

Housing Bank

CORPORATE GOVERNANCE MANUAL

Housing Bank Group

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Introduction

Business in banking sector is distinguished from other sectors in that it has high risks and is influenced by both global and local economic circumstances, which requires effective corporate governance in such vital sector. Moreover, weakness in this governance at any bank may result in losses and problems which may extend to other banks and affect the stability of the entire banking sector.

Corporate governance has witnessed many essential developments especially after the latest global financial crisis in which many competent bodies and organizations, such as Organization for Economic Co-operation and Development (OECD) ¹, Basel Committee on Banking Supervision and Financial Stability Board (FSB) ², have issued the principles for enhancing corporate governance in banking institutions, with the continuation to update and develop these principles to reflect best practices where regulatory authorities in world countries and relevant international institutions has started to focus on the need to take into account the application of those principles.

¹ Organisation for Economic Co-operation and Development

¹ Financial Stability Board

First: References

Corporate Governance Manual has been amended to comply with the Amended Instructions of Corporate Governance for Banks No. (63/2016) issued by the Central Bank of Jordan virtue of the provisions of article no.(4/b/3)and (65/b) of the Central Bank of Jordan Law No. (23) of 1971 and its amendments, and articles (21), (22), (23), (25), (88), (99/B), and (100) of the Banking Law No. (28) of 2000 and its amendments.

Second: Definitions

The terms and phrases included in this manual shall have the meanings assigned to each hereunder, unless the context indicates otherwise. Banking Law and the instructions issued by its virtue are considered the reference to any other definitions referred to herein and not listed in this article:

- A. **Corporate Governance:** The Bank's guiding structure that aims at identifying and achieving the corporate goals of the bank, managing the bank's operations in safe and sound manner, protecting the depositors' interests, committing to the responsibility towards shareholders and other stakeholders, and ensuring the bank's compliance with laws and regulations, and its internal policies and procedures.
- B. **Fit and Proper:** Certain qualifications, requirements and standards to be present in the bank's board members and its executive management.
- C. **Board:** The Board of directors of the bank.
- D. **Stakeholders:** Any party of interest in the bank; depositors, shareholders, employees, creditors, customers and clients or regulators.

- E. **Major Shareholder:** A shareholder who owns 5% or more in the bank capital, either directly or indirectly.
- F. **Executive Member:** Board member who participates against rewards in the bank's day to day management.
- G. **Independent Member :** The board member who is free from and not subject to any influences limiting his/ her ability to make substantial and objective decisions for the benefit of the bank and in whom the conditions stipulated in article 5/d herein are present.
- H. **Senior Executive Management:** Includes the Chief Executive Officer "CEO", deputy Chief Executive Officer, Chief Risk Officer "CRO", Chief Financial Officer "CFO", assistants CEO, Chief Operational Officer "COO", Head of Risk, General Auditor, Head of Compliance and any other employee in the bank who has executive power parallel to the aforementioned powers and is directly reporting to the CEO.

Third: Scope of Application

This manual is applicable to Housing Bank, its subsidiaries and its international branches taking into consideration the instructions issued by central banks and regulators of host countries where the subsidiaries and international branches exist.

Four: Publishing the Corporate Governance Manual

The bank publishes the manual on its website and through any other suitable means to make it available for public viewing. The bank includes and discloses in its annual report the presence of the manual, discloses information related to the stakeholders including this manual, and the bank's compliance with its contents.

Five: Board of Directors Composition (the Board)

- A. The board should consist of thirteen members.
- B. None of the board members shall be an executive member.
- C. Independent members therein shall not be less than 4 members.
- D. The Nomination and Remuneration Committee in the bank shall determine the requirements to ensure the member's independency in a way to fulfill, as a minimum, the following conditions:
 - 1. He/ she shall not be an executive member in the board during the past three years prior to his election.
 - 2. He/ she shall not have worked as an employee in the bank or any of its subsidiaries during the past three years prior to the effective date of the instructions of corporate governance.
 - 3. He/ she shall not be related (up to 2nd degree relatives) to any other board member of the bank, or board members of other subsidiaries of the bank, or any major shareholder in the Bank.
 - 4. He/ she shall not be related (up to 2nd degree relatives) to any of the senior executive management members of the bank, or any of the senior executive management member of subsidiaries thereof.
 - 5. He/ she shall neither be a partner or employee for the external auditor of the bank, nor has been such during the last three years prior to his election as member in the board, and he/ she shall not be a first degree relative of the external auditor.

6. He/ she shall not be a major shareholder, a representative of a major shareholder or an ally of a major shareholder in the bank; or his/ her contribution with an ally contribution equals shares of that of a major shareholder, or a major shareholder in the bank's subsidiaries, or a major shareholder in the group owning the bank.
7. He/ she shall not have been a board member of the bank, or any of its subsidiaries or member of the board therein for more than eight consecutive years.
8. Neither he/ she or any company he/ she is a member of its board, owning it, or a major shareholder therein shall have obtained a facility from the bank exceeding 5% of the bank underwritten capital, nor shall he/ she be a guarantor of facilities exceeding the mentioned percentage.
9. He/ she shall hold high qualifications and experiences in the field of finance and banking.

