *Compliance* function shall be carried out under a program of planned activities that cover: (i) review of policies and procedures; (ii) compliance risk assessment; and (iii) educating staff on compliance matters. In certain instances as the need for investigation may arise, the compliance function shall have the right to conduct investigation of all possible breaches.

The responsibilities of the *Evaluation* function shall be carried out under the authority given by the Post-Evaluation Policy.

Risk Management shall discharge its responsibilities in an autonomous manner, according to best practices and industry standards.