

البنك العربي  
ARAB BANK



# **COPORATE GOVERNANCE CODE**

## **Arab Bank plc**

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## **Introduction**

Arab Bank attaches considerable importance to good corporate governance practices and the Board is committed to implementing the highest professional standards in all the Bank's activities. In this regard the Bank follows the instructions of the Central Bank of Jordan which adopted the Basel Committee's recommendations on Corporate Governance. The Bank also observes the requirements of the relevant regulatory / official entities in Jordan and in the other countries in which it operates.

A pioneer to commit to best practices of Corporate Governance in the Middle East, Arab Bank established the Audit Committee in early 1996 followed by the Corporate Governance Board Committee in 2002. The Nomination and Remuneration Committee was established in 2006, while the Risk Management Committee and the Strategy Committee were formed in 2007.

This Corporate Governance Code is based on the Code of Corporate Governance for Banks in Jordan and related instructions issued by the Central Bank of Jordan and after aligning it with the Jordanian Banking Law, the Companies Law in addition to the Memorandum and Articles of Association of the Bank.

This Code will continue to be reviewed and developed from time to time and whenever necessary to meet the Bank's changing needs and expectations and to keep up with the changes that may occur in the marketplace.

## **Article (1): Commitment to Corporate Governance**

There is a consistent set of relationships between the Bank, its Board of Directors, Shareholders and other interest groups. The relationship structure deals with the general framework of the Bank's strategy and the necessary means to achieve its goals. The general framework of corporate governance ensures a fair treatment of all shareholders including minority and foreign shareholders. The Bank also recognizes the rights of all shareholders as stipulated by the law, and assures providing them with all necessary information on the Bank's activities and the commitment of its Board members and their accountability to the Bank and its Shareholders.

The Bank has amended this Code in compliance with the instructions of the Central Bank of Jordan issued in its circular No. 58/2014 "The Corporate Governance Regulations for Banks" and in alignment with its needs and policies. This Code has been approved by the Board of Directors in its meeting of 29/1/2015 and has been amended on 28/1/2016. On 27/10/2016 this Code was amended in compliance with the requirements of the Amended Corporate Governance Regulations for Banks issued by the Central Bank of Jordan No. 63/2016. An updated version has been posted on the Bank's website. It is also available to the public upon request. The Bank discloses its compliance with the Corporate Governance Code in its Annual Report.

## **Article (2): Definitions**

In this Code (and unless the context requires otherwise) the following words and expressions shall have the meanings respectively assigned to them herein below:

**a) Corporate Governance:**

The system of rules by which the Bank is directed and controlled and which essentially involves identifying the Bank's corporate objectives and the framework for attaining them, the safe operation of the Bank's business, securing the interests of depositors, shareholders and other stakeholders, and compliance with the Bank's bylaws and internal policies.

**b) Suitability:** the fulfilment of certain requirements and criteria by the members of the Board and senior executives.

**c) The Board:** the Board of Directors of the Bank.

**d) Stakeholders:** any person/group/organization that has interest or concern in the Bank such as depositors, shareholders, employees, debtors, customers or competent regulatory authorities.

- e) **Major Shareholder:** The person holding not less than (5%) of the Bank's share capital whether directly or indirectly.
- f) **An Executive Director:** a member of the Board who is paid in consideration for his/her employment at the Bank.
- g) **An Independent Director:** a member of the Board apart from major shareholders and who is not under control of any of them and who is not subject to any influences that may restrict his/her ability to make objective decisions for the benefit of the Bank and who satisfies the conditions set out in Article (3/c) of this Code.
- h) **Senior Executive Management:** Include the Chief Executive Officer, Deputies to the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Risk Officer, Head of Group Internal Audit, Head of Treasury, Head of Regulatory Compliance in addition to any other Bank employee who has an executive authority that is equal to the authority of any of the aforementioned and reports directly to the Chief Executive Officer.

### **Article (3): Composition of the Board**

- a) The Board shall be comprised of eleven non-executive members who shall be elected by the General Assembly for a term of four years. The Chairman and Deputy Chairman shall be elected by the members of the Board.
- b) The Board shall have one third of its members as independent with a minimum of four members.
- c) The Nomination and Remuneration Committee shall specify the necessary conditions that ensure the independence of the Board Member. The conditions shall include, at a minimum, that the independent member:
  1. Has not been an executive member of the Board during the three years preceding the date of his election.
  2. Has not been employed by the Bank or any of its subsidiaries in the three years preceding the date of his election.
  3. Is not a relative (up to the second degree) of any of the other members of the Board or any Board member of the subsidiaries of the Bank or a relative of any of the Bank's major shareholders.
  4. Is not a relative of any of the senior executive management members of the Bank or any of the senior executive management members of the subsidiaries of the Bank up to the second degree.

5. Is not a partner or employee of the external auditor of the Bank, or has been such a partner or employee during the past three years preceding the date of his election as member of the Board and is not a relative (up to the first degree) with the partner responsible for the audit.
6. Is not a major shareholder in the bank or a representative or associate of a major shareholder in the Bank, nor should his shareholding constitute, along with his associate shareholder, a major shareholding, nor is a major shareholder of one of the Bank's subsidiaries.
7. Has not been a member of the Board of Directors of the Bank or any of its subsidiaries or its management committee for more than eight consecutive years.
8. Has not obtained, personally or through any other company in which he is a Board Member or owner or a major shareholder, credit facilities from the bank in excess of 5% of the Bank's subscribed share capital, nor is a guarantor of a facility which amount is in excess of the said percentage.
9. Has adequate knowledge or experience in the financial and banking sectors.