Six: Board of Directors Meeting

- A. The board members shall attend personally all the board meetings. If not possible, the member may show his/ her point of view through a video or a teleconference call after getting the chairman's approval, without having the right to vote or sign on the minutes.
- B. The bank shall put down in writing the meetings of the board and its committees accurately and fully, including any reservations raised by any member, and shall maintain these meeting minutes in a suitable manner.

- C. The Senior Executive management, enough time ahead of the board meeting, shall present full and accurate information to the board members about the meeting agenda. The chairman shall verify such an action.

Seven: Board Overall Responsibilities

- A. The board shall oversee the senior executive management, follow up its performance, and ensure the soundness of the bank's financial position and solvency. The board shall adopt suitable policies and procedures for overseeing and controlling the bank's performance.
- B. The board shall define the bank's strategic goals, direct and instruct the executive management to prepare a strategy to fulfill these goals and, then, approve the strategy and the related action plans that go in line with this strategy.
- C. The board shall adopt a policy to oversee and review the performance of the executive management through key performance indicators (KPIs) to identify measure and oversee the performance to proceed towards achieving such corporate goals.
- D. The board shall ensure the availability of policies, plans and operational procedures in the bank that cover all the bank functions, and are in line with the concerned regulations, all of which is to be circulated across all managerial levels and reviewed on a regular basis.
- E. The board shall establish the bank corporate values, draw clear lines as to the responsibilities and accountability for all bank functions, as well as establish high culture in terms of moral standards, integrity and professional conduct of the bank staff.
- F. The board shall be held responsible for the soundness of all bank operations including its financial status, carrying out Central Bank requirements and those of other monitoring & regulatory authorities, taking care of the stakeholders interests. The bank is duly managed within the framework of the laws and regulations and its internal policies of the bank, and that the effective monitoring of the bank's activities, including outsourced activities, is always in place.

- G. Taking into consideration article (12/g) of this manual, the board, in light of the recommendations made by relevant committees, is to appoint the CEO, the General Auditor, CRO and the Head of Compliance and the board is responsible for accepting their resignations. The approval of the Central Bank on the resignation or termination of either's services shall be obtained. The Central Bank has the right to call any of the managerial levels to inquire about the reasons of resignation or termination of services.
- H. The board must approve the internal controls, review them annually and ensure that Internal and External Auditors review the framework of such controls at least once annually.
- I. The board must ensure the independence of the external auditor, initially and continuously.
- J. The board shall approve a risk management strategy and monitor its continuous implementation. Such strategy shall include the bank's risk appetite that prevents exposing the bank to high risks. The board shall be aware completely of the operational work environment and associated risks thereto. The board also shall ensure the availability of tools and infrastructure to manage the risks and that they are capable to define, measure, restrict and control all risks types which the bank may be exposed to.
- K. The board shall ensure the availability of sufficient Management Information Systems "MIS, reliable and covering all the bank activities.
- L. The board shall verify that the "business credit policy" include an assessment of the customers' corporate governance quality, especially shareholding companies, in a way that customers risks assessment shall be done by adopting strength and weakness points according to their governance performance
- M. The board shall make sure that the bank social responsibilities are adequate to address issues in terms of environment protection, health and education. Also, the board shall make sure that the bank offers facilities to Small and Medium- sized Enterprises "SMEs" at appropriate pricing and tenor.
- N. The board should take adequate measures to ensure clear separation between the powers of shareholders having effective (significant) interests

and those of the executive management, to enhance sound corporate governance. It must also, allocate suitable mechanisms to minimize the influence of shareholders having effective (significant) interests through (as examples but not limited to):

1. Shareholders having effective (significant) interests are not to assume any duties at the senior executive management.
 2. The authority of the senior executive management shall be granted by the board alone, and should act within the delegated framework.
- O. The board shall approve an organizational structure to the bank showing hierarchical order, including the board and executive management committees.
- P. The board of the bank shall abide by the following:
1. The board shall adopt the group and its subsidiaries' strategies and policies, the administrative structure of such subsidiaries, and the corporate governance manual on the group level. Such is to be done in a way to comply with the instructions of the Central Bank of Jordan and be applied to all group units to ensure that the subsidiaries policies are in parallel with this manual, taking into consideration the instructions issued by central banks and regulators of host countries where the subsidiaries exist.
 2. To be familiar with the group structure through knowing the interconnections and relationships between the entities and the mother bank. It shall be also aware of the adequacy of the corporate governance within the group in terms of adapting the corporate governance policies and strategies to the mother bank or any instructions issued by the Central Bank or other related supervisory authorities thereafter. In case of a conflict, prior approval of the Central Bank of Jordan to rectify it shall be obtained.
- Q. The board shall specify the banking operations which require its approval in a way not to be exhaustive and jeopardizing its overseeing role, and shall not grant executive authority, including granting loans, to a sole board member including the board chairman.
- R. The board shall identify the duties of the board secretary to include:

