National Bank of Rwanda
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The Governor

DIRECTIVE Nº 2600/2023-00034[613] OF 05/06/2023 ON COMPENSATION FRAMEWORK FOR BANKS

The National Bank of Rwanda;

Pursuant to Law n° 48/2017 of 23/09/2017 governing the National Bank of Rwanda as amended to date, especially in articles 6bis, 8,9 ,10 and 15;

Pursuant to Law N° 47/2017 of 23/9/2017 governing the organisation of banking, especially in article 67 and 117;

Pursuant to regulation n°01/2018 of 24/01/2018 on corporate governance for banks, especially in especially in Articles 7, 11, 22, 31 40, 45 and 46;

Considering that some banks compensation practices tend to reward employees often based on short term profit without adequate recognition of risks and long term effects of their activities;

Recognizing that the Basel Committee on Banking Supervision (BCBS) incorporated Financial Stability Board (FSB) compensation principles within pillar 2/Basel II Framework to reduce incentives towards excessive risk taking that may arise from the structure of compensation schemes and ensure remuneration systems that are consistent with effective risk management and promote acceptable staff behavior;

Considering also the need to provide guidance for Banks, Banking group or the Financial holding company on key elements of a sound remuneration system and an effective compensation framework and to outline type and level of disclosure required depending on the size of the Bank in order to ensure the stability of banking industry;

ISSUES THE FOLLOWING DIRECTIVE:

CHAPTER ONE: GENERAL PROVISIONS

Article One: Purpose of this Directive

This Directive establishes key elements of a sound remuneration system for banks and the approach of its control.

Article 2: Interpretation

In this Directive:

(a) "Central Bank" means the National Bank of Rwanda;
(b) "fixed remuneration" means remuneration where the conditions for its award and its amount –

(i) are based on predetermined criteria;
(ii) are non-discretionary reflecting the level of professional experience and seniority of staff;
(iii) are transparent with respect to the individual amount awarded to the individual staff member;

(iv) are permanent, i.e. maintained over a period tied to the specific role and organizational responsibilities;
(v) are non-revocable; the permanent amount is only changed via collective bargaining or following renegotiation in line with national criteria on wage setting;
(vi) cannot be reduced, suspended or cancelled by the entity;
(vii) do not provide incentives for risk assumption and
(viii) do not depend on performance

(c) "variable remuneration" means all remuneration which is not fixed;

(d) "malus" means arrangement that permits the entity to prevent vesting all or part of the amount of a deferred remuneration award in relation to risk outcomes of performance;

(e) "clawback" means contractual agreement requiring an employee to return the amount/ownership of variable remuneration paid in the past or that has already vested;

(f) "retention period" means a period of time after the vesting of instruments that have been awarded as variable remuneration during which they cannot be sold or accessed;

(g) "severance payment" means payment related to the early termination of a contract.

Article 3: Scope of this Directive

This Directive applies to the members of the Board of Directors, Seniors Management, any other employee who receives significant amounts of remuneration and those whose positions are capable of materially impact the risk profile of the bank.

CHAPTER II: SOUND REMUNERATION SYSTEM

Section One: Governance

Article 4: Remuneration policy

(1) The Board of Director through its Nomination and Remuneration Committee establishes and maintains a written remuneration policy which reflects the principles provided for in this Directive.

(2) The remuneration policy sets out criteria for the identification of employees. The list of these employees is reviewed regularly with clear documentation on the decision to include or exclude specific employees or group of employees.

(3) Remuneration policy is designed in a way it encourages employees' behaviors that support the bank's risk management framework, values, and long term financial

soundness and shall not encourage excessive risk taking by employees but allows the bank to attract and retain employees with relevant knowledge and skills.

(4) Performance measurement and related employees' remuneration is clearly documented and there is a regular monitoring to ensure that processes in the policy are consistently followed.

(5) The remuneration policy includes measures to avoid conflicts of interest. The remuneration of the board of directors is determined by the remuneration committee. No variable remuneration is paid to members of the board unless justified.

(6) The remuneration policy is accessible to all employees to enable them to know in advance how their performance is measured and compensated as well as how their remuneration can be affected by their behavior. Board and Management may determine the appropriate information to be provided to employees at various ranks.

Article 5: Personnel in charge of remuneration system

The remuneration policy has the remuneration of the following personnel as well as their role in the institution's remuneration system:

(i) Senior management personnel who are responsible for oversight of the bank's strategy or material business lines, including the Chief Executive Officer or Managing Director, senior executives reporting to the Board or to Board Committees and senior executives reporting to the Chief Executive Officer or Managing Director;
(ii) employees whose duties in the discharge of their employment involve the assumption of material risk;
(iii) employees whose activities in the aggregate may expose the bank to material amounts of risk and who are subject to the same or similar incentive, including employees who are incentivized to meet certain targets by payment of variable remuneration; and
(iv) employees within risk control functions, including risk management compliance, legal and internal audit function.

