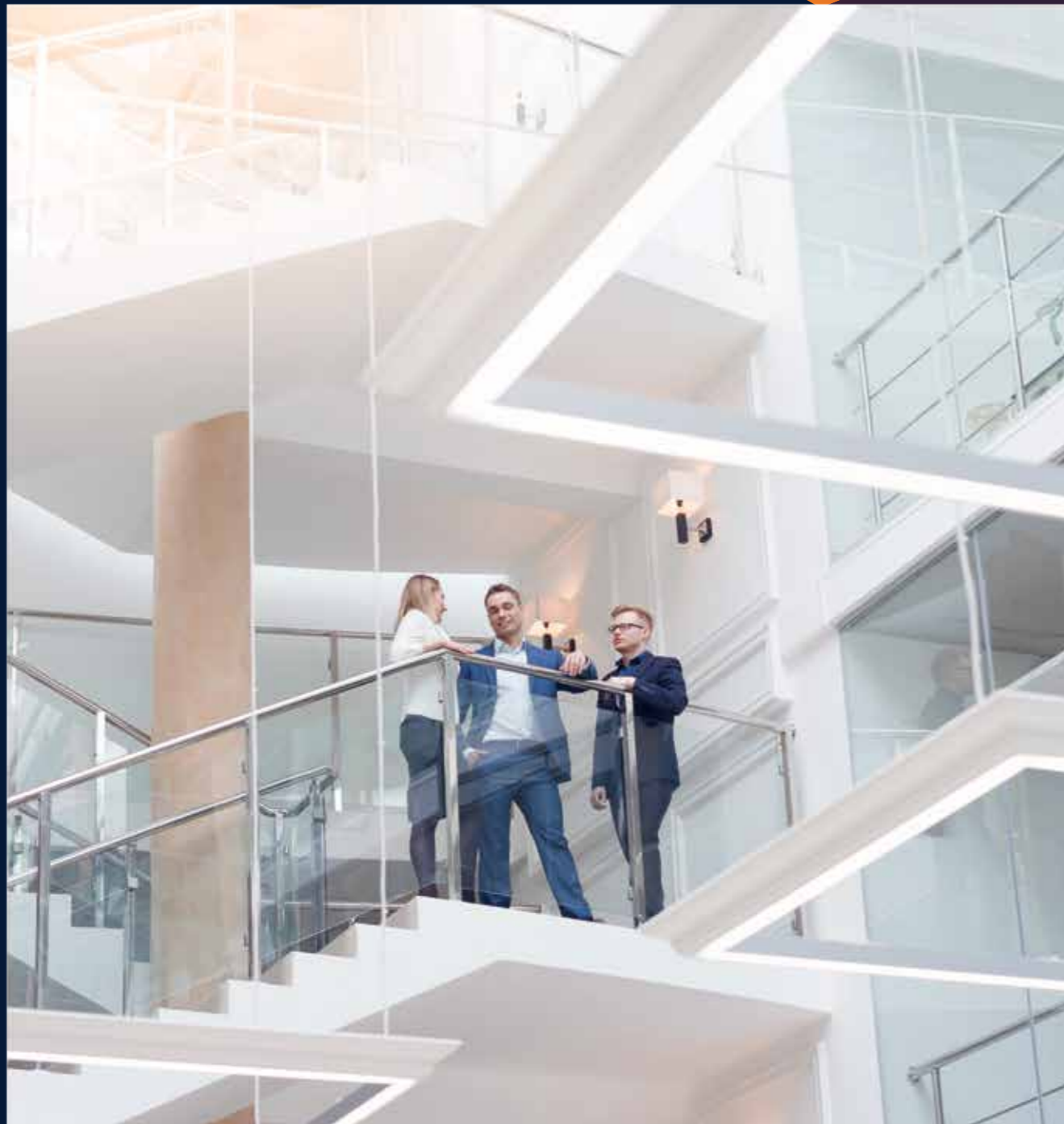


# Corporate Governance



## BANK OF JORDAN COMMITMENT TO THE CORPORATE GOVERNANCE GUIDE

Realizing that good corporate governance is a key to success, the Bank's Board of Directors is keen on applying corporate governance practices that comply with the regulations issued by the Central Bank of Jordan and the Corporate Governance Guide for banks in Jordan. These practices, which have been incorporated into the Bank of Jordan Corporate Governance Guide, also comply with the best international practices recommended by the Basel Committee. It is worth noting that Bank of Jordan also adheres to regulatory requirements and guidelines in other countries where it operates.