1. Attending all board meetings, minuting all discussions, suggestions, objections, reservations and voting methods on the board resolutions/ decisions drafts.
 2. Scheduling the board meetings dates in coordination with the chairman.
 3. Verifying that all board members sign the meetings minutes and resolutions.
 4. Following up the execution of the decisions made by the board, and the discussion of any topics adjourned from a previous meeting.
 5. Maintaining the records and documents of the board meetings.
 6. Taking appropriate actions to ensure that the drafted resolutions, decisions to be issued by the board are in conformity with the laws and regulations.
 7. Preparing for General Assembly meetings and coordinating with board committees.
 8. Providing the Central Bank with fit and proper acknowledgements signed by board members.
- S. The board members and committees shall have the ability to directly contact the executive management and the board secretary as well as to do the duties entrusted to them including contracting outsources when necessary on the expense of the bank and in coordination with the chairman. However, no board member shall affect the executive management decisions unless through negotiations conducted in the board's or its committees' meetings.
- T. The board shall set out the procedures to determine its members' remunerations based on the approved standards.
- U. The chairman of the board must ensure the following as a minimum:
1. Establishing a constructive relationship between the board and the executive management.
 2. Encouraging constructive criticism of issues discussed in general, and of those that raise different points of view among the board members, and encouraging negotiation and voting on such issues.

3. That all board members receive and sign the minutes of previous meetings, and receive the meeting agenda well before the meeting is conducted. The agenda shall include enough written information about the topics to be discussed in the meeting. The delivery of such shall be made via the secretary of the board.
4. The availability of a charter organizing and defining the board scope of work.
5. Follow-up on the implementation of the Bank's Corporate Governance Manual in relation to the duties and responsibilities of the Board of Directors.
6. Supervising matters assigned by the Board of Directors and following up the progress of these matters.
7. Following-up and evaluating the overall performance of the Bank in accordance with the strategies, plans, objectives, policies and budgets approved by the Board of Directors.
8. The chairman of the Board of Directors shall represent the Bank and sign on its behalf before third parties and all authorities and bodies, including the competent judicial authorities, and he has the right to delegate what he has been authorized by the board in writing.
9. Any non-executive duties and responsibilities assigned to him by the Board of Directors.
10. Discussing, in detail, the strategic and important issues in the board meetings.
11. Providing each member in the board, once elected, with the concerned laws related to banking; the Central Bank instructions pertaining to the scope of work of the board including these instructions; a booklet stating the member's rights, responsibilities and roles; and the secretary's duties and responsibilities.
12. Providing each member with sufficient summary on the bank's operations on the date of appointment or upon request.
13. With the assistance of the bank's legal counselor, deliberating with any new member on the board's responsibilities and roles,

especially those relating to legal and organizational requirements, authorities, and other matters of membership such as membership term, meetings schedules, committees' responsibilities, rewards, and the possibility of obtaining independent technical advice when necessary.

14. Meeting the board members' needs for developing their expertise and Continuous learning. The new board member shall participate in an Orientation (induction) Program that suits his/ her banking background and includes, as a minimum, the following topics:

- A. The bank's organizational structure, corporate governance, and code of conduct.
- B. Corporate goals, the bank's strategic plan, and its approved policies.
- C. Financial position of the bank.
- D. The bank's risks profile and Risks management framework therein.

V. Each board member must be aware of the following as a minimum:

- 1. To have a good knowledge of legislations and principles of banking, the bank's operational environment, and to be up to date with the developments taking place therein as well as related external updates including the requirements for recruitments in the bank's senior executive management posts.
- 2. Attending all meetings of the board, the committees as necessary, and the General Assembly.
- 3. Confidentiality of the bank's information and avoidance of conflict of interest.
- 4. Favoring the bank's interest in all business relations conducted with any other company in which he/ she has personal interest. He/ she shall not also use the bank's commercial business opportunities and endorse it to his/ her own interest. Furthermore, he/ she shall avoid conflict of interest, disclose to the board, in detail, any conflict of interest, if any, commit not to attend meetings

or participate in decisions made therein where such a topic is discussed, and such disclosure shall be put down in writing in the meeting minutes.

5. Devote enough time to assume his/ her roles and duties as board member. The nomination and compensation committee shall find a clear methodology to verify this (e.g.; the number of memberships of such member in other boards/ corpses/ forums...etc.)

Eight: Accountability and Responsibility

- A. The board shall set out clear lines for responsibility and accountability, abide by them and enforce them across all the managerial levels of the bank.
- B. The board shall make sure that the organizational structure reflects clear authority and responsibility lines and as a minimum to include the following levels of control:-
 1. Board of Directors and its committees.
 2. Independent functions of risks, compliance, and audit, as such functions must not perform any daily activities
 3. Units/ employees who are not engaged in day to day activities of the bank (like credit review and middle office).
- C. The board shall ensure that the senior executive management is carrying out its responsibilities in managing the bank's daily operations, contributing to the implementation of corporate governance, delegating authorities employees, establishing efficient administrative environment that enhances accountability, and carrying out duties in various business fields and activities in line with the policies and procedures approved by the board.
- D. The board shall adopt appropriate internal controls and measures that enable it to establish accountability towards the executive management.
- E. Notwithstanding what is provided in the Companies Law, the positions of the chairman and the CEO may not be shared by the same person. Furthermore the CEO must not be related (up to the fourth degree relatives) to the chairman, any of the major shareholders or any of the other members of the board.
- F. The CEO, in addition to stipulated legislations, shall:
 1. Develop the strategic intent of the bank.

2. Execute bank's strategies and policies.
3. Implement the board decisions.
4. Provide guidance for executing short and long term plans.
5. Convey bank's vision, mission and strategy to employees.
6. Raise matters of importance to the board.
7. Manage the daily operations of the bank.

