

Supplementary Annex

Based on Corporate Governance Regulations for Banks

Issued by the Central Bank in 2014

The Central Bank in Jordan issued Corporate Governance Regulations for Banks in 2014. Accordingly, this is a supplementary annex that highlights and summarizes the changes in this publication as a result of such regulation.

All page numbers and sections herein refer to the page numbers and sections in the publication, reference to CG Code for banks shall hereinbelow include the most recent Corporate Governance Regulation issued in 2014.

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I. Commitment to Corporate Governance

Table on Page 10 with respect to CG Code for Banks:

| | | |
|---|--------------|--|
| <i>Disclosure commitment corporate governance</i> | <i>on to</i> | To publicly disclose its CG code on the website and any other appropriate manner and to include in its annual report that it has such a code. |
| <i>Code Ethics/Conduct</i> | <i>of</i> | Board is to set the ethical standards of the bank, prepare the necessary policies, responsibility and accountability matrices and instill the highest ethical and integrity standards. The board should approve policies and a code of ethics and enforce it on all executives. Such code to include at a minimum: <ul style="list-style-type: none"> - That executives are not to use insider information for personal gain - The rules and procedures to manage work with stakeholders - Situations that may give rise to conflict of interest |
| <i>Whistle-blowing</i> | | Audit committee should review and monitor procedures used for whistle-blowing and make arrangements for independent investigation. They should also follow up on the results of the investigation and manage the results objectively. |

II. Board Functioning

1. Board Roles and Responsibilities

Table on Page 12 with respect to CG Code for Banks:

| | |
|--|---|
| <i>Board represents all shareholders</i> | Not applicable |
| <i>Succession planning</i> | The Nominations and Remunerations committee is to ensure that there is a succession plan for the senior executive team. |

2. Board Structure, Composition and Independence:

Table on Page 13 and 14 with respect to CG Code for Banks:

| | |
|---|--|
| Size of the board | Minimum 11 board members unless the bank is owned by one shareholder. |
| Qualifications and Diversity of Composition | <p>Independent directors should be have substantive experience in financial and banking sector.</p> <p>Board members should have a high degree of credibility, integrity, competence and the necessary experience and the ability to commit the necessary amount of time for their post.</p> <p>The Central Bank may object to the nomination of any board member.</p> |
| No. of Non-Executive Directors | Not applicable. |
| No. of Independent Directors | Minimum 4. |
| Separation of Chairman and CEO | The chairman cannot be the CEO and neither the chairman nor any board member or major shareholder should be associated with the CEO up to the fourth degree. |
| Number of directorships | 5 |
| Terms and Renewal | Not applicable |
| Appointment of Corporate Secretary | Yes |

- **New points were raised as follows:**

- *The appointment of maximum of two executive directors*
- *The board is responsible to take the necessary steps to find a way to ensure a clear separation of authority between major and controlling shareholders on the one hand and senior executives on the other to strengthen and reinforce corporate governance. The board should also find suitable mechanism to manage the impact of controlling shareholders by:*
 - *Not appointing any of the controlling shareholders to the senior executive team; and*
 - *Ensuring that the executive team gets its authority from the board alone.*

2.4 Definition of Independence

Table on Page 17 and 18 with respect to CG Code for Banks:

| | |
|-----------------------|--|
| Employment | <p>To be considered independent a director at minimum should not:</p> <ul style="list-style-type: none"> - Be an executive and has not been an executive board member for the past three years - Have been employed by the bank or any of its affiliates in the past three years - Be a partner or employee of the external auditor or has been for the last three years - Be a board member of the bank or any of its affiliates or member of the senior executive team for more than eight consecutive years |
| Business relationship | To be considered independent a director at minimum should not have directly, or through any other company in which they are a member of their board or owner thereof or major shareholder therein, a facility from the bank for more than 5% of the share capital or be a guarantor of a facility from the bank for that amount. |



| | |
|--|---|
| <i>Family connection compromising independence</i> | To be considered independent a director at minimum should not be: <ul style="list-style-type: none"> - Connected to other board members or any board member of an affiliate of the bank or to any of the major shareholders up to the third degree - Connected to any of the senior executives in the bank or any senior executives in any of the banks affiliates up to the second degree - Connected to the external auditor in the first degree |
| <i>Significant shareholder compromising independence</i> | To be considered independent a director at minimum should not be: <ul style="list-style-type: none"> - a major shareholder in the bank; - a representative or an affiliate of a major shareholder in the bank; - considered a major shareholder when their shares along with those of their affiliates constitute a major shareholding; - a major shareholder in an affiliate company of the bank; or - a major shareholder in the group owning the bank. <p>Major shareholder is defined as anyone who owns 5% or more of the share capital of the bank directly or indirectly.</p> |

*** The Central Bank may consider any board member not independent even if all the above conditions are met.**

2.8 Evaluation of Directors and Training

Table on Page 20 with respect to CG Code for Banks:

| | |
|-----------------------------|--|
| <i>Induction</i> | The chairman is responsible to: <ul style="list-style-type: none"> - Provide every board member upon appointment with the relevant regulations associated with banking and instructions of the Central Bank associated with their role as a board member including the CG Code for Banks and a booklet that clarifies their roles and responsibility as a board member and the role of the corporate secretary - Enable new board members to attend an orientation program |
| <i>On-going development</i> | Chairman to manage the needs of the board in terms of their on-going development |
| <i>Board evaluation</i> | Nominations and Remunerations Committee is responsible to evaluate the board and CEO's performance and to inform the Central Bank of the results of such evaluation |

