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الجائزة الفضية

Corporate Governance Code for Banks in Jordan

Central Bank of Jordan
2007

Table of Contents

Foreword	5
Introduction	7
The Pillars of the Code	9
1) Commitment to Corporate Governance	9
2) The Functions of the Board of Directors	9
a) General principles	9
b) The Chairman and the General Manager	10
c) The role of the Chairman of the Board	11
d) Composition of the Board	12
e) Board practices	13
f) Board activities: appointments and succession	14
g) Board activities: self-assessment and the General Manager performance appraisal	14
h) Board activities: planning, controls, code of conduct, conflict of interest policy	14
3) Board Committees	16
a) General principles	16
b) The Audit Committee	16
c) The Nominations and Remuneration Committee	17
d) The Risk Management Committee	19

4) Control Environment	19
a) Internal controls	19
b) Internal audit	20
c) External audit	21
d) Risk Management	21
e) Compliance	22
5) Treatment of Shareholders	23
6) Transparency and Disclosure	24

Foreword

Dear Directors,

Further to issuing the Bank Director's Handbook of Corporate Governance in 2004, the Central Bank of Jordan is continuing in its efforts to enhance corporate governance in the Jordanian banking system by preparing this Corporate Governance Code which is intended to promote international best practice in the corporate governance of Jordanian banks. The Code draws upon international best practice, in particular the OECD Principles of Corporate Governance and the guidance issued by the Basle Committee on Banking Supervision in their publication: Enhancing Corporate Governance for Banking Organisations.

By using this Code as a model it is expected that each Jordanian bank will produce its own Code according to its particular needs and principles and incorporating the minimum standards of the Central Bank of Jordan, and will proceed to implement its own Code by 31/12/2007.

In order for a bank to obtain the full benefit of improving corporate governance practices, it is essential that each bank carefully considers the meaning of the individual provisions of the Corporate Governance Code, comes to its own understanding of how to apply them, and then publishes its own Code in its Annual Report and on its website. The Bank should also confirm in its Annual Report the extent of its compliance with its' Code – and explain why any provisions have not been complied with in any particular year.

Sincerely,

Governor

Dr. Umayya Toukan

Introduction

Corporate governance involves “ A set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently.”

A definition of corporate governance: the OECD Principles of Corporate Governance

Each bank adopting a Code should begin by setting out in its own words its institutional view of corporate governance, its meaning and its importance. A sample text is given below, although it is expected that each bank will wish to draft its own introduction.

“The Bank accepts the importance of good corporate governance: to provide a basis for its future development and corporate performance, to support trust in its activities as a recipient of depositors’ funds and shareholders’ capital, and to enable it to contribute to the successful development of the banking system of Jordan and the efficiency of the national economy. Accordingly, the Board has formally resolved to adopt a corporate governance code (“Code”) which conforms to the recommendations of the Central Bank of Jordan, as well as international best practice. The guiding principles of the Bank’s Code are fourfold:

- Fairness in the treatment of all stakeholders (such as shareholders, depositors, creditors, the bank’s employees and regulators).

- Transparency and disclosure to enable stakeholders to assess the Bank’s financial performance and condition.
- Accountability in the relationships between the Bank’s executive management and the Board, and between the Board and the shareholders and other stakeholders.
- Responsibility – the clear division and delegation of authority.”

In line with the Bank’s continued evolution, this Code will be kept under review, and will be developed and amended as required from time to time to meet the changing needs and expectations of the Bank and the marketplace.

The Pillars of the Code:

1) Commitment to Corporate Governance

- i) The Bank has compiled this Code, which has been approved by the Bank's Board and is published. An up-to-date version of the Code is available to the public on request and on the Bank's website.
- ii) The Bank has formed a corporate governance committee of the Board, comprising the Chairman of the Board and two of the non-executive Directors, to direct the preparation, updating, and implementation of the Code.
- iii) The Bank on an annual basis publicly reports its compliance with the Code, where necessary detailing how each provision of the Code has been implemented and, where relevant, where and why the Bank's executive management has adopted procedures that are different from those recommended by the Code.