Nine: Board Committees

The board of directors shall form committees from among its members, define their goals, and delegate authorities thereto, in accordance with terms of reference (charter). Such committees shall report periodically to the board. The existence of such committees shall not relieve the board from its responsibilities. The board shall form the following committees as a minimum:

A. Corporate Governance committee :

It shall consist of at least 3 members, the majority of whom shall be independent, and it shall include the chairman. This committee shall steer and oversee the preparation of a corporate governance code, review it and oversee its implementation.

B. Audit committee :

1. Subject to the banks law provisions, the majority of the committee members including the committee chair shall be selected from independent members. The chair of the committee shall neither be the board chairman nor a chair of any other board committees.
2. All the committee members must have educational qualifications with relevant practical experience in the fields of accounting, finance or any other similar fields or specialties of concern to the bank business.
3. Subject to the Banks law provisions as to the committee responsibilities and authority, it shall review the following matters:
 - A. Scope, outcomes, and adequacy of the internal and external audit.
 - B. Accounting issues of material impact on the bank financial statements.
 - C. Internal monitoring and controls system.

4. The committee shall recommend to the board for its appointment of external auditor, terminating his service, defining his fees and any other provisions relating to contracting with him. The foregoing includes also his independency assessment and any other services, other than audit, assigned to the auditor.
5. The committee shall possess the authority to get any information from the executive management, and shall have the right to call any executive to attend any of its meetings provided that the foregoing is stipulated for in its charter.
6. The committee holds meetings with: the CRO, the external Auditor and the General Auditor as well as the Compliance Chief Officer at least once a year without the presence of senior executive management members.
7. The committee shall review, oversee and ensure that the bank has appropriate and effective whistle blowing procedures which enable the employee to speak up in a confidential way about any errors in the financial statements or any other matters. The committee shall also ensure the availability of arrangements necessary for independent investigation and ensure following up investigation outcomes, and treatment actions in an objective manner.
8. The audit committee should be distinct from other committees.

C. Nomination and Remuneration committee :

1. This committee consists of at least 3 members; the majority thereof including the committee chair are of independent members.
2. This committee shall handle the following responsibilities:
 - A. Identifying the members qualified to join the board taking into consideration the candidates' capabilities and qualifications. In case of a member being re-elected, his/ her attendance and efficient participation in the board meetings must be considered. Note that the nomination of the committee members serve as recommendations for the Board of Directors for nomination.
 - B. Recommending to the board qualified candidates to join the senior executive management.

- C. Ensuring that the board members attend banking-related workshops or seminars, especially risks management, corporate governance, and the latest banking developments.
- D. Determining whether the member fulfills the independent member requirements, taking into consideration the minimum conditions stipulated for in article 5/d of this manual, and review such on annual basis.
- E. Following defined and approved basis in assessing the board and the CEO performances, based on objective assessment standard.
- F. Providing board members upon request with the required information and summaries on some important matters in the bank, and making sure to keep them abreast of current topics related to the banking sector.
- G. Ensuring the availability of remuneration policy for the bank's executives, reviewing it periodically, and implementing it. The committee recommends determining the salaries, rewards, and other privileges of the CEO and other senior executive management members.
- H. Ensuring the availability of a succession plan for the senior executive management.
- I. The Committee shall submit its recommendations in all these responsibilities to the board of directors for the appropriate decision making regarding it as necessary.
- J. Naming Bank's representatives in the boards of directors of subsidiaries based on the recommendation of the CEO.

D. Risks management committee

1. This committee shall consist of, at least, 3 members from among the board members, provided that they include an independent member. Membership therein could be filled by members from the senior executive management.
2. The committee shall have the following roles:
 - A. Reviewing risk management framework in the bank.
 - B. Reviewing risks management strategies prior to board approval.

- C. Following up developments that impact risk management, and report such periodically to the board.
- D. Ensuring that there are no gaps between actual risks the bank is exposed to and the bank's risk appetite approved by the board.
- E. Ensuring proper environment necessary to identify risks of material impact, and any activities performed by the bank which may expose it to major risks above the bank's risk appetite, and report the outcomes to the board and follow up on treatment actions.
- F. The Committee shall submit its recommendations in all these responsibilities to the board of directors for the appropriate decision making regarding it as necessary.

E. Executive Committee of the Board of Directors:

1. The Executive Committee shall be formed by a decision of the board, the board shall meet periodically, at least four times a year and whenever necessary. The committee is mandated to examine any issues referred to it by the Board of Directors. All decisions taken shall be submitted to the Board for approval.
2. The Executive Committee examines the estimated budget, the main policies of the Bank's activities such as credit policy and investment policy, the study of the Bank's annual strategy and the study of strategic capital or investment projects such as acquisition, participation, merger or formation, partial or total ownership of other institutions and companies. Moreover, suggest matters relating to the management of these investments and study the recommendations made by the executive management regarding the establishment or purchase of a property for the bank inside or outside the Kingdom.
3. The Committee shall decide on the credit facilities within its powers and present the excess to the Board of Directors.
4. The powers of the Executive Committee for the subjects and amounts delegated to it shall be from the board.