It is worth noting that the Bank conducts periodic reviews of this Guide, and whenever the need arises, to ensure that it captures the Bank's changing needs as well as developments in the banking industry. The Corporate Governance Guide is included in the annual report (Arabic version), alongside a separate report for the general public (shareholders) on the Bank's compliance with provisions of the Guide.

### COMPONENT ONE (BOARD OF DIRECTORS)

#### - Chairman of the Board:

In line with best managerial practices, the Chairman and General Manager positions were kept separate. The duties and responsibilities of each post have also been identified.

#### - Board of Directors:

While the Executive Management is responsible for running the daily operations of the Bank, the Board is in charge of drawing up strategies that best serve the interests of the Bank, and its shareholders and clients, in accordance with respective laws and regulations.

The board shall consist of 11 members who will be elected by the general assembly to a four-year term. The members shall have the expertise and qualifications that shall enable each of them to voice his/her opinion independently during board discussions. The suitability of board members has been assessed against the policy related to board members' suitability in line with the requirements of the Corporate Governance Guide, and adjustments/corrections have been made accordingly. The Board Chairman shall be elected by the board members.

The Board convened (10) times during 2017. The Board has a specific agenda in each meeting, and the minutes of meetings and decisions are officially documented by the Board Secretary.

#### Names of the Board Members as of 18/4/2017

Name	Status	No. of Attendance	Loan Balance for the Board Member
			JD
Mr. Shaker Tawfiq Fakhouri	Chairman of the Board/ Dedicated	10	4,928
Mr. Walid Tawfiq Fakhouri	Vice Chairman of the Board	5	150
Dr. Mazen Mohammed Al-Bashir	Member	10	18,865
Dr. Yanal Mawloud Naghoul	Member	9	-
Mr. "Shadi Ramzi" Abd Al-Salam Al-Majali	Member	9	66,782
Mr. Haitham Mohammed Samih Barakat	Member	8	647
Mr. Husam Rashed Manna'	Member	10	3,152
Mr. Mohammad Anwar Hamdan	Member	10	59
Mr. Walid Mohammad Al-Jamal	Member	10	138,245
Mr. Walid Rafiq Anabtawi	Member	7	3,232
Mr. Wissam Rabee' Saab	Member	4	-
Mr. Nader Mohammad Sarhan	Board Secretary/ Committee Rapporteur	7	-

Dr. Abdel Rahman Samih Toukan/ Vice Chairman of the Board until 17/4/2017

Mr. Yahya Zakaryia Al-Kadamani/ Member until 17/4/2017

Mr. Haitham Abu Nasr Al Mufti/ Member until 17/4/2017

Mr. Ammar Mahmoud Abu Namous/ Member until 11/1/2017

Mr. Saleh Rajab Hammad/ Board Secretary until 17/4/2017

#### - The Committees of the Board:

As per the Corporate Governance Guide, Seven committees stem from the Board of Directors to ease implementation of responsibilities. The committees are as follows: the Audit Committee, the Corporate Governance and Strategy Committee, the Nominations and Remunerations Committee, the Risk Management Committee, the Executive Committee, the Compliance Committee, and Information Technology Governance Committee.

#### - The Audit Committee:

The audit committee comprises three qualified board members who enjoy adequate experience in accounting, finance, or any other relevant field. The majority of the Committee members, including the head, must be independent. The board chairman cannot serve as head of the committee. The committee's head may not head any other board committee.

The Audit Committee consists of the following:	Status	No. of Attendance
Mr. Mohammad Anwar Hamdan	Head of the Committee	9
Mr. "Shadi Ramzi" Abd Al-Salam Al-Majali	Member	8
Mr. Walid Rafiq Anabtawi	Member	7
Mr. Nader Mohammad Sarhan	Board Secretary/ Committee Rapporteur	7

The Audit Committee held (9) meetings in 2017.

However, the Audit Committee does not substitute for the responsibilities of the Board of Directors or the Bank's Executive Management for the supervision and adequacy of the Bank's internal control system.

The Audit Committee met with the External Auditor (4) times during 2017.

- The Corporate Governance and Strategy Committee:

The board chairman and two independent members as a minimum were elected to the Corporate Governance and Strategies Committee. The committee provides guidance and feedback on the development of the Corporate Governance Guide. It also ensures the guide is updated and properly implemented.

The Corporate Governance and Strategy Committee consists of the following:	Status	No. of Attendance
Mr. Shaker Tawfiq Fakhouri	Head of the Committee	3
Mr. Husam Rashed Manna'	Member	3
Mr. Walid Rafiq Anabtawi	Member	2
Mr. Nader Mohammad Sarhan	Board Secretary/ Committee Rapporteur	2

The Corporate Governance and Strategy Committee held (3) meetings during 2017.