2) The Functions of the Board of Directors

a) General principles

- i) The Board of Directors has overall responsibility for the operations and the financial soundness of the Bank and ensures that the interests of shareholders, depositors, creditors, employees, and other stakeholders, including the Central Bank of Jordan, are met. The Board ensures that the Bank is managed prudently and within the framework of laws and regulations and the Bank's own policies.
- ii) The Bank affirms that the obligations of each Director are owed to the Bank as a whole, and not to any particular shareholder.

- iii) The Board sets the Bank's strategic goals, as well as overseeing the executive management of the Bank. The day-to-day operation of the Bank is the responsibility of executive management, but the Board as a whole ensures and certifies that internal control systems are effective and that the Bank's activities comply with strategy, policies and procedures approved by the Board or as required by law or regulation. As a critical part of these internal controls, the Board ensures that all dimensions of the Bank's risk are managed properly.

b) The Chairman and the General Manager

- i) The position of Chairman of the Board is separated from that of General Manager. In addition, there is no family relationship up to the third degree between the Chairman and the General Manager. The division of responsibilities between the Chairman and the General Manager has been set down in writing, is subject to review and revision from time to time as necessary, and is approved by the Board.
- ii) If the Chairman is an executive, then the Bank will consider appointing an independent member of the Board as a Deputy Chairman to act as an independent resource and conduit for shareholders. The Bank acknowledges that it is international best practice to have a non-executive Chairman, and will keep this matter under review.
- iii) The status of the Chairman (whether executive or non-executive) is publicly disclosed.

c) The role of the Chairman of the Board

- i) The Chairman promotes a constructive relationship between the Board and the Bank's executive management, and between the executive Directors and the non-executive Directors.

- ii) The Chairman promotes a culture in the boardroom that encourages constructive criticism and alternative views on certain issues under consideration, and encourages discussion and voting on these issues.
- iii) The Chairman ensures that both Directors and the Bank's shareholders receive adequate and timely information.
- iv) The Chairman ensures high standards of corporate governance by the Bank.

d) Composition of the Board

- i) The Bank intends that the composition of the Board is determined in order to obtain the optimal mix of skills and experience. Accordingly, there should be a mix of executive Directors (i.e. Directors who also occupy an operational management position in the Bank) and non-executive Directors (i.e. Directors who do not have an operational management position in the Bank). To establish a substantial weight of non-executive opinion on the Board, the majority of Directors shall be non-executive. Some of these non-executive Directors may also be described as independent Directors.
- ii) To foster an independent element within the Board, the Bank's policy is that the Board should have at least three independent, non-executive, Directors.
- iii) An 'independent' Director (whether natural person or representing legal entity) is one whose directorship constitutes his only connection to the Bank, and whose judgement is therefore unlikely to be influenced by external considerations. Minimum standards for an 'independent' Director include:
 - (1) one who has not been employed by the Bank for the preceding three years;
 - (2) is not a relative (up to the second degree) of an administrator of the bank;

- (3) is not receiving payment or compensation from the Bank (other than as a Director);
- (4) is not a director or owner of a company with which the Bank does business (other than business relationships made in the ordinary course of business of the Bank and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated parties);
- (5) is not, nor in the past three years has been, affiliated with or employed by a present or former auditor of the Bank; and
- (6) is neither a shareholder with effective interest in the capital of the Bank nor affiliated with one.

e) Board practices

- i) The Bank's Board meetings take place at least six times a year. In order to ensure that a full range of topics is considered, it is the practice of the Bank's executive management to schedule a specific topic to be highlighted at each meeting.
- ii) The Bank's policy is that the Board should include independent element in order that it can exercise objective judgment. In addition, the independent element enables the Board to maintain a level of checks and balances to balance the influence of all parties, including executive management and significant shareholders, and ensures that decisions are taken in the Bank's best interest.
- iii) The Bank provides adequate information to Directors sufficiently in advance of meetings to enable them to reach informed decisions.
- iv) A permanent written record of Board discussions and Directors' votes is kept by the Board Secretary.
- v) The responsibilities of the Board shall be clearly identified in accordance with relevant legislation. Each Director of the Bank is provided with a formal appointment letter upon his election, in which he is advised about his rights, responsibilities and duties.