**Article (4): Board Meetings**

- a) The Board shall meet not less than 6 times per year.
- b) Board members shall attend the meetings in person, if unable to attend, the member can give his/her views through video (video phone). The Chairman and the Board Secretary shall endorse the minutes of the meeting and the legal quorum.
- c) The Senior Executive Management should, and the Chairman should ensure that, the Members of the Board are provided with the agenda of the meeting and all relevant documents prior to the meetings.
- d) Deliberations and proceedings of the meetings of the Board and its Committees shall be fully and accurately noted down along with any reservation that may be voiced by any member. Such minutes shall be duly and properly kept.

## **Article (5): Responsibilities of the Board of Directors**

### **(1) The Board of Directors should:**

- a) Oversee and monitor the executive management and its performance, ensure the financial soundness and solvency of the Bank, and approve appropriate policies and procedures to supervise and control the Bank's performance.
- b) Specify the strategic objectives of the Bank, instruct the executive management to set a strategy for achieving those objectives and approve the strategy and such work plans that are compatible therewith.
- c) Approve a policy for monitoring and supervising the performance of the executive management by setting key performance indicators to gauge and observe performance and progress towards the implementation of the strategic plan of the Bank.
- d) Ensure the availability of policies, plans and procedures for all the Bank's activities and that such policies, plans and procedures are in compliance with the relevant applicable legislation, are being circulated to all levels of management and are being regularly reviewed
- e) Identify a corporate culture of high ethical standards and integrity alongside setting and enforcing clear lines of responsibility and accountability throughout the Bank.
- f) Set Code of Conduct for the Board of Directors, the Executive Management and the employees and review them annually.
- g) Bear the ultimate responsibility for the Bank's business including its financial status, and its compliance with the requirements of the Central Bank and such other regulatory authorities. The Board shall also be ultimately responsible for safeguarding the interests of the Stakeholders, ensuring that the Bank is being operated in accordance with its bylaws and internal policies and that effective supervision and control measures over the activities of the Bank, including those outsourced, are always available.
- h) Appoint and accept the resignation or terminate the employment of any member of the Senior Executive Management based on the recommendation of the Nomination and Remuneration Committee. The Bank shall obtain a no – objection letter from the Central Bank of Jordan to the appointment, resignation or termination of employment of the Chief Executive Officer, and the audit, compliance and risk management directors.
- i) Approve and annually review the internal control systems of the Bank and ensure that the internal and external auditors review the structure of these systems once a year at least.

- j) Approve a succession plan and approve a policy for human resources and training.
- k) Ensure the constant independence of the external auditor.
- l) Approve and monitor the implementation of the risk management strategy including the Bank's risk tolerance/appetite and ensure that the Bank is not exposed to high risks, that the Board is cognizant of the operational environment and associated risks and that all needed risk management instruments and infrastructure are available and able to identify, measure, control and supervise all kinds of risks to which the Bank may be exposed.
- m) Ensure an adequate and reliable information management system covering all the activities of the Bank.
- n) Ensure that the Bank's credit policy includes a corporate governance evaluation system for its corporate customers, in particular the public shareholding companies whereby the risk is evaluated by points of weakness and strength according to their implementation of sound corporate governance practices.
- o) Ensure that the Bank adopts social initiatives in the field of environment, health and education.
- p) Set a policy for Corporate Social Responsibility and its programs to support the local community and environment.
- q) Adopt sufficient procedures to ensure clear separation of powers between controlling shareholders on the one part and executive management of the Bank on the other in order to reinforce sound corporate governance. The Board shall also attain proper mechanisms to limit the influence of the controlling shareholders through, inter alia, the following:
  - 1. Preclude the employment of a controlling shareholder in a senior executive position.
  - 2. Ensure that the Senior Executive Management obtains its authority solely from the Board and that it functions within the framework of the authorizations granted to it thereby.
- r) Approve the organizational structure of the Bank that shows the administrative hierarchy including Board Committees and executive management.

- s) Approve the strategies and policies at the Group level and its subsidiaries, approve the administrative structures for the subsidiaries and establish a corporate governance code at the Group level taking into account the instructions issued in this regard by the central banks or regulatory authorities in the countries in which the subsidiaries operate.
- t) Determine the banking operations which require the approval of the Board of Directors subject always to limiting the scope of operations requiring the Board's approval in order not to prejudice the supervisory role of the Board and subject also to not granting the Board any executive authorities including the granting of credit to a single Board Member including the Chairman.
- u) Establish Board Committees and determine their responsibilities.
- v) Appoint the Secretary of the Board and determine his/her responsibilities which shall include: -
  - 1. Attending all meetings of the Board and recording all deliberations, suggestions, objections, reservations, and results of voting on Board resolutions.
  - 2. Setting the dates for the Board meetings in coordination with the Chairman.
  - 3. Ensuring that all Board members sign the minutes of the meetings and the Board resolutions.
  - 4. Monitor the implementation of the Board resolutions, and following-up on topics postponed from previous meetings.
  - 5. Keeping records and documents of board meetings.
  - 6. Ensuring that the draft resolutions intended to be issued by the Board are consistent with the applicable rules and regulations.
  - 7. Prepare for the General Assembly meetings and to coordinate with the Board's Committees.
  - 8. Submit the suitability attestations signed by each of the Board members to the Central Bank.
- w) Allow direct communication between the members of the Board of Directors and its Committees with the executive management and the Secretary of the Board and facilitate the performance of their duties including seeking the assistance, at the expense of the Bank and upon the Board approval, of third parties provided always that the acts of the members of the Board do not influence the decisions of the executive management apart from through deliberations during the meetings of the Board or its Committees.