F. IT Governance committee :

1. The IT Governance Committee shall consist of, at least, 3 members from among the board members, preferably persons with experience or strategic knowledge in information technology.
2. The committee shall have the following roles :
 - To endorse IT strategic goals and appropriate organizational structures including steering committees at the Senior Executive Management level, specifically the (IT Steering Committee) , in a manner that fulfills and achieves strategic objectives and maximizes added value of IT projects and investments. Further, utilize adequate tools and standards to monitor achievement of IT strategic goals such as using IT Balanced Score cards, calculating the Return On Investment (ROI) and measuring the impact of contributing in increasing financial and operational efficiency.
 - To endorse the management, control and monitoring framework for IT projects and resources that aligns with the best acceptable international standards in that matter; and precisely Control Objectives for Information and related Technology standard (COBIT), in addition to having the framework in line with the Central Bank of Jordan's regulations issued in the IT Governance and Management in accordance with the annexes contained in these Instructions No. (1,2, 3).
 - To endorse Enterprise IT Goals Matrix that links business and IT related goals contained in annexes No. (1 and 2) of the Central Bank instructions and regarding it as minimum data and to define the related sub goals for the achievement of the Matrix.
 - To endorse the governance and management practices roles and responsibilities (i.e. RACI Charts) towards key IT Governance processes in annex No.3 of the Central Bank instructions and related sub processes, whereby individuals/parties initially (Responsible) to achieve the key processes are to be identified, individuals/parties ultimately (Accountable) to achieve the key processes are to be identified, individuals/parties (Consulted) are to be identified, and lastly, individuals whom are (Informed) of all processes are to be

identified in the said annex guided by COBIT 5 Enabling Processes standard in this regard.

- To ensure that an IT Risk Management Framework aligned with the Enterprise Risk Management (ERM) Framework is available taking into account and addressing all information technology governance processes contained in Annex 3 of the Central Bank instructions.
- To endorse budgets for IT strategic projects/initiatives and business as usual activities.
- To monitor the IT operations, projects and resources to ensure alignment with business strategic goals and realization of expected benefits of the Bank.
- To review the IT audit reports and ensure that corrective actions are implemented to close reported gaps.
- To raise recommendations on corrective actions to the Board of Directors.

G. Compliance Committee

1. This committee shall consist of 3 members from among the board mostly from independent members.
2. The committee shall have the following roles :
 - Supervising the efficiency, effectiveness and independence of the compliance department and its various functions.
 - Assessing the degree of effectiveness with which the Bank manages "compliance risks".
 - Taking the necessary measures to boost the values of integrity and sound professional practice within the Bank.
 - Ensuring the bank's compliance with the applicable laws, regulations, instructions, orders and standards and follow up the appropriate application.
 - Supervising the follow-up of the Bank's compliance with the instructions of various regulatory bodies.
 - Establishing effective bases in combating money laundering and financing of terrorism and international sanctions.

- Ensuring the integrity of operations and activities and verifying their compatibility with the legislation and regulations governing the work of the bank.
- Keeping up with developments affecting the bank's compliance management in terms of human resources and advanced systems according to best practices, and submitting periodical reports thereon to the Board with a copy to the CEO.
- Promoting and protecting the independence of the Compliance Management, and ensuring that they continue to be provided with adequate and trained staff.
- Adapting " Compliance Control, Anti-Money Laundering and Financing of Terrorism and international sanctions" policies and any other policy relating to the work of the Compliance Department and the duties and responsibilities of the Compliance Department and recommend it to the Board of Directors to approve them, periodically review the Charter and policies of the Compliance Department and verify their application.
- Assessing the degree of effectiveness with which the Bank manages compliance risks at least once a year and review them when making any changes.
- Working in coordination with other Board committees to raise the level of compliance culture in the Bank.
- Approving the organizational structure of the compliance Department.

It is prohibited to any member of the board to be a chair of more than one of the committees mentioned in this manual, and to be a chair of more than two committees of all board constituted committees.

Ten: Fit and Proper

Members of the board and senior executive management must exhibit exemplary qualities of honesty, integrity, competency, necessary experience and the ability to

commit and devote time for bank's activities. The board and the nomination and compensation committee are responsible to verify such matters.

Eleven: Fit and Proper Criteria of Board of Directors Members

- A. The board shall adopt an effective policy to ensure the fitness and properness of its members. Such policy shall include the minimum standards, requirements and conditions which are to be fulfilled by the elected and appointed member. This policy shall be subject to periodical review whenever needed. The board shall also set out adequate procedures and programs to ensure that all members meet this criteria and continue to do such. The bank shall provide the Central Bank with a copy of such policy duly approved by the board.
- B. Those who assume the chair and membership of the board must meet the following requirements:
1. To be of 25 years of age or more.
 2. Not to be a member of the board, general manager, regional manager, or employed by any other bank operating in the kingdom, unless the other bank is a subsidiary.
 3. Not to be an advocate, legal counselor, or auditor of the bank.
 4. To hold a university degree, as a minimum, in economics, finance, accounting, business administration, or any other similar specialties. The nomination and compensation committee may review this item and add other specialties if coupled with banking business expertise.
 5. Not to be a government employee or public official, unless a representative of them.
 6. Not to be a board member of more than five public shareholding companies inside the kingdom, either personally or as a representative.
 7. Shall have at least a five- year experience in banking, finance, or similar disciplines.
- C. The Central Bank has the right to object to the nomination of any person to the board if it finds out that such candidate does not fulfill any of the conditions stipulated for in item (B) above.