Article 6: Risk Control Function

(1) Risk control personnel are involved and have appropriate authority in the process of design and implementation of the bank's remuneration policy specifically in matters such as risk measures, risk judgements, and assessing the effectiveness of incentives created by the remuneration system in place. Risk control personnel involvement does not compromise their independence and is clearly documented.

(2) The Board or its Nomination and Remuneration Committee consults the risk control function to obtain independent input on how compensation relates to risks at various levels within the bank. However, this does not involve the allocation of remuneration at the individual staff level.

(3) Where any risk control personnel is a member of the Board or its Nomination and Remuneration Committee, such member does not participate in discussion related to the setting of his/her own or his/her division's remuneration to avoid conflict of interest.

(4) Remuneration of risk control personnel is determined in accordance with their performance objectives and key roles in the bank. To avoid undue influence from business units, they are compensated independently of the performance of the business units they supervise.

Article 7: Consideration of Misconduct risk in the Remuneration system

(1) Remuneration policy sets out clearly the consequences of misconduct on remuneration and it may cover some scenarios that would result in a reduction of the variable remuneration, including cases in which an employee is accountable for misconduct that leads to significant losses for the bank.

(2) In the event of misconduct, the amount of remuneration to be adjusted must be proportionate with the misconduct outcome by considering all relevant indicators of the severity of the impact. The policy must be clear about –

(i) Factors to be considered that may include the rank and role of the staff involved in the misconduct, motivation, extent of negligence in the exercise of duties, and history of the unethical behavior/misconduct;

(ii) Process for escalating and deciding cases that may trigger the use of performance adjustments and who shall play a role in the process.

(3) The final decision on the adjustment to remuneration including reasons and value must be properly documented and communicated to the affected staff.

(4) The Management may consider extending the use of adjustment to staff beyond those directly responsible for misconduct, including to immediate supervisor of the involved staff in case the supervisor has not fully discharged his or her responsibilities to prevent the occurrence of the misconduct.

Article 8: Internal Audit

The remuneration policy and practices are adequately reflected in the annual audit plan and high-quality independent reviews are performed by the internal audit on the design, implementation and the effects of the remuneration policy on the entity's risk profile.

Article 9: Supervisory approach

(1) The Central Bank considers potential risks that may arise from bank's remuneration system as part of its risk based supervision process by reviewing established remuneration policies, practices, outcome, as well the overall risk environment.

(2) In case Central Bank finds remuneration system to be inconsistent with this Directive or poses risk to the safety and soundness of the bank, it expects the board and management to implement measures promptly to address and mitigate any risks identified.

Section 2: Structure of remuneration

Article 10: Balance of fixed and variable remuneration

(1) In determining an adequate balance between fixed and variable incentive based remuneration, banks consider the role, seniority, responsibilities, and activities of their employees and the need to promote employees' behavior. Banks also consider avoiding situations where –

(a) Fixed component is at a low level that is not sufficient to attract and retain skilled; employees or renders the incentive based compensation element non-discretionary;
(b) Variable component is set at a level that induces excessive risk taking.

(2) The proportion of variable remuneration to total remuneration would be expected to increase in line with the seniority and responsibility of an employee such that a substantial proportion of the remuneration of senior management and other key personnel or material risk takers is paid in the form of variable remuneration.

(3) The Board in consultation with the control function defines the variable remuneration cap as a percentage of total annual fixed remunerations with clear criteria and factors considered. The Central Bank expects banks to consider a maximum cap of 40% when defining their caps.

Article 11: Use of Instruments for variable remuneration

(1) Variable remuneration is aligned with an employee's incentive awards with long term value creation and the time horizon of risk.

(2) The payment of a substantial proportion of variable remuneration in the form of shares or share linked instruments must be effective to better align incentives with risk and long term value creation.

(3) Where a bank deems it is inappropriate to use shares or share linked instruments for the payment of variable remuneration to its senior management and key personnel or material risk takers, it must ensure that alternative measures are in place, designed to achieve effective alignment of incentives allocations with the time horizon of risks.

(4) Variable remuneration in shares or in share-linked instruments is subject to an appropriate share retention policy which must require the retention of these instruments for a specified period before their disposal. This retention period does not go below a minimum of one year.

(5) The Central Bank expects banks to pay at least 50% of granted variable remuneration in forms other than cash, including shares, share-linked instruments.

Section 3: Measurement of performance for variable remuneration

Article 12: Pre-determined criteria for performance measurement

(1) The award of variable remuneration depends on meeting certain pre-determined and measurable criteria. These criteria include both financial and non-financial factors so that the quality of the performance of employees in the overall course of employment can be assessed and appropriately be reflected in the award of variable remuneration.