## **(2) Role of the chairman:**

- a) Encourage efficient relationship between the Board of Directors and the executive management.
- b) Promote critical discussions of issues deliberated by the Board and ensure different views are expressed and discussed during the decision-making process.
- c) Ensure that the Board Secretary provide the Board members with the minutes of previous meetings and get them signed, and ensure timely provision of board meetings' agendas and documents provided that the said agendas contain sufficient information about the items that will be discussed. The Secretary of the Board shall be responsible for providing the Board members with the documents.
- d) Ensure that there exists a charter that sets out the Board of Directors' mandate and scope of work.
- e) Encourage thorough discussions of strategic and critical issues by the Board.
- f) Provide each Board Member, upon his election, with the laws and regulations that govern bank's activities and the instructions of the Central Bank of Jordan including this Corporate Governance Code and a manual outlining the rights, responsibilities and duties of the Member and the responsibilities and duties of the Secretary of the Board.
- g) Provide each member with comprehensive summary of the Bank's activities upon his/her election or request.
- h) To accommodate the Board members' needs for continuous enhancement of their knowledge and expertise and to allow new Board members, taking into consideration his/her banking background, to join a orientation program that includes at the minimum:
  - 1. The organizational structure of the Bank, corporate governance and the code of conduct.
  - 2. Corporate objectives and the Bank's strategic plan and approved policies.
  - 3. The financial position of the Bank.
  - 4. The Bank's risk structure and the risk management framework.
- i) Discussing with each new Member and in cooperation with the Bank's legal Counsel, the duties and responsibilities of the Board, in particular; issues pertaining to the legal and regulatory requirements, the term of the Board membership, dates of the meetings, responsibilities and duties of the Board Committees, the amount of remuneration and the ability to seek and obtain an independent specialized opinion if the need arises.

**(3) Members of the Board of Directors shall:**

- a) Have adequate knowledge of applicable legislation and principles pertaining to the banking industry and the operational environment of the Bank and keep up with major changes in these fields including the requirements of employment in Senior Executive Management positions.
- b) Attend Board meetings, Board Committees and the General Assembly meetings.
- c) Not disclose any Bank confidential information or use the same for his or another's benefit.
- d) Prioritize the Bank's interest in all transactions with any other company in which he/she has a personal interest, not allow competition over business opportunities between the Bank and such other company, avert conflict of interests and disclose to the Board of Directors the details of any conflict of interest situation and abstain from attending or voting in the meeting in which such matter is to be discussed. Such disclosure should be recorded in the minutes of meeting.
- e) Dedicate enough time to fulfill his/her duties as a member of the Board of Directors.

**(4) The responsibility of the Board of Directors and its accountability:**

- a) Set and enforce clear guidelines for responsibility and accountability at all levels at the Bank and comply and ensure compliance therewith.
- b) Ensure that the organizational chart clearly reflects the lines of responsibility and authority, which chart shall include at least the following supervisory levels:
  - 1. Board of Directors and its Committees.
  - 2. Separate departments for risk, compliance and internal audit that do not carry out daily executive tasks.
  - 3. Units/employees not involved in the daily operations of the Bank's activities.
- c) Ensure that the Senior Executive Management carries out its duties relating to the oversight of the day-to-day management of the Bank, contributes to the implementation of sound corporate governance, delegates duties to employees, establishes an effective management structure that promotes accountability, and ensures that the Bank's activities are consistent with the policies and procedures approved by the Board.
- d) Approve appropriate controls systems that enables it to hold the Senior Executive Management accountable.

- e) Ensure that there is no Chairman /Chief Executive Officer duality and that neither the Chairman nor any of the Board members is related to the Chief Executive Officer up to the third degree.

#### **Article (6): Chief Executive Officer**

In addition to what is stipulated in the legislation, the Chief Executive Officer shall have the following responsibilities:

- a) Develop the strategic objectives of the Bank.
- b) Implement the Bank's strategies policies.
- c) Implement the Board's decisions.
- d) Provide guidance for the implementation of short and long-term action plans.
- e) Communicate the Bank's vision, mission and strategy to the Bank's employees.
- f) Inform the Board of all significant aspects of the Bank's operations.
- g) Manage day-to-day operations of the Bank.

#### **Article (7): Board Committees**

Board Committees shall be formed by the Board from among its members. The Board shall define the Committees' objectives and delegate its authorities thereto according to the Charter of each Committee. These committees shall periodically submit their reports to the Board of Directors. The formation of these Committees shall not exonerate the Board from its responsibilities.