- D. The chairman or board member shall sign a declaration (According to the form approved by the Central Bank for this purpose) to be filed in the bank, and copied to the Central Bank with the member's CV attached.
- E. The Chairman of the board shall make sure that the Central Bank is notified of any material information that may impact negatively the fitness and properness of any member in the board.

Twelve: Fit and Proper Criteria of Senior Executive Management Members

- A. The board shall adopt a policy to ensure the fitness and properness of the senior executive management members in the bank. Such policy shall include the minimum standards, requirements and conditions to be fulfilled by any member therein. The board is responsible to review this policy every now and then, and set out adequate procedures and programs to ensure that all senior executive management members meet these criteria and continue to do such. The bank shall provide the Central Bank with a copy of such policy.
- B. The board shall appoint a CEO who enjoys integrity and has technical competency and banking expertise, and shall obtain the Central Bank prior approval on such appointment.
- C. The board's approval on appointing, accepting the resignation of, or terminating the services of any of the senior executive management members in the bank shall be obtained.
- D. The board shall set up a succession plan as to the senior executive management members in the bank, and review it at least once a year.
- E. The board shall notify the Central Bank of any material information which may negatively impact the fitness and properness of any member in the senior executive management.
- F. Any member expected to be appointed in the senior executive management of the bank shall meet the following conditions:
 - 1. Not to be a board member of any other bank operating in the kingdom unless it is a subsidiary.
 - 2. To be fully devoted for the management of the bank's activities.

3. To hold a university degree, as a minimum, in economics, finance, accounting, business administration, or any other similar specialties of relation to the banking.
 4. Shall have an experience in banking or similar disciplines for at least five years, and no less than ten years for the posts of CEO and deputy CEO.
- G. The Central Bank shall, ahead of time, approve the appointment of any of the senior executive management. Therefore, the bank shall, before appointing the candidate in the senior executive management, get the candidate's CV with all certificates of academics, experience, and good conduct as well as any other necessary supporting documents. The candidate shall sign the declaration approved by the Central Bank for this purpose, a copy of which along with the candidate's CV shall be sent to the Central Bank.

Thirteen: Assessment of Management Performance

- A. The board shall set appropriate standards to assess its performance and its members' performance. Such standards shall include the following as a minimum:-
1. Setting out specific goals and defining the role of the board in achieving them in a measurable way.
 2. Defining key performance indicators (KPIs) derived from strategic plans and goals, and using them to measure the performance of the board.
 3. Maintaining regular communication between the board and shareholders.
 4. Holding regular meetings between the board and the senior executive management.
 5. Clarifying the role of the member in the board meetings, and comparing his/ her performance with that of other members. Feedback shall be obtained from the concerned member in order to improve the assessment process.

- B. The nomination and compensation committee shall conduct annual assessment of the performance of the board, its committees and members. The Central Bank shall be informed of assessment outcomes.
- C. The board shall annually assess the performance of the CEO according to assessment standards including key performance indicators prepared by the nomination and compensation committee. The assessment standards of the CEO performance shall include the financial and administrative performance of the bank and the CEO's achievements of the bank's intermediate and long- term plans and strategies. The committee shall notify the Central Bank of the outcomes generated from such assessment.
- D. The board shall set appropriate standards to assess the performance of executive personnel other than the board members and the CEO. Such standards shall include, as a minimum, the following:
 - 1. A suitable weighted average to measure the compliance with risk management framework and the implementation of internal controls and organizational requirements.
 - 2. Gross income or profit shall not be the sole factor to measure the performance. Other factors shall be considered to measure the performance of executive personnel; such as, risks connected to major operations, customer satisfaction and others as applicable.
 - 3. Avoid misuse of power and conflict of interest.

Fourteen: Compensation

- A. The nomination and compensation committee of the bank shall set out an objective and transparent policy for granting financial compensation for executives. Such policy shall be approved by the board, and a copy of which sent to the Central Bank no later than seven working days from the day it was approved by the board.
- B. As a minimum, the financial compensation policy shall:

1. Be prepared to retain competent, skilled and experienced executive personnel as well as to recruit, motivate and develop the performance of such personnel.
2. Be designed to ensure that it won't have an impact on the bank's reputation and solvency.
3. Take into consideration the risks, liquidity, and profits and their timing.
4. Not to base granting the financial compensation item on the current year performance, but it shall be based also on the executive's medium and long term performance (3-5) years.
5. Express the bank goals, values and strategies.
6. Define the form of rewards; fees, salaries, allowances, raises, share options or any other privileges.
7. Include the possibility of postponing the payment of a reasonable portion of the rewards. The portion and postponement time shall be determined on the basis of the work assigned to the concerned executive and its risks as well as to the executive's activities.
8. Not grant financial rewards to executive personnel of control functions (risks management, audit, Compliance and else) on the basis of the outcomes generated from the departments they monitor.

