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CIRCULAR TO ALL BANKS

GUIDELINES FOR THE APPOINTMENT OF INDEPENDENT DIRECTORS

INTRODUCTION

Following the introduction of the Code of Corporate Governance to banks operating in Nigeria effective April 3, 2006, the following guidelines are given to enable banks comply with Section 5.3.6 of the Code which states that **“at least two (2) non-executive board members should be Independent Directors (who do not represent any particular shareholder interest and hold no special business interest in the bank) appointed by the bank on merit”**:

a. **Definition**

An Independent Bank Director, would be a member of the Board of Directors who has no direct material relationship with the bank or any of its officers, major shareholders, subsidiaries and affiliates; a relationship which may impair the director's ability to make independent judgments or compromise the director's objectivity in line with Corporate Governance best practices.

b. **Qualifications for appointment**

Realizing that the need for Independent Directors arose from the desire to have on the board of banks, directors who would express

expert and independent views on issues in order to enthrone best Corporate Governance practices, the criteria for appointment of persons as independent directors are as follows;

- i. Compliance with Section 257(1) of the Companies and Allied Matters Act (CAMA), 1990 as amended, the Banks and Other Financial Institutions Act (BOFIA) of 1991 as amended or/and any other relevant law.

An Independent Director should not:

- ii. provide financial, legal or consulting services to the bank or its subsidiaries/affiliates or had done so in the past 5 years;
- iii. be a current or former employee who had served in the bank in the past and none of his immediate family members should be an employee or former staff of the bank **at the top management level** in the preceding 5 years;
- iv. borrow funds from the bank, its officers, subsidiaries and affiliates;
- v. be **part of management, executive committee or board of trustees** of an institution, charitable or otherwise, supported by the bank;
- vi. serve on the Board of a subsidiary of the bank;
- vii. Furthermore, an Independent Director should have sound knowledge of the operations of listed companies, the relevant laws and regulations guiding the industry, a minimum academic qualification of first degree or its equivalent with not less than 10 years of relevant working experience. Candidates should have proven skills and competencies in their fields.

c. Appointment

Banks should nominate/appoint their Independent Directors subject to CBN's approval as obtained currently. The CBN will appraise the candidates on the basis of the laid down criteria for the appointment of Independent Directors.

d. Responsibilities

Independent Directors are to:

- i. employ neutral, specialized/expert skills towards achieving a balance of knowledge, skills, judgment and other directional resources bearing in mind that neutrality of views and quality of debate are very crucial in enthroning good Corporate Governance practices;
- ii. serve as a check on the management of banks by providing unbiased and independent views to Boards of banks and represent minority shareholder's interests;
- iii. help the Boards of banks to get the most out of its businesses by providing objective inputs to strategic thinking and decision making, while ensuring full compliance with statutory rules and regulations.

e. Remuneration

The remuneration of the Independent Director should be limited to his/her sitting allowance, fees and reimbursable(s) incurred in the ordinary course of the business of the bank.

f. Performance Evaluation

The independent consultants appointed by banks as spelt out in the Code of Corporate Governance to appraise board members and board's performances should equally appraise the performance of the

Independent Directors at least once a year or more frequently as may be necessary, or due to changes in circumstances that may affect individual directors' independence.

In addition to the above, CBN/NDIC Examiners will assess the performance of all directors during routine examinations.

g. Tenure

The term of office of an Independent Director shall be 4 years for a single term and a maximum of 8 years of two consecutive terms if re-elected upon the expiration of the first term.

However, the Independent Director may resign before the expiration of his/her term. In this circumstance, the independent director shall submit a written letter of resignation spelling out the circumstances leading/surrounding the resignation, a copy of which should be sent to the CBN.

The CBN may also review the appointment of an Independent Director if it is established that his/her independence is impaired by subsequent actions.

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