2.9 Board Secretary

Table on Page 21 with respect to CG Code for Banks:

| | |
|--------------------|--|
| Appointment | Yes |
| Role | <ul style="list-style-type: none"> - Attend all board meetings, take minutes that include all discussions, suggestions, reservations, oppositions and voting statistics for board resolutions. - In collaboration with the chairman coordinate board meetings. - Ensure the signature of board members on the minutes of meeting. - Follow up on implementation of board resolutions taken and any matter suggested in the previous meeting. - Maintain records of board meetings. - Coordination with the compliance department to ensure that decisions anticipated in the meeting are aligned with regulations. - Provide the Central Bank with the completed forms of the board members as required in the CG Code for Banks. |



3. Board Committees

*** The regulations require an additional committee. The Corporate Governance Committee, which is to have three members (at least two of which have to be independent) and includes the chairman of the board.**

3.1 Audit Committee

Table on Page 22 with respect to CG Code for Banks:

| | |
|--------------------------|--|
| Composition | Not applicable |
| Independence | Majority members must be independent |
| Committee Chair | Chairman must be independent |
| Financial expert | All of the members should have relevant financial or accounting qualifications and expertise. |
| Meeting frequency | No set number of meetings but should perform their roles and responsibility. At least once a year the committee should meet with the external auditor, internal auditor and compliance representative alone without senior executive members. |

3.2 Remuneration Committee

Table on Page 23 with respect to CG Code for Banks:

| | |
|--------------------------------|---|
| Remuneration Committee | Composed of at least three NED members with the majority, including the chairman, independent. |
| Remuneration guidelines | <ul style="list-style-type: none"> - To identify the qualified persons to become board members - Nominate members of the senior executive team - Ensure that all new members receive an orientation session - Identify if the board members are independent - Ensure there is an appropriate remuneration plan for the board members and senior executive team |

III. Management and Control Environment

1. Internal Audit

Table on Page 24 with respect to CG Code for Banks:

| | |
|----------------|--|
| Internal Audit | The board should, including but not limited to, undertake the following: <ul style="list-style-type: none"> - Ensure that the internal audit department is capable to perform its duties. - Enforce the independence of the internal auditors and ensure they are well positioned in the bank to access all records and information and communicate with any employee within the bank to enable them to perform their role. - Ensure that employees of the internal audit team rotate their scope of work within the bank every three years. - Not to appoint any internal auditor to an executive task. |
|----------------|--|

2. Internal controls and risk management

Table on Page 24 with respect to CG Code for Banks:

| | |
|---------------------------------------|--|
| Internal controls and risk management | <p>The board should, including but not limited to, undertake the following:</p> <ul style="list-style-type: none"> - Ensure the independence of the risk management department. - In every expansion in the activities of the bank consider the risks associated with the capabilities and qualifications of the employees of the risk management department. - Approve a risk management policy. |
|---------------------------------------|--|

4. Rotation of External Auditors

Not mentioned.

* Compliance Department

An additional component was added that was not previously covered focused on the compliance department. With respect to the compliance department the board should:

- Ensure the independence of the compliance department
- Approve compliance policies
- Approve the roles and responsibility of the compliance department

IV. Disclosure and Transparency

4. CG Code for Banks

The board should ensure that all financial and non-financial information that stakeholders may be interested in has been disclosed.

The annual report should expressly include that the board is responsible for the accuracy and completeness of the financial statements of the bank and all other information in the report and about the appropriateness of the internal control systems.

The board should ensure that the annual report is aligned with international standards such as the IFRS and IAS.

The board should ensure that the annual report, at minimum includes:

- Summary of the organizational chart of the bank.
- Summary of the roles and responsibility of the committees of the board and the authority granted to each committee.
- Information about each board member in terms of qualification, experience, shareholding, status (i.e. independent, non-executive etc.), membership in committees, date of appointment, any other board positions, remuneration in all forms, any loans provided thereto and any other matter that occurred between the bank and the board member or persons associated therewith.
- Cases when any board member did not vote and all matters associated with related party transactions.
- Information about risk management department.
- Number of board and committee meetings and attendance at such meetings.
- Summary of the remuneration policy with full disclosure on all forms of remuneration to board members individually.
- Name of shareholders that own 1% or more of the share capital of the bank with disclosure of the ultimate beneficial owner to such shareholdings or parts thereof and explanations if any such shareholding is partially or fully mortgaged.



V. Role of Stakeholder and Shareholders

Table on Page 28 with respect to CG Code for Banks:

| | |
|--|---|
| <i>Protect and treat shareholders equally</i> | The board should ensure that a section of the banks website is dedicated to communicating shareholders rights and encouraging them to attend and vote in general assembly meetings. |
| <i>The organization of the General Assembly</i> | |
| <i>Policies on related party transactions, conflicts of interest and insider trading</i> | <ul style="list-style-type: none"> - The board should approve policies and procedures to handle conflict of interest that may arise in the event the bank is part of a banking group and disclose any such conflict of interest that may arise as a result of the bank associated with companies within the group. - The board should approve policies and procedures to manage stakeholders taking into consideration regulations and approvals that may be necessary and a monitoring system to monitor such dealings - The board should approve policies to manage the information within the different departments to prevent using such information for personal gain |
| <i>Recognition of rights of stakeholders</i> | The board should provide a mechanism to ensure stakeholder engagement by disclosing and providing information to stakeholders about the banks activities through variety of communication channels. |