A member of the Board of Directors cannot be Chairman of more than one of these Committees (Corporate Governance, Audit, Nomination and Remuneration and Risk Management Committees). Moreover, a member of the Board of Directors cannot be chairman of more than two of the Board Committees.

#### **The Board Committees are:**

##### **a. The Corporate Governance Committee:**

1. The Committee shall comprise of, at least, three Board members provided that the majority of the members are independent directors and should include the Chairman of the Board. The Committee shall direct and examine the preparation and review of the corporate governance code and monitor its implementation.

2. The committee shall meet at least twice during the year.
3. Quorum of the meeting shall be deemed legal if attended by two thirds of the committee members.
4. The committee shall take its decisions by a majority of the votes of the attendees, votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member is not less than 50% of the committee's meetings during the year.
5. The Corporate Governance Committee shall undertake the following:
  - a. Establish written work procedures to implement the regulations for Corporate Governance, review them and evaluate their implementation annually.
  - b. Ensure that the Bank complies with the corporate governance regulations issued by the regulatory authorities.
  - c. Review the regulators' observations regarding the implementation of corporate governance in the Bank and follow up on what has been done in this regard.
  - d. Prepare the corporate governance report and submit it to the Board.

**b. The Audit Committee:**

1. The Audit Committee shall be comprised of a chairman and two members at least, provided that the chairman and at least another member are independent members and also provided that the chairman of the Committee shall neither be the Chairman of the Board nor the chairman of any other Board Committee.
2. The Audit Committee members should have professional financial or accounting qualifications and practical experience in the fields of accountancy, finance or any other specializations or similar areas that are relevant to the Bank's business.
3. The Audit Committee shall meet periodically every three months as a minimum and shall submit its reports to the Board of Directors, provided that the number of its meetings is not less than four times per year, and that the minutes of these meetings are duly recorded.
4. The meeting shall be considered legal if attended by two thirds of the committee members.
5. The committee shall take its decisions by a majority of the votes of the attendees, in case the votes are equal, the chairman shall have the casting vote. Votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member not less than 50% of the committee's meetings during the year.

6. The Audit Committee shall review the following:
  - a) The scope, results and adequacy of the Bank's internal and external audits.
  - b) Accountancy issues that will have a significant impact on the Bank's financial statements.
  - c) The Bank's internal controls.
7. The Audit Committee shall submit its recommendations to the Board regarding the external auditor's appointment / termination of appointment, remuneration, and other terms of engagement taking into account any non-audit services that they have performed, in addition to assessing the independence of the external auditor.
8. The Committee has the authority to obtain any information from executive management, and summon any executive or Board member to attend its meetings, the committee has at its disposal all the necessary capabilities including obtaining assistance from experts whenever necessary.
9. The Audit Committee shall meet, at least once a year, with each of the Bank's external auditor, the internal auditor, without the presence of the Senior Executive Management.
10. The Audit Committee shall review and monitor the procedures that enable employees to confidentially communicate any error in the financial reports or any other observation. The Committee shall ensure proper arrangements to ascertain an independent investigation and follow up.
11. The duties of any other Committee may not be merged with the duties of this Committee.

**c. The Nomination & Remuneration Committee:**

1. The Nomination and Remuneration Committee shall be comprised of at least three Board members the majority of whom including its Chairman shall be Independent members.
2. The Committee shall meet at least twice during the year.
3. The meeting shall be considered legal if attended by two thirds of the committee members.
4. The committee shall take its decisions by a majority of the votes of the attendees, in case the votes are equal, the chairman shall have the casting vote. Votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member not less than 50% of the committee's meetings during the year.

5. Duties and responsibilities of the Nomination and Remuneration Committee shall be as follows:

- a) Recommending qualified candidates for the membership of the Board of Directors taking into consideration the candidates' qualifications and skills. In case of re-nomination, the regular attendance of such candidate of Board meetings and active participation in the meetings shall be taken into consideration.
- b) Identify competency requirements at the Senior Executive Management level and the basis for their selection and recommend to the Board the qualified candidates for appointment in Senior Executive Management jobs.
- c) Ensuring that Board members attend workshops or seminars related to Banking topics with particular emphasis on Risk management, Corporate Governance and other latest updates in the banking industry.
- d) Defining and annually reviewing the fulfilment of criteria that designates a member as independent.
- e) Setting specific standards to evaluate the performance of the Board, its committees and the Chief Executive Officer objectively, and duly inform the relevant regulators of the outcome of this evaluation.
- f) Review the succession plan policy and the policy for human resources and training and monitor their implementation annually.
- g) Providing, upon request, background information and summaries to the members of the Board regarding certain significant matters about the Bank and ensure keeping the members up with material updates in the Banking industry.
- h) Ensuring that there exists a Performance Incentives Policy and that such policy is being implemented and periodically reviewed. The Committee shall also recommend the compensation and benefit plan for the Chief Executive Officer and other senior executive managers.
- i) Creating a clear methodology to ascertain that a member of the Board dedicates adequate time to carry out their duties as a Board member.