- The Risk Management Committee:

The Risk Management Committee comprises three board members, one of whom is independent. Members of the senior executive management can also join the committee. The committee deals with all types of risks facing the bank.

The Risk Management Committee consists of the following:	Status	No. of Attendance
Dr. Mazen Mohammed Al-Bashir	Head of the Committee	7
Mr. Shaker Tawfiq Fakhouri	Member	7
Mr. Mohammad Anwar Hamdan	Member	7
Mr. Saleh Rajab Hammad	Member	7
Dr. Nasser Mustafa Khraishi	Member	6
Mr. Nader Mohammad Sarhan	Member / Board Secretary / Committee Rapporteur	7

The Risk Management Committee held (7 ) meetings during 2017.

- The Executive Committee:

Five board members were elected to the Executive Committee, one of whom may be independent provided that he/she is not a member of the Audit Committee. Other members of the senior executive management may join the committee's meetings to present their recommendations.

The Executive Committee consists of the following:	Status	No. of Attendance
Mr. Shaker Tawfiq Fakhouri	Head of the Committee	49
Dr. Mazen Mohammed Al-Bashir	Member	51
Dr. Yanal Mawloud Naghouj	Member	45
Mr. Haitham Mohammed Samih Barakat	Member	32
Mr. Husam Rashed Manna'	Member	51
Facilities Committee's Rapporteur/ Committee's Rapporteur		51

The Executive Committee held (51) meetings in 2017.

- The Nominations and Remunerations Committee:

The Nominations and Remunerations Committee committee was elected and consists of three members, with at least two, including the head, independent members.

The Nominations and Remunerations Committee consists of:	Status	No. of Attendance
Mr. Walid Rafiq Anabtawi	Head of the Committee	5
Mr. Shaker Tawfiq Fakhouri	Member	7
Mr. Mohammad Anwar Hamdan	Member	7
Mr. Nader Mohammad Sarhan	Board Secretary/ Committee Rapporteur	5

The Nominations and Remunerations Committee held (8 ) meetings in 2017.

- Information Technology Governance committee:

Three board members were elected to the IT Governance Committee who enjoy vast experience and/or knowledge in IT.

The Information Technology Governance committee consists of the following:	Status	No. of Attendance
Mr. "Shadi Ramzi" Abd Al-Salam Al-Majali	Head of the Committee	3
Mr. Husam Rashed Manna'	Member	3
Mr. Walid Rafiq Anabtawi	Member	1
Mr. Nader Mohammad Sarhan	Board Secretary/ Committee Rapporteur	1

The Information Technology Governance committee held (3) meetings in 2017.

- Compliance Committee:

The compliance committee comprises three board members, mostly independent. The committee meets regularly and upon need.

The Compliance Committee consists of the following:	Status	No. of Attendance
Mr. Husam Rashed Manna'	Head of the Committee	-
Mr. Shaker Tawfiq Fakhouri	Member	-
Mr. Walid Rafiq Anabtawi	Member	-
Mr. Nader Mohammad Sarhan	Board Secretary/ Committee Rapporteur	-

The compliance committee, formed at the end of 2017, did not hold any meetings during the year.

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#### - The Board Secretary:

Minutes of meetings are significant for the Bank, shareholders, and supervisory agencies because they are a permanent register that demonstrate the Board's activities and deliverables, Board of Director's decisions and any other decisions made by committees operating under the Board. Given the vital role of the Board Secretary, it has been decided to appoint Mr. Nader Mohammad Sarhan Executive Manager / Chief Risk Officer, as Board Secretary. Duties and responsibilities of the Board Secretary are incorporated in the Corporate Governance Guide of the Bank.

#### - The Senior Executive Management

Members of the senior executive management, including the general manager, must have the attributes and qualifications stated in the Bank's Corporate Governance Guide.

#### - Conflict of Interests:

The Board of Directors emphasized in the Bank's Corporate Governance Guide that all members of the Board must specify their relationships with the Bank, disclose the nature of this connection, avoid conflicts of interest, and abide by the substance of the Code of Conduct in this regard. A written disclosure must be given on an annual basis or in case of any development that so requires.

### Component Two (Planning and Policy Formulation)

The Board of Directors undertakes responsibility for devising the Bank's general strategy and its strategic course of action as well as defining the general objectives for the executive management and supervising their achievements.

### Component Three (Control Environment)

The Board of Directors undertakes responsibility to adopt a general framework for internal control in order to achieve the following:

- Effectiveness and efficiency of operations.
- Credibility of financial reports.
- Adherence to laws and regulations in force.