(2) To align remuneration with sustainable performance, the overall amount of a bank's variable remuneration takes into account bank's long term performance.

Article 13: Adjustments to performance assessment

(1) Variable remuneration takes into account the full range of risks, current and potential associated with activities of employees, including –

- (i) cost and quantity of capital required to support risks taken;
- (ii) cost and quantity of liquidity risk assumed in the conduct of business;
- (iii) timing and likelihood of potential future revenues incorporated into current earnings.

(2) Banks incorporate adjustments for risk and capital charges as the bank considers it prudent and appropriate.

(3) Performance measurement and allocation of variable remuneration take into account the performance of business units and the entire bank as well as the contribution of individual employees to such performance.

(4) Variable remuneration is symmetric with performance. Deterioration in the financial performance leads to a contraction in the total amount of variable remuneration paid by the bank.

(5) If some risks facing banks are difficult to measure or take years to materialize, banks' remuneration policy must allow adjustments to variable remuneration before and after it is awarded. Banks must be able to apply malus and clawback when it is established that any performance measurement was on data proven to have been misstated or based on erroneous assumptions.

Article 14: Exercise of judgements

To make appropriate and fair remuneration decisions, banks' Board of Directors exercise substantial amount of judgements as pre-determined performance criteria and formula based assessment metrics have their own limitations.

Section 4: Alignment of remuneration payouts to the time horizon of risks

Article 15: Deferment of variable remuneration

Deferment of payment of a portion of variable remuneration allows the observation and validation of employees' performance and associated risks over a period of time before payment is actually made. This also allows more accurate reflection of risks and their outcomes.

Article 16: Proportion of variable remuneration to be deferred

(1) The appropriate proportion of variable remuneration to be deferred will vary from employee to employee depending upon their seniority, responsibilities and activities, time horizon of risks incurred by employee's activities, and the overall level of their remuneration both in absolute terms and as a proportion of their fixed salary. Deferral may not be appropriate for employees whose performance is observable and susceptible to validation within a short timeframe.

(2) Proportion of variable remuneration subject to deferment is expected to increase in line with the seniority and responsibility of the employee in question and the Board or the Board Nomination and Remuneration Committee is expected to fix a deferral threshold. The Central Bank expects this threshold to be not less than 40% of the total individual awarded variable remuneration. The bank's established threshold is reviewed at least on regularly basis to check whether such threshold is appropriate in aligning remuneration with prudent risk taking.

(3) Banks adopting different policy to deferral of variable remuneration is prepared to demonstrate to the Central Bank that their alternative approach does not promote excessive short term risk taking and aligned actual variable remuneration payments with risks and risk outcomes.

Article 17: Vesting period

(1) Deferral of variable remuneration is subject to a minimum vesting period and pre-defined vesting conditions for the future performance of a bank, relevant units, and the employee in question.

(2) Deferred remuneration shall vest gradually over a period of years and not faster than on a pro rata basis, subject to fulfilment and validation of the pre-defined performance conditions. The Central Bank expects banks to fix their vesting period at a level not less than three years as a minimum. If the vesting conditions are not met in any year during the vesting period, all or part of the unvested portion of the deferred remuneration shall be foregone.

(3) The vesting period and vesting conditions are determined by the board or the banks' board nomination and remuneration committees and reviewed as appropriate.

Article 18: Deferred remuneration for departing or prospective employees

(1) The departure of an employee does not trigger early payout of deferred remuneration that has not vested or that is still within the deferment period. Exceptions may be exercised to special cases such as departure due to illness but also subject to approval.

(2) Payment to prospective employees to compensate them for deferred remuneration which they will forfeit on leaving their previous employments are not in line with the concept of deferment of variable remuneration for the purpose of this directive.

Article 19: Restriction on hedging exposures

Deferred variable remuneration is not used to hedge exposures as this may undermine the spirit and risk management advantages gained by deferring variable remuneration.

Article 20: Proportionality principle

(1) For banks classified in level II and cooperative banks, affairs and responsibilities of the nomination and remuneration committee are handled by full board.

(2) For staff who receive a low level of variable remuneration of up to FRW 1,000,000, banks are not required to defer their variable remunerations or pay their part in instruments.

Article 21: Submission of approved remuneration policy

Each bank submits to the Central Bank its approved remuneration policy compliant with the requirements of this Directive not later than **December 31, 2023.**

Article 22: Disclosures

(1) Banks disclose both quantitative and qualitative information about their remuneration practices and policies on annual basis.

(2) Banks make only qualitative remuneration disclosures in their published financial statements while both quantitative and qualitative remuneration information or disclosures are shared with the Central Bank not later than 31st January of every financial year.