- vi) The categories of transactions that require Board approval (including loans larger than a set amount and transactions with related parties) have been clearly defined in writing.
- vii) It is a key responsibility of Directors to ensure they be kept informed of developments within the Bank, and in the banking industry as a whole, both local and international. Accordingly, the Bank provides Directors with appropriate briefings regarding the Bank throughout their tenure, and upon the Director's request.
- viii) Individual Directors have independent access to executive management, and in particular the Committees of the Board have access to executive management.
- ix) The Board and its Committees have access, as required, to external resources, to enable them to adequately fulfil their mandate.
- x) The Bank has drawn up an organisation chart, showing lines of reporting and authority, and including board and executive management committees. The portion of the chart showing the more senior levels is made public.
- xi) The Bank believes that the role of Board Secretary (or Company Secretary) is an important one. In addition to the arrangement of Board meetings and the taking of meeting minutes, the responsibilities include ensuring that Board procedures are followed, and that information is conveyed between the members of the Board, the members of the Board Committees, and the executive management. The function and duties of the Board Secretary are formally defined in writing and, in accordance with this level of responsibility, any decision on the Board Secretary's removal, as well as his appointment, is taken by the whole Board.

f) Board activities: appointments and succession

- i) The Board's policy is to appoint a General Manager with integrity, technical competence, and experience in banking.
- ii) The Board is required to approve the appointment of some senior executives such as the Chief Financial Officer and the head of internal audit, and to ensure that they have the requisite skills.
- iii) The Board has approved executive management succession plans for senior executives of the Bank, which set out the required qualifications and requirements of the positions.

g) Board activities: self-assessment and the General Manager performance appraisal

- i) The Board, through the Nominations and Remuneration Committee, at least annually assesses its own performance as a Board.
- ii) There is a formal annual evaluation of the General Manager by the Board.

h) Board activities: planning, controls, code of conduct, conflict of interest policy

- i) The Board has established the Bank's business objectives, and has directed the executive management to draw up a business strategy for achieving them. Through a planning process, involving input from the Bank's various departments, executive management also draws up business plans that are consistent with these strategies. The Board is required to approve the strategy, and the business plans, and the Board ensures that performance against plan is reviewed and that corrective action is taken as needed. The Bank's budgeting process is part of the short-term planning and performance measurement.

- ii) The Board ensures that the Bank maintains a high degree of integrity in its operations. Formal policies, including a Code of Conduct, and definitions and controls on conflicts of interest and insider dealing, have been established and are required to be assented to by all employees and Directors, and these have been published. These policies include:
 - (1) Rules and procedures for related party transactions between the Bank and its employees or Directors or their companies, or other related parties, including lending and share trading transactions. Furthermore bank loans extended to Directors and their companies are made at market rates and not on preferential terms and the Directors involved in any such transaction do not participate in discussions, nor vote, on it. Related party transactions are subject to individual approval by those Directors of the Bank who are unrelated to the transaction, and they are disclosed in the Annual Report. The Bank's internal controls ensure that all related party transactions are handled in accordance with this policy.
 - (2) Clear controls preventing Directors or employees benefiting from the use of insider information have been put in place.
- iii) The Bank has written policies covering all significant bank activities. Such policies are regularly reviewed to ensure that they conform to any changes in laws and regulations, the economic environment and other circumstances affecting the Bank.
- iv) The Bank as part of its lending and credit approval process assesses the quality of corporate governance in its corporate borrowers, especially public shareholding companies, and includes the strength or weakness of their corporate governance practice in the borrower's risk assessment, and where appropriate the Bank rewards those borrowers who exhibit good governance practices.