The Board hereby affirms the existence of a general framework for internal control that enables it to follow up on its tasks and take whatever measures are necessary within the following framework:

#### 1. Internal Audit:

The Bank realizes that having an effective internal audit department would fundamentally enhance the internal control systems and the general framework for managing risks related to the Bank's various activities. The internal audit administration performs its tasks within the following specifics:

- a. Preparing the Internal Audit Charter and sanctioning it by the Board of Directors. The charter details the functions of the audit administration including its responsibilities, authorities, and work methodology.
- b. Preparing internal auditing procedures that conform to the new organization of the Bank.
- c. Ensuring the preparation of an annual audit plan to be approved by the Audit Committee. The plan should cover most of the Bank's activities as well as organizational units based on risks associated with its activities.
- d. Preparing an annual report about the adequacy of internal control and audit systems in order to eliminate risks and provide suitable recommendations to remove weaknesses.
- e. Ensuring the recruitment and appointment of employees possessing high academic qualifications and appropriate practical experience to audit all activities and operations. This process should include qualified staff to assess data security and IT risks.
- f. Following up on violations and remarks stated in the reports of supervisory agencies and the external auditor; ensuring that they are addressed and that the executive management has adequate controls to ensure such violations are not repeated.
- g. Ensuring that necessary procedures are in place to receive, process, and keep customer complaints as well as remarks related to the accounting system, internal control, and audit processes. Periodic reports concerning these matters have to be submitted.

h. Keeping audit reports and sheets in a safe and organized manner for a period that conforms to applicable laws and regulations so that they can be examined by the regulatory authorities and the external auditor.

i. Reviewing the reporting procedures in the Bank to ensure key information about financial, administrative, and operational matters are accurate, reliable and timely.

j. Ensuring compliance with the Bank's internal policies, the international standards as well as related laws and regulations.

k. Submitting reports to the Head of the Audit Committee.

#### 2. External Audit:

The External Auditor represents another level of control on the credibility of financial data issued by the Bank's accounting and information systems. In particular, this entails expressing clear and honest opinions about the fairness of these statements and the extent to which they mirror actual reality during a certain period. When dealing with external audit firms, the Board of Directors has to consider the Bank's interest and professionalism of the auditing firms, keeping in mind the importance of regular audit rotations and previous experiences with such offices.

#### 3. Risk Management:

The management of Bank of Jordan paid special attention to Basel III requirements as a framework to reinforce and enhance the Bank's capability to upgrade the control environment and challenge various types of risks.

To implement these requirements, practical steps were taken such as establishing administrations in the Bank specialized in managing different risks (credit, operations, and market) and manning them with qualified staff and systems.

The Bank has also worked on enhancing credit risk management practices through setting up specialized departments (including Corporate Credit Review Department, SME Credit Review Department, Retail Credit Review Department, Credit Review Department for branches in Palestine, and Credit Portfolios Risk department). Furthermore, the Bank has updated and developed policies and procedures related to risk management aimed at ensuring credit quality. In addition, the Bank implemented the "Reveleus System" for calculating the capital adequacy ratio.

As for operational risks, the Bank has been implementing the CAREweb system since 2003 and a Risk Profile has been created for each of the Bank's departments in addition to a database for operational errors. As for market risks, the Bank has set up a risk management unit comprised of qualified employees.

#### The Risk Management functions in line with the following general framework:

- A. The Risk Management Department shall submit its reports to the Risk Management Committee on regular basis. As for daily operations, the Department shall report directly to the General Manager.
- B. The Risk Management undertakes the following responsibilities:
  - Preparing risk policies for all types of risks and sanctioning them from the Board of Directors.
  - Analyzing all risks including credit, market, liquidity and operational risks.
  - Developing methodologies for measuring and controlling all types of risks.
  - The Department shall recommend to the Risk Management Committee risk ceilings and related approvals. It shall also submit reports and record any exceptions from the risk management policy.
  - Providing the Board and the Executive Management with information about risk assessment and risk profile at the Bank. The Board regularly reviews the Bank's qualitative and quantitative risk statistics.
  - Approving the means that help risk management, such as:
    - Self-assessment of risks and setting risk indicators.
    - Preparation of a historical database of the losses in terms of their sources and classification according to type of risk.
    - Provision of the necessary systems suitable for risk management at the Bank.
- C. Committees such as Credit, Assets, and Liabilities' Management/Treasury, in performing its tasks, helps the Risk Management to implement its duties, in accordance with the authorizations defined for these committees.