(3) Banks make the first remuneration disclosures in the financial statements of **end December 2023.**

(4) The remuneration disclosures cover at least the key items based on proportionality level as indicated in Annex 4 of this Directive.

CHAPTER III: MISCELLANEOUS, TRANSITIONAL AND FINAL PROVISIONS

Article 23: Violation of provisions of this Directive

Any bank that contravenes any of the provisions of this Directive commits a fault and is liable to an administrative fine in accordance with applicable laws or regulations.

Article 24: Compliance with this Directive

Banks have a period of six months from the date of signature of this Directive, to comply with its provisions.

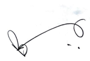
Article 25: Language provision

This Directive was drafted in English.

Article 26: Entry into force

This Directive comes into force from the date of its publication in the Official Gazette of the Republic of Rwanda.

Done in Kigali, on 6 June 2023.



Digitally signed by BNR(GOVERNOR)

RWANGOMBWA John
Governor

Breakdown of amount of remuneration awards for the financial year

	Base salaries and role based allowance	All benefits	Total fixed remuneration	Short term awards (non-deferred)	Short term awards (deferred)	Total short term awards	Long term awards(Deferred)	Total variable remuneration	Total remuneration
1. Board									
Number; xxxx									
% of total remuneration									
2. Senior management									
Number; xxxx									
% of total remuneration									
3. Other material risk takers									
Number; xxxx									
% of total remuneration									
Total									

ANNEX 2 TO DIRECTIVE No 2600 /2023 - 00034[613] OF 05/06/2023 ON COMPENSATION FRAMEWORK FOR BANKS

Deferred remuneration

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which total amount of outstanding deferred remuneration exposed to adjustments	Total amount of reduction during the year due to ex post explicit 1 adjustments		Total amount of reduction during the year due to ex post implicit 2 adjustments	Total amount of deferred remuneration paid out in the financial year
Cash						
Shares						
Share linked instruments						
Other						
Total						

ANNEX 3 TO DIRECTIVE No 2600 /2023 - 00034[613] OF 05/06/2023 ON COMPENSATION FRAMEWORK FOR BANKS

Special payments

Special payments	Guarantee bonuses		Sign on awards		Severance payments	
	Number of employee	Total amount	Number of employee	Total amount	Number of employee	Total amount
Senior management						
Other material risk takers						

			Proportionality level	
			I	II
1. Qualitative disclosures	(a)	Information relating to the bodies that oversee remuneration. Disclosures include: 1. Name, composition and mandate of the main body overseeing remuneration; 2. External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process; 3. A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches; and 4. A description of the types of employees by function considered as material risk takers and as senior managers, including the number of employees in each group.	√	√
	(b)	Information relating to the design and structure of remuneration processes. Disclosures include: 1. An overview of the key features and objectives of remuneration policy; 2. Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made; and	√	√

		3. A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.		
	(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures include: 1. An overview of the key risks that the bank takes into account when implementing remuneration measures; 2. An overview of the nature and type of the key measures used to take account of these risks, including risks difficult to measure (values need not be disclosed); and 3. A discussion of the ways in which these measures affect remuneration.	√	√
	(d)	Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures include: 1. An overview of main performance metrics for bank, top-level business lines and individuals; 2. A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance; and 3. A discussion of the measures the bank will in general implement to	√	√

		adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.		
	(e)	Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance. Disclosures include: 1. A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance; and 2. A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements.	√	√
	(f)	Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures include: 1. An overview of the forms of variable remuneration offered (i.e cash, shares and share-linked instruments and other forms); and 2. A discussion of the use of the different forms of	√	x

		variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description of the factors that determine the mix and their relative importance.		
2. Quantitative disclosures	(g)	Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its member.	√	√
	(h)	1. Number of employees having received a variable remuneration award during the financial year; 2. Number and total amount of guaranteed bonuses awarded during the financial year; 3. Number and total amount of sign-on awards made during the financial year; and 4. Number and total amount of severance payments made during the financial year. Template for reporting and disclosure in the Annex 3.	√	√
	(i)	1. Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms; and 2. Total amount of deferred remuneration paid out in the financial year. Template for reporting and disclosure in the Annex 2.	√	x

	(j)	1. Breakdown of amount of remuneration awards for the financial year to show: (a) Fixed and variable. Template for reporting in the Annex 1; (b) Deferred and non-deferred. Template for reporting in the Annex 1; and (c) Different forms used (cash, shares and share-linked instruments, other forms). Template for reporting in the Annex 2.	√	x
	(k)	Quantitative information about employees' exposure to implicit (eg fluctuations in the value of shares or performance units) and explicit adjustments (eg malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration: 1. Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments; 2. Total amount of reductions during the financial year due to ex post explicit adjustments; and 3. Total amount of reductions during the financial year due to ex post implicit adjustments.	√	x

		Template for reporting in the Annex 2.		