**d. The Risk Management Committee:**

1. The Risk Management Committee shall be comprised of three Board members (one of whom shall be an independent member and will be the Chairman of the Committee) in addition to the Chief Executive Officer and Head of Risk Management.
2. The Committee shall meet four times a year and whenever necessary.
3. The meeting shall be considered legal if attended by two thirds of the committee members.

4. The committee shall take its decisions by the majority of the votes of the attendees, in case the votes are equal, the chairman shall have the casting vote. Votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member is not less than 50% of the committee's meetings during the year.
5. Duties and responsibilities of The Risk Management committee shall include:
  - a) Annual review of the Bank's risk management strategy and framework, approve high level policies related to risk management operations and obtain the Board's approval.
  - b) Ensure that policies and frameworks for risk management are in place, ensure availability of the necessary tools and programs and review them annually.
  - c) Review the group risk management structure.
  - d) Annual review and approval of credit risk appetite limits for Arab Bank and lending limits authority for the Subsidiaries.
  - e) Annual review and approval of group risk appetite for operational, market and liquidity risks.
  - f) Ongoing monitoring of risk factors that might affect the risk profile of the Bank and submitting regular reports to the Board.
  - g) Identify any variance between the actual risk taken by the Bank and risk appetite, report them to the Board and continue to address them.
  - h) To create proper conditions that would ensure that all significant risks and any activities performed by the Bank that may expose it to higher than the acceptable risks are well identified, and to submit reports of the same to the Board of Directors and to follow up on them and find solutions thereof.
  - i) Ensure that there is a business continuity plan and review it periodically.
  - j) Review the results of the Internal Capital Adequacy Assessment Process (ICAAP).
  - k) Review the Recovery Plan according to the requirements of the Central Bank of Jordan.
  - l) Oversee/review the performance of credit portfolios.
  - m) Review the results of stress testing.
  - n) Oversee the development of the database necessary for risk management.
  - o) Discuss risk management reports.

**e. The Corporate Strategy Committee:**

1. The Corporate Strategy Committee shall be comprised of three Board members at least in addition to the Deputy Chairman of the Board, Chief Executive Officer.
2. The Committee shall meet whenever necessary.
3. The meeting is considered legal if attended by two thirds of the committee members.

4. The committee shall take its decisions by the majority of the votes of the attendees, in case the votes are equal, the chairman shall have the casting vote. Votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member is not less than 50% of the committee's meetings during the year.
5. Duties of the Corporate Strategy Committee shall include:
  - a) Supervising all elements pertaining to the Bank's strategy and ensuring that there is in place general policies for the implementation of the Bank's strategy.
  - b) Approving all strategic decisions and providing direction to the executive management including strategies, action plans and following up on the implementation of strategies.
  - c) Reviewing and approving any new investments such as mergers, acquisitions, penetration of new markets, and disposing of any of the Bank's assets or of its subsidiaries or affiliates.

**f. The Credit Committee:**

1. The Credit Committee shall be comprised of the Chairman of the Board and four Board members, one of them may be independent and provided that none of them shall be a member of the Audit Committee. Members of the senior management may participate in the Committee's meetings.
2. The Committee shall meet whenever necessary.
3. The meeting shall be considered legal if attended by at least four members of the Board.
4. The committee takes its decisions by the majority votes of its members. Voting on its decisions is in person, and in the event that personal attendance is not possible, the member can express his/her point of view through the video or phone, and he has the right to vote and sign the minutes of the meeting, provided that this is duly documented, and that the member's personal attendance is not less than 50% of Committee meetings during the year.
5. The Board Credit Committee shall approve granting loans and credit which amounts exceed those within the authority of the credit committees headed by the CEO upon the recommendation of the credit committees in the Bank and in accordance with the credit policy and credit limitations approved by the Board of Directors.
6. The Credit Committee shall regularly submit to the Board details of the credit facilities approved thereby.

**g. The IT Governance Committee:**

1. The Information Technology Governance Committee shall be comprised of at least three members of the Board, it is preferable to include in its membership individuals with experience or knowledge in information technology.

2. The IT Governance Committee can invite any of the bank's executives to attend its meetings to seek their opinion, including those involved in internal audit, members of Senior Executive Management or those involved in external audit.
3. The Committee shall meet at least quarterly.
4. The meeting shall be considered legal if attended by two thirds of the committee members.
5. The committee shall take its decisions by the majority of the votes of the attendees, in case the votes are equal, the chairman shall have the casting vote. Votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member is not less than 50% of the committee's meetings during the year.
6. The IT Governance Committee shall regularly submit reports to the Board of Directors.
7. The IT Governance Committee shall carry out its duties according to the IT Governance & Management Manual approved by the Board of Directors.

**h. The Compliance Committee:**

1. The Compliance Committee shall be comprised of at least three Board Members provided that the majority of the members are independent directors.
2. The Committee shall meet at least (4) times per year.
3. The meeting shall be considered legal if attended by two thirds of the committee members.
4. The committee shall take its decisions by the majority of the votes of the attendees, in case the votes are equal, the chairman shall have the casting vote. Votes by phone or video are allowed when the personal presence of the member is not possible, provided that the number of members present in person is not less than two thirds of the members of the committee, and that the percentage of personal attendance of the member is not less than 50% of the committee's meetings during the year.
5. The Committee shall submit its reports to the Board of Directors.
6. The Committee shall exercise its duties and responsibilities as specified in the relevant laws and legislations, ensuring that necessary measures are taken to implement the values of integrity and professionalism within the Bank, thus ensuring that complying with the applicable laws, regulations and instructions, orders and applied standards is an essential objective that has to be applied.
7. The Committee shall supervise and monitor the operations of the Compliance Department and ensure that the Bank is in full compliance with the applicable legislations and regulatory requirements.