3) Board Committees

a) General principles

- i) The Board is ultimately responsible for the conduct of the Bank's affairs, but for greater efficiency Board Committees have been set up with formally delegated objectives, authorities, responsibilities and tenure, in the form of board committee charters or terms of reference. The Board Committees regularly report to the full Board and do not substitute for the Board and its' responsibilities.
- ii) There is a formal and transparent process for appointments to the Board Committees. The membership of Board Committees, together with summaries of their responsibilities and duties, are disclosed in the Bank's Annual Report.
- iii) The Board may decide to combine the functions of several Committees if appropriate or if administratively more convenient.

b) The Audit Committee

- i) In accordance with the Banking Law the Bank has an Audit Committee comprising three non-executive Directors. Membership of the Audit Committee is disclosed in the Annual Report.
- ii) The Bank's policy is that at least two members of the Audit Committee should have relevant financial management qualifications and/ or expertise and at least two members of the Audit Committee are independent Directors.
- iii) The Audit Committee has all the duties and responsibilities required by the Banking Law and other relevant laws and regulations, including the duties to review:
 - (1) the scope, results and adequacy of the Bank's internal and external audits,

- (2) the accounting judgements that are intrinsic to the financial statements; and
 - (3) the Bank's internal controls.
- iv) The Audit Committee recommends to the Board the appointment or the removal, the remuneration, and other contractual terms of the external auditors, in addition to assessing the objectivity of the external auditors, including the consideration of any other non-audit work performed by the external auditors.
 - v) The Audit Committee has, by a specific provision in the written charter of its functions and responsibilities, the ability to obtain any information from executive management, and the ability to call any executive or Director to attend its meetings.
 - vi) The Audit Committee meets each of the Bank's external auditors, its internal auditors and its compliance officers, without executive management being present, at least once a year.
 - vii) The Bank recognises that 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 systems.

c) The Nominations and Remuneration Committee

- i) The Nominations and Remuneration Committee comprises a minimum of three non-executive Directors, the majority of which (including the Committee chairman) are independent.
- ii) The Nominations and Remuneration Committee nominates all Board appointments, duly considering candidates' abilities and qualifications and, for re-nominations, their attendance and the quality and extent of their participation in Board meetings. In accordance with the Companies Law, the tenure of the Board of Directors expires every four years from the date of election, and each Director may re-submit itself for election at the Annual General Assembly.

- iii) The Nominations and Remuneration Committee makes the determination of whether a Director is ‘independent’ considering the minimum standards for independence set out in this Code.
- iv) The Nominations and Remuneration Committee has implemented a formal method of assessing the effectiveness of the Board. Performance criteria are objective and include comparison with other similar banks and financial institutions, as well as safety and soundness criteria and regulatory compliance.
- v) The Nominations and Remuneration Committee is responsible for providing background briefing material for Directors as requested, as well as ensuring that they are kept up to date on relevant banking topics. The Bank encourages Directors to attend seminars and events that allow them meet local and international organizations, entities and companies.
- vi) The Nominations and Remuneration Committee recommends to the Board the remuneration (including monthly salary and other benefits) of each Director and the General Manager. The Nominations and Remuneration Committee also reviews the remuneration (including salaries) of other executive management.
- vii) The Nominations and Remuneration Committee ensures that the bank has a remuneration policy, which is sufficient to attract and retain qualified individuals, and is in line with the Bank’s peers in the market.
- viii) A summary of the Bank’s remuneration policy is disclosed in the Annual Report. In particular, the remuneration of individual Directors and the highest-paid non-Director executives is disclosed, including salary and benefits in kind.