Fifteen: Conflicts of Interest

- A. The executive personnel shall avoid conflicts of interest.
- B. The board shall adopt a policy and procedures to remedy conflicts of interest which may arise from the bank's being part of a banking group, and disclose any conflicts of interest that may arise from the bank's connection with companies within the group.
- C. The board shall adopt policies and procedures to deal with related parties. Such policies and procedures shall include identifying those parties taking into consideration regulations, dealing conditions, approval procedures and mechanism of controlling these activities, in a way that such does not allow overriding such policies and procedures.
- D. The control functions in the bank shall ensure that operations with concerned parties have been completed under the adopted policy and procedures. The audit committee shall review and monitor all activities with concerned parties, and inform the board of such activities.
- E. The board shall make sure that the senior executive management is carrying out the adopted policies and procedures.
- F. The board shall set out controls on the flow of information intra different groups, departments and work centers that prevent personal interest usage.
- G. The board shall adopt policies and a code of conduct and circulate them among all staff. Such shall include the following as a minimum:
 - 1. Preventing any of the executive personnel to use internal information of the bank for their personal interest.
 - 2. Rules and procedures regulating the operations with related parties.

3. Cases which may give rise to a conflict of interest.

- H. The board shall make sure that the executive management is practicing its activities with high integrity and avoiding the conflicts of interest.
- I. A bank may not conclude a deal with a person it has a relationship with, if such a deal can be undertaken in more favorable terms to the bank with a third party who has no such relationship with the bank. A person shall ipso fact be considered to have a relationship with a bank in any of the following cases:³
1. Where the person is an administrator of the bank or has a common business interest with an administrator of the bank.
 2. Where the person is the spouse of an administrator of the bank, or a relative of the administrator or his spouse up to the third degree, or has a common business interest with any of those aforementioned.

Sixteen: Internal Audit

- A. The board shall make sure that the internal audit department in the bank is capable of carrying out the following responsibilities as a minimum:
1. Verifying that there are internal control and monitoring systems adequate to cover the activities of the bank and its subsidiaries, and that such is implemented.
 2. Ensuring compliance with the bank's internal policies, international standards and related legislations.
 3. Auditing financial and administrative matters, to ensure that the main financial and administrative information is accurate, reliable, and timely.
 4. Reviewing compliance with the corporate governance code.
 5. Reviewing the accuracy and comprehensiveness of Stress Testing according to the methodology approved by the board.
 6. Checking the accuracy of procedures on ICAAP.

- B. The board shall ensure and enhance the independency of internal auditors, offer them appropriate hierarchy in the Bank's job structure, and ensure that they are qualified to perform their duties, have free access to all records and information, and to approach any employee inside the bank to enable them perform the duties assigned to them and prepare their reports without any external interference.
- C. The board shall take procedures necessary to enhance the efficiency of internal audit through:
 - 1. Giving due attention to the importance of audit and establishing this in the bank.
 - 2. Following up rectifying audit findings.
- D. The audit committee shall ensure supporting the audit department with adequate resources and the qualified personnel needed to manage internal audit and offer them appropriate training.
- E. The audit committee shall verify the rotation of the internal audit staff on various bank functions every three years as maximum.
- F. The audit committee shall verify that none of the internal audit employees is assigned any other executive jobs.
- G. The audit committee shall verify that all the bank activities are subject to audit including outsourced activities.
- H. The board shall approve an internal audit charter including the duties, authorities and responsibilities of audit management and circulate it inside the bank.
- I. The board shall make sure that the internal audit department is subject, directly, to the audit committee, and report, directly, to the chair of the audit committee.
- J. The audit committee shall assess the performance of internal audit manager and staff, and define their remunerations.

Seventeen: External Audit

- A. The Board shall ensure regular rotation of external auditor among auditing offices and their subsidiaries, affiliated or related companies every 7 years as a maximum.
- B. The 7 years period to be calculated effective 2010.
- C. The first year of rotation should be jointly done by the old and new external audit firms.
- D. The external Auditor should not be re-elected until 2 years pass of its last election, except for the above mentioned joint audit review.
- E. The audit committee shall verify the independency of external audit on annual basis.
- F. The board shall take necessary procedures to remedy weak points in internal control and monitoring systems or any other points witnessed by the external auditor.

Eighteen: Risks Management

- A. The risks management department shall oversee the compliance of executive departments with defined acceptable risks levels.
- B. The board shall verify remedy of risks above the bank's risk appetite, including the concerned senior executive management accountability as to such overriding.
- C. The board shall make sure that the risks management department uses periodical stress testing to measure the bank's ability to stand with high risks & stressed conditions. The board shall have also the main role in approving the assumptions and scenarios used, discussing the results of the tests, and approving the procedures to be taken in light of the results.
- D. The board shall approve the ICAAP methodology of the bank capital adequacy. Such methodology shall be comprehensive, effective and capable to define all risks which the bank may be subject to. The strategic plan of the bank and the capital plan shall be taken into account in this methodology. The board shall also check up the foregoing

methodology periodically, verify implementation thereof, and make sure that the bank maintains adequate capital to encounter all risks.