**Article (8): Suitability of Board members:**

- a) The Board of Directors shall approve an effective policy to ensure suitability of its members provided that the said policy include the minimum standards, requirements and conditions that a nominated or elected member should fulfil and that such policy be reviewed whenever necessary. Sufficient procedures and controls should also be identified to ensure that all members fulfil and remain fulfilling those requirements.
- b) The Chairman and Board members should meet the following criteria:
  - 1. Not to be less than twenty-five years of age.
  - 2. Not to be a member of the Board of any other bank in Jordan or its General Manager or employee unless the other bank is a subsidiary of Arab Bank's.
  - 3. Not to be the Bank's lawyer, legal advisor or auditor.
  - 4. Have a bachelor degree at a minimum specializing either in economics, finance, accounting or business administration or any other related field.
  - 5. Not to be a government employee or employee of an official public institution unless he/she is a representative of that entity.
  - 6. Not to be a member of the board of directors of more than five public shareholding companies in the Kingdom whether in a personal capacity or as representative of a legal entity.
  - 7. Possess expertise of not less than 5 years in banking, finance or similar specializations.
- c) The Chairman and members of the Board should each sign a Suitability Attestation in the approved form. The signed form shall be kept at the Bank and a copy thereof shall be sent to the Central Bank of Jordan along with the Member's Curriculum Vitae.
- d) The Chairman shall ensure that any critical information that may adversely affect the suitability of any Member is disclosed to the Central Bank of Jordan.

**Article (9): Suitability of Senior Executives:**

- a) The Board of Directors shall:
  - 1. Approve a policy that would ensure the suitability of the members of the Senior Executive Management provided that such policy include the minimum criteria, procedures and controls that ought to be met by the members. The policy is to be reviewed by the Board of Directors from time to time and the Board should set out procedures, and adequate controls to ascertain that the criteria is being

met by all members of the Senior Executive Management and they continue to be met.

2. Appoints a Chief Executive Officer of integrity, technical competence and banking experience after obtaining the no- objection from the Central Bank of Jordan.
3. Approve the appointment of any of the Senior Executive Management members after obtaining a no-objection statement from the Central Bank of Jordan.
4. Approve a succession plan for the Senior Executive Management and review the plan once at year at a minimum.
5. Timely disclose to the Central Bank of Jordan any material information that may adversely affect the suitability of any member of the Senior Executive Management.

b) The Following conditions should be fulfilled by an appointed senior executive:

The appointed member:

1. Should not be a member of the Board of Directors of any other bank in Jordan unless the other bank is a subsidiary of Arab Bank's.
  2. Should be dedicated full time to the management of the Bank's business.
  3. Should have, at a minimum, a bachelor degree in economics, finance, accounting or business administration or any other related field.
  4. Should have a minimum of five year experience in banking or a related field, except for the position of Chief Executive Officer which occupant should have a minimum of ten year experience in banking.
- c) A "no objection" letter should be obtained from the Central Bank of Jordan prior to the appointment of any Board Member to a Senior Executive Management office accordingly the Bank, prior to such appointment, ought to obtain from the candidate his/her Curriculum Vitae along with any academic certificates, certificates of expertise, certificate of good conduct and such other necessary documentation. The Member will also be asked to sign the approved Suitability Attestation form and the Bank will provide the Central Bank of Jordan with a copy thereof along with the Curriculum Vitae.

## **Article (10): Evaluating the performance of the Board and Senior Executives**

- a) The Board of Directors shall develop a mechanism to evaluate its performance and that of its members provided that such mechanism shall at least include the following:
1. Set specific goals and define the role of the Board to achieve these goals in a measurable manner.
  2. Identify key performance indicators based on the plans and strategic goals and use them to measure the performance of the Board.
  3. Communication between the Board and the shareholders and the regularity of such communication.
  4. Regularity of the meetings of the Board of Directors with the senior executive management.
  5. The member's participation in the Board meetings, comparing his/her performance with that of other Board members and getting the members feedback in order to improve the evaluation process.
- b) The Nomination and Remuneration Committee shall be responsible for evaluation, on an annual basis, the performance of the Board as a whole, its committees and members, and inform the Central Bank of the results of such evaluation.
- c) The Board shall, on an annual basis, evaluate the performance of the Chief Executive Officer according to an evaluation mechanism set by the Nomination and Remuneration Committee which shall include key performance indicators. The aspects of evaluation of the performance of the Chief Executive Officer shall include the administrative and financial operation of the Bank and the achievement of the medium and long term goals and strategies of the Bank. The Committee shall inform the Central Bank of Jordan of the results of the evaluation.
- d) The Board shall adopt a system to measure the performance of the Bank's executives who are not members of the Board, and Chief Executive Officer. This system should include at a minimum the following:
1. To appropriately measure the extent of commitment to the framework of risk management, internal controls and regulatory requirements.
  2. The total revenue and profitability shall not be the sole measurement indicator; risks related to basic operations and customer satisfaction should and such other indicators should also be considered.
  3. Not using one's position of power and conflict of interests.