d) The Risk Management Committee

- i) The review of risk management is handled by a Risk Management Committee. This Committee is comprised of Directors and may also include executive management.
- ii) The Board on a regular basis reviews and approves the risk management strategies and policies of the Bank. Executive management is responsible for implementing the strategies that have been approved by the Board, and for developing the policies and procedures for managing the various types of risk.
- iii) The structure and development of a coherent and comprehensive risk management department within the Bank has been proposed by executive management, reviewed by the Risk Management Committee, and approved by the Board.
- iv) The Bank considers that the rapid development and increasing complexity of risk management requires that the Risk Management Committee keep fully informed of the developments in the Bank's risk management functions. Accordingly, the Committee makes regular reports to the full Board.

4) Control Environment

a) Internal controls

- i) The Bank's structure of internal controls is reviewed at least once a year by internal and external auditors.
- ii) The Board provides a statement in each Annual Report on the adequacy of the Bank's internal controls over its financial reporting. This statement contains:
 - (1) a statement of executive management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Bank;
 - (2) a statement identifying the framework used by executive management to evaluate the effectiveness of internal control;

- (3) executive management's assessment of the effectiveness of internal control as of the date of the financial statements included in the Annual Report;
 - (4) disclosure of any material weaknesses in the internal controls (a material weakness is a significant deficiency or combination of significant deficiencies that result in the possibility that a material misstatement will not be prevented or detected); and
 - (5) a statement that the Bank's external auditor has issued an attestation report on executive management's assessment of the effectiveness of internal controls.
- iii) The Bank has set up arrangements whereby staff can confidentially raise concerns about possible irregularities, and that allow for such concerns to be independently investigated and followed up. Such arrangements are overseen and monitored by the Audit Committee.

b) Internal audit

- i) The Bank's policy is that the Internal Audit function of the Bank should be adequately resourced, trained, remunerated, and be provided full access to Bank records and staff members, and given sufficient standing and authority within the Bank to adequately carry out its task. The functions, powers and responsibilities of Internal Audit are documented within the Internal Audit Charter which is approved by the Board and published within the Bank.
- ii) The Internal Audit function reports primarily to the Chairman of the Audit Committee.
- iii) To promote independence, internal audit staff do not also have operational responsibilities. Internal audit is responsible for proposing the structure and scope of the audit schedule, and any potential conflicts of interest are to be reported to the Audit Committee.

- iv) The Internal Audit reports may be discussed with the departments and operational units being reviewed, but the Internal Audit function is allowed to operate and make a full and honest report without outside influence or interference.
- v) The primary responsibility of the Internal Audit function, conducting risk focussed audits, is at least the review of:
 - (1) the Bank's financial reporting (ensuring that significant financial, managerial, and operating information are accurate, reliable , and timely).
 - (2) compliance with internal policies, international standards, procedures, and applicable laws and regulations;

c) External audit

- i) The Bank requires the regular rotation of the external audit between auditing firms. Should this no longer be practical, then the Bank will at a minimum require the regular rotation of the principal partner in charge of the external audit.
- ii) The external auditors' report is submitted to the Audit Committee as well as the Annual General Assembly. The external auditors meet the Audit Committee, without executive management present, at least once per year.

d) Risk Management

- i) The risk management department within the Bank reports to the Risk Management Committee of the Board, and on a day-to-day operational basis it reports to the General Manager.
- ii) The responsibilities of the Bank's risk management department include:
 - (1) the analysis of all risks including credit risk, market risk, liquidity risk and operational risk;