- E. The board shall, before approving any expansion of the bank's activities, take into consideration the risks originated and the capabilities and qualifications of the Risks management employees.
- F. The board shall ensure the independency of risks management in the bank through reporting to the risks management committee, granting the risks management the necessary authorities to maintain easy access to information from other bank departments and cooperate with other committees to perform its tasks.
- G. The board shall approve the bank's risk appetite document.
- H. Risks management tasks are, as a minimum, as follows:
 - 1. Reviewing the risks management framework in the bank before being approved by the board.
 - 2. Carrying out risks management strategy in addition to developing work policies and procedures to control and manage all risks types.
 - 3. Developing methodologies to define, measure, monitor and control every risks type.
 - 4. Reporting to the board through risks management committee, with copies being sent to senior executive management. Such reports shall include information on actual Risk Profile of all bank's activities compared with acceptable risks (risk appetite) document and how to follow up remedy of negative deviations.
 - 5. Verifying the integration of risks measurement mechanisms with MIS used therein.
 - 6. Studying and analyzing all types of risks the bank faces.
 - 7. Presenting recommendations to the risks management committee on bank exposures to risks, and recording exclusions out of risks management policy.
 - 8. Providing necessary information on the bank risks to be used for disclosure purposes.

Nineteen: Compliance Management

- A. The board shall ensure the independency of compliance management, and to be continuously and adequately staffed with experienced personnel.
- B. The board shall set out a policy to ensure the bank's commitment to all related regulations, review such policy periodically, and ensure its implementation.
- C. The board shall approve the duties and responsibilities of the Compliance management.
- D. Compliance management shall report to the board or sub-committee with a copy to be sent to the CEO.

Twenty: Stakeholders' Interests

- A. The board shall maintain a specific mechanism to ensure interconnection with stakeholders through disclosing and offering significant information on the bank activities through the following:
 - 1. General Assembly meetings.
 - 2. Annual report.
 - 3. Quarterly reports including financial information, board report on bank stock trading, and its financial position during the year.
 - 4. Website of the bank
 - 5. Body concerned with the bank's shareholders affairs.
- B. The board shall make sure of allocating part of the bank website to include clarification on shareholders rights, and encourage them to attend and cast their votes in the General Assembly meetings. Also, meetings documents including complete text of the invitation and meetings minutes shall be published.

Twenty one: Disclosure and Transparency

- A. The board shall make sure that the financial and non- financial information of concern to stakeholders has been published.
- B. The bank annual report shall include a statement from the board to the effect that the board is responsible for the accuracy and sufficiency of financial data, all data included in the report, and the adequacy of the internal controls.
- C. The board shall make sure of the bank's commitment to disclosures defined under the international financial reporting standards (IFRSs)⁴, international accounting standards (IASs)⁵, Central Bank instructions, and other legislations of concern. Also, it shall ensure that the executive management is aware of the changes on International Financial Reporting Standards.
- D. The board shall ensure that the annual and quarterly reports of the bank include disclosures that enable the current or prospective shareholders to access operations outcomes and the financial position of the bank.
- E. The board shall make sure that the annual report includes the following, as a minimum:
 - 1. Summary of the bank's organizational structure.
 - 2. Summary of the responsibilities and roles of the board committees and any other authorities delegated by the board for such committees.
 - 3. Information of concern to Stakeholders stipulated for in the corporate governance code of the bank, and to what extent the bank is committed to the implementation of the code.
 - 4. Information on each member of the board; qualifications, expertise, shares in the capital, independent or not, membership in board committees, date of appointment, memberships in other companies' boards, rewards granted from the bank for the last

year, loans granted to him by the bank, and any other transactions between the bank and the member or Stakeholders.

5. Information on risks management department including its structure, nature of operations, and developments undergone thereon.
6. Number of the meetings of the board and its committees and the number of each member attendance of these meetings.
7. Names of all the board members and senior executive management who resigned during the year.
8. Summary on rewards granting policy in the bank, disclosing all rewards types and forms of the board members on individual basis, and rewards of all types which have been granted to the senior executive management on individual basis, for the last year.
9. Shareholders owning 1% or more of the bank's capital, and the ultimate beneficial owners of these shares or part of, and if they are partially or completely mortgaged.
10. Declarations by all board members stating that neither they nor any related entity received any benefits, whether financial or otherwise, from the bank without declaring it, for the previous year.

⁴ International Financial Reporting Standards

⁵ International Accounting Standards

Twenty two: General Rules

- A. The chairman shall, well ahead of time, invite the Central Bank to attend the General Assembly meetings by nominating a representative.
- B. The chairman shall provide the Central Bank with the General Assembly meeting minutes within no more than 5 days since the date of attesting the minutes by the companies' controller or its representative.

- C. The bank shall inform the Central Bank, at least 30 days prior to the General Assembly meeting date, of its wish to nominate the external auditor either to be elected (or re-elected) by the General Assembly.
- D. The bank shall provide the Central Bank of the number of pledged shares by shareholders who own 1% or more of the bank capital, and the beneficiaries on semi-annual basis within a maximum period of fifteen months from the beginning of the following month.
- E. The bank shall provide the Central Bank with information on the board members, its committees, and members of its senior executive management via the forms approved by the Central Bank on semi-annual basis and once an amendment takes place.
- F. The bank shall provide the Central Bank with information on the board members, management committees, and senior executive managements of its subsidiaries inside and outside the HKJ, via the forms approved by the Central Bank on semi-annual basis and once an amendment takes place.

Twenty three: Review and Modifying the Manual

The manual is reviewed at least once a year or whenever required. The amendments and updates are approved by the Board of Directors of the Bank after the recommendation of the Corporate Governance Committee.