## **Article (11): The Remuneration for the Board and Executives**

- a) The Board of Directors shall adopt procedures to determine the remuneration of its members, based on the evaluation system, approved thereby.
- b) The Nomination and Remuneration Committee shall be responsible for setting an objective and transparent remuneration policy for the Executive Management.
- c) The Remuneration policy should include the following key points at a minimum:
  - 1. To be structured to retain and recruit qualified and experienced executives, and to motivate them and promote their performance.
  - 2. To be designed to ensure that it shall not be used in a manner that might affect the soundness and reputation of the Bank.
  - 3. To take into consideration the risks, liquidity, profits and its timing.
  - 4. To ensure that remuneration is not based on the performance of the current year only but takes into consideration the medium and long term performance (3-5 years).
  - 5. To reflect the goal, value and strategy of the Bank.
  - 6. To define the form of the remuneration such as fees, salaries, allowances, bonuses, share options or any other form of benefits.
  - 7. The possibility of postponing payment of a reasonable proportion of the remuneration. The amount of such proportion and the postponement period shall depend on the nature of the work, the risks associated therewith and the concerned executive's activities.
  - 8. Executives of supervisory departments (risk management, audit, compliance, etc.) should not be given remunerations based on the performance the departments that they monitor.

## **Article (12): Conflict of Interests**

- a) Executives should avoid conflict of interests.
- b) The Board shall adopt a policy and procedures to handle conflict of interests and disclose any such conflicts which may arise as a result of the inter-group relationships.
- c) The Board shall adopt policies and procedures for dealing with related parties to include the definition of these parties, taking into consideration the regulations, terms of transactions, approval procedures and a mechanism to monitor these transactions, to ensure consistency with the policies and procedures.

- d) The supervisory departments in the Bank shall ensure that any dealings involving the related parties have been carried out in accordance with the approved policy and procedures; the Audit Committee shall review and monitor all related parties' transactions and update the Board on the same.
- e) The Board shall ascertain that the Senior Executive Management implement the adopted policies and procedures.
- f) The Board shall adopt controls to manage the transfer of information within various departments, to prevent using such information for personal gain.
- g) The Board should approve policies and a Code of Conduct and circulate the same to executives, that shall, at a minimum, include:
  - 1. Executives not to use any inside information for personal gain.
  - 2. Rules and procedures for managing dealings with related parties.
  - 3. Situations that may result in conflict of interests.
- h) The Board shall ensure that executive management exercise high integrity and avoid conflict of interests.

#### **Article (13): Internal Audit**

##### **(1) The Board of Directors shall:**

- a) Ensure that the Bank's internal audit department is capable of fulfilling, among others, the following duties:
  - 1. To ascertain that there are adequate internal controls of the Bank's and subsidiaries' activities and to ensure compliance therewith.
  - 2. To ascertain adherence to internal policies, international standards and procedures, and applicable laws and regulations.
  - 3. To audit the Bank's financial statements and administrative reports while ensuring accuracy and timeliness.
  - 4. To assess compliance with the Corporate Governance Code.
  - 5. To examine the comprehensiveness and accuracy of the stress tests in accordance with the methodology approved by the Board.
  - 6. To ensure the accuracy of the procedures used for the internal evaluation of the Bank's capital adequacy.

- b) To ensure and enhance the independence of internal auditors, ensure that they are well positioned in the bank's hierarchical structure and that they are well qualified to perform their duties including being entitled to access all records and information and to communicate with any employee of the Bank in order to perform their work and prepare reports with no external influence.
- c) Take necessary measures to enhance the efficiency of the internal audit through:
  - 1. Emphasize the importance of the internal audit function and reinforce that in the Bank.
  - 2. Requiring timely correction of audit findings.
- d) To adopt Internal Audit charter that includes duties, authorities and responsibilities of the Internal Audit, and circulate it within the Bank.
- e) To ensure that the Internal Audit Department is under the direct supervision of the Audit Committee, and submit its reports directly to the Chairman of the Committee.

**(2) The Audit Committee shall be responsible for:**

- a) Ensuring the sufficiency of human resources assigned to manage the internal audit work and to train them.
- b) Ensuring rotation of internal auditors to audit the various aspects of the Bank's business at least every three years.
- c) Ensuring that internal auditors are not assigned do any executive function.
- d) Ensuring that all the Bank's activities are subject to audit including outsourced activities.
- e) Evaluating the performance of staff and head of internal audit.

**Article (14): External Audit**

- a) Rotation of external auditors should take place every 7 years at most.
- b) The first seven years period shall be computed as of the year 2010.
- c) The New external auditor firm (when rotation is implemented) shall work jointly with the old firm for the first year.
- d) Apart from the joint audit, the old external auditor firm shall not be re-elected before at least two years from the date of its last election.

- e) The independence of the external auditor is to be assessed annually by the Audit Committee.
- f) The Board of Directors shall take necessary measures to timely correct any flaws in the internal control system or any other flaws identified by the external auditor.