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- D. Incorporating information about risk management in terms of its structure, nature of operations, and progress in the Bank's annual report.
  - E. Conducting stress tests regularly in order to assess the Bank's ability to deal with risks and financial stressors. The Board plays a significant role in deciding on the assumptions and scenarios used in this simulation technique. The test results are later examined and thoroughly discussed by the board. In light of these results, the Risk Management Committee approves measures needed to manage potential risks and mitigate losses.
  - F. Conducting Internal Capital Adequacy Assessment Process (ICAAP), which helps identify all potential risks through an effective methodology that takes into account the Bank's strategy and capital adequacy. The methodology is regularly reviewed to ensure that the Bank keeps sufficient capital buffers to shield it against potential losses.
  - G. Providing information about risks facing the Bank for the purposes of disclosure and publication to the public.

#### 4. Compliance:

In accordance with the Bank's commitment with the Regulators' requirements, the Compliance Department was established to ensure compliance with laws, ethical regulations, legislation, and standards, defined by different supervisory bodies and the Bank's internal policies. Qualified human resources and automatic systems were provided to the Department.

On the Compliance Department level, all laws and regulations regulating the Bank's operations were gathered, and compliance awareness was spread among employees through booklets and training courses. An anti-money laundering policy was developed to comply with the instruction of Anti-Money Laundering and Terrorist Finance No. (51/2010) date 23/11/2010. An independent Financial Crime Unit responsible for carrying out financial and tax audit. The unit, to which FATCA is affiliated, Customer complaints are handled by an independent unit affiliated with the Compliance Department

#### the Compliance Department has the following responsibilities:

- a. Drawing up the compliance policy as well as improving and reviewing it regularly (at least once a year) and whenever necessary.
- b. Applying the compliance policy at the Bank.
- c. Preparing an efficient methodology to ensure the Bank's compliance with effective laws and legislation in addition to any related regulations.
- d. Submitting its periodic reports on its work and on the compliance of the Bank's departments and employees to Compliance Management Committee/ Board of Directors.
- e. Special policies pertaining to anti money laundering and terrorism financing were drafted and implemented. Other policies related to implementing financial and tax audit, FATCA requirements, and to managing customer complaints were also formulated and implemented.

#### 5. Financial Reports

The Executive Management of the Bank shall undertake the following tasks:

- a. Preparing financial reports according to International Accounting Standards.
- b. Presenting the reports to the Board members at each regular meeting.
- c. Publishing financial data every three months.
- d. Sending financial reports and full reports to the shareholders annually.

#### 6. Code of Conduct:

The Bank has a Code of Conduct that was approved by the Board and circulated to all employees. Several training courses were organized to educate the Bank's employees on the concept of the Code. The compliance department ensures compliance with these concepts.

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### Component Four (Treatment of Shareholders)

Under the law, each shareholder has the right to vote during the General Assembly meetings and the right to discuss issues placed on the General Assembly's ordinary and extraordinary agendas. Added to that, shareholders enjoy the right to suggest any other topics to be added for discussion on the General Assembly's ordinary agenda, after obtaining the approval of a number of shareholders (representing at least 10% of stocks recorded) in the meeting. In order to foster this relationship, the Bank works on encouraging shareholders, mainly minority shareholders, to attend the annual General Assembly meetings and to vote in person or in their absence by proxy.

The Board shall provide shareholders with the following:

- A copy of the Annual Report mailed to their respective mailing addresses.
- An invitation to the General Assembly meeting and its agenda.
- All of the information and publicity items addressed to the shareholders in general.

Furthermore, each shareholder has the right to get acquainted with the shareholders' register to get to know his/her own share. The Board shall be keen on the fair distribution of profits, which should be based on the number of stocks held by each shareholder.

### Component Five (Transparency and Disclosure)

Bank of Jordan Corporate Governance Guidelines are based on the principles of integrity, objectivity, transparency, disclosure, openness, and accountability for decisions adopted by the Bank. This stems from the Bank's belief that disclosure offers the only means to provide transparent, accurate, comprehensive, and timely information. This helps users assess the Bank's financial position, its achievements, activities, as well as risks facing the Bank and the risk management policies.

The Bank disclosed all required information from different regulatory institution. It also published the Corporate Governness Guide to the public and the extent of the management adheres to it.

In accordance with the instructions of dealing with customers fairly and transparently No. (56/2012) date 31/10/2012 the Bank established a dedicated unit to manage and address customers' complaints. The unit was equipped with qualified human resources and automated systems and all necessary means available to accommodate and resolve complaints. This unit was administratively subordinated to the compliance department in the Bank.

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