**Article (15): Risk Management**

- a) The risk management shall be responsible for monitoring compliance of the executive departments at the Bank with the levels of risk tolerance.
- b) The Board of Directors shall ensure that correction measures and remedies are taken to mitigate risk exposures, and holding executive management accountable for exceeding the limits.
- c) The Board of Directors shall ensure that the Risk Management Department conduct periodical stress tests to gauge the Bank's ability to absorb shocks and deal with high risks. The Board shall also have a fundamental role in approving the hypothesis and scenarios used and discuss the stress tests' results and approve the measures to be taken based on the said results.
- d) The Board of Directors shall adopt a methodology for assessing capital adequacy. The methodology ought to be comprehensive, efficient and able to identify all risks that the Bank may face and shall take into consideration the Bank's strategic plan and capital plan. Additionally, the Board shall review the methodology regularly and ensure that it is duly implemented and that the Bank has adequate capital to face any risk.
- e) Before approving any expansion in the Bank's activities, The Board of Directors will have to consider all associated risks and the skills and qualifications of the Risk Management Department's personnel.
- f) The Board of Directors shall give sufficient authority to the Risk Management Department to report to the Risk Management Committee, have access to all information from the various departments within the Bank and to cooperate with other committees in order for it to fulfil its duties.
- g) The Board of Directors should adopt a charter for the Bank's tolerable risks.
- h) The responsibilities of the Risk Management Department shall include, without limitation:
  - 1. Reviewing the risk management framework before being approved by the Board of Directors.

2. Implementing the risk management strategy in addition to developing policies and procedures to manage all types of risks.
3. Developing methodologies to identify, measure, monitor and control all types of risks.
4. Reporting to the Board of Directors, through the Risk Management Committee, and with a copy to the Senior Executive Management, on the actual risk exposures for all the Bank's activities compared to the charter of tolerable risks, and to follow-up on the measures taken to remedy any negative deviations.
5. Verify the compatibility of the risk measurement methodologies with the applied management information systems.
6. Review and analyze all types of risks that the Bank may face.
7. Submitting recommendations to the Risk Management Committee on risk exposures and any exceptions to the risk management policy.
8. Providing necessary Bank risks information for use in the Bank's disclosures.

#### **Article (16): Compliance**

- a) The Board shall award the Compliance Department with the necessary authority that would ensure submitting its reports directly to the Compliance Committee and continuous recruiting of an adequate number of well trained staff.
- b) The Board shall approve the compliance policy, ensure its annual review and implementation.
- c) The Board of Directors shall approve roles and responsibilities of the compliance management.
- d) Compliance management shall submit its reports to the Compliance Committee with a copy to the Chief Executive Officer.

#### **Article (17): Stakeholders' Rights**

- a) A mechanism shall be developed to guarantee communication with stakeholders by disclosing and providing relevant information about the Bank's activities through:
  1. General Assembly meetings.
  2. Annual Report.
  3. Quarterly financial reports which enclose financial data, and the Board's report on the Bank's share trading and the Bank's financial status during the year.
  4. The Bank's website.
  5. Shareholders' division.

- b) A part of the Bank's website shall be designated to clarify shareholders' rights and to encourage them to attend and vote at the General Assembly meetings. Also the documents of the General Assembly meetings, including the invitation and minutes of meetings, shall be published on the website.

#### **Article (18): Disclosure and Transparency**

- a) The Board shall ensure that all financial and non-financial information that are of interest to the stakeholders shall be published.
- b) The annual report shall include a statement to the effect that the Board is liable for the accuracy and completeness of the financial statements of the Bank and all other information in the report in addition to the adequacy of the internal control systems.
- c) The Board shall ensure that the Bank's financial disclosures are consistent with the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Central Bank of Jordan regulations, and other relevant legislations and also that the executive management keep well informed of changes and updates on the related International Financial Reporting Standards.
- d) The Board shall ensure that the Bank's annual and quarterly reports identify key financial and operational results that enables the shareholders to understand the financial position of the Bank.
- e) The Board shall ensure that the annual report include, at a minimum, the following information:
  - 1. Summary of the organizational chart of the Bank;
  - 2. Summary of the roles and responsibilities of the Board Committees, and the authorities delegated to each Committee;
  - 3. Useful information to stakeholders as identified in the Corporate Governance Code and the extent of compliance with the code;
  - 4. Information about each Board member in terms of his/her qualifications, experience, shareholding, status (independent/non-executive, etc) membership in Board Committees, date of appointment, any other board memberships in the boards of other companies and remunerations of all forms for the previous year in addition to loans granted to the Member by the Bank and any other transaction that has taken between the Bank on the one part and the Member or related parties on the other;
  - 5. Information about Risk Management Department, including its structure and nature of its operations and its development;
  - 6. Number of Board and Board Committee meetings and attendance of each member at such meetings;
  - 7. Names of each board member and senior executives who have resigned during the year;

8. Summary of the remuneration policy and full disclosure of all forms of remuneration to board members and executive management individually for the previous year;
9. A list of shareholders who own 1% or more of the share capital of the Bank, the ultimate beneficiary owner of such shareholdings or any part thereof, in addition to a clarification as to whether the shareholdings are wholly or partially pledged;
10. Attestations of all Board members confirming that he/she or any of the members' relatives did not receive any benefits from the Bank during his/her tenor, which has not been previously disclosed.