- (2) the development of methodologies for the measurement and control of each risk;
 - (3) recommending limits to Risk management committee, and the approval, reporting and recording of exceptions to policy;
 - (4) the provision of information on risk metrics and on the Bank's risk profile to Senior management and to the Board (the Board reviews the risk statistics of the Bank, both qualitative and quantitative, at each regular Board meeting); and
 - (5) the provision of risk information for use in the Bank's public statements and reporting.
- iii) The functions of the risk management department are assisted by a network of properly constituted, authorised, and documented committees such as credit committees, assets and liabilities/ treasury committees, and operational risk committees.
 - iv) The structure, operation, and ongoing development of the Bank's risk management department and functions are discussed and explained in the Bank's public documents, primarily in the Annual Report.

e) Compliance

- i) The Bank's policy is that it has an independent compliance function which is adequately resourced, trained and remunerated, in accordance with the Central Bank's instructions in this regard.
- ii) The compliance function establishes effective mechanisms to ensure that the Bank complies with all applicable laws and regulations, and any non-statutory guidelines and codes. The functions, powers and responsibilities of the compliance function are documented and published within the Bank.

- iii) The compliance function is responsible for developing the compliance policy of the Bank and ensuring its implementation throughout the Bank. The Board is responsible for approving the compliance policy and overseeing its implementation.
- iv) The compliance function reports on operational compliance within the Bank to the Chairman or a committee of the Board, copying the General Manager on each report, in accordance with the Central Bank's instructions in this regard.

5) Treatment of Shareholders

- i) The Bank takes active steps to encourage shareholders, in particular minority shareholders, to participate in the Annual General Assembly, and also to vote either in person or in their absence by proxy.
- ii) The Bank's policy is that the chairmen of all Board Committees should be present at the Annual General Assembly, and are invited to address relevant questions from shareholders.
- iii) Representatives from the external auditors are present at the Annual General Assembly to answer questions about the audit and their auditors' report.
- iv) The Bank policy is that there will be voting on each separate issue that is raised at the Annual General Assembly.
- v) As required by the Companies Law, Directors submit themselves for election or re-election at the Annual General Assembly on a regular basis, and the appointment of the Bank's external auditors is elected at the Annual General Assembly.
- vi) Notes, minutes, and a report of the proceedings of the Annual General Assembly, including the results of voting, and the questions from shareholders and executive management's responses, are prepared and made available to shareholders after the Annual General Assembly.

6) Transparency and Disclosure

- i) The Bank is required to disclose in accordance with the International Financial Reporting Standards (IFRS), the Banking Law and instructions issued pursuant thereto, and other relevant legislation. Furthermore, the Bank acknowledges that financial reporting practices and the level of transparency required of financial institutions is changing rapidly. The Bank's executive management reports on these developments to the Board, and makes recommendations for the regular enhancement of the Bank's own disclosure practices, beyond those required by the Central Bank of Jordan.
- ii) The Bank recognises its obligation to provide meaningful information on its activities to shareholders, depositors, financial market counterparts, regulators and the public in general. The Bank also has a duty to address shareholder concerns. The Bank discloses such information on a timely basis, and makes it available to all.
- iii) The Board accepts responsibility for the Bank's financial statements and the contents of the Annual Report, for their accuracy, and for their completeness.
- iv) The Bank commits to maintaining the following information channels with its shareholders, depositors, financial market counterparts, regulators and the public in general:
 - (1) a professionally-staffed investor relations function that provides comprehensive, objective, and up-to-date information on the Bank, its financial condition and performance, and its activities;

- (2) the Annual Report, produced after the end of the financial year;
 - (3) quarterly reports, providing quarterly financial information and the Board's report on the Bank's stocks trading and financial condition during the year;
 - (4) regular meetings between senior executives of the Bank and investors and shareholders;
 - (5) regular briefings by senior executives of the Bank, especially the General Manager and the Chief Financial Officer, for shareholders, financial market analysts, and financial journalists; and
 - (6) information provided through the Bank's Annual Report, or its quarterly reports, and the text of any public presentations given by executives, is made available to interested parties both in writing through the Bank's investor relations function, and in a timely manner on the Bank's website, in both Arabic and English.
- v) In its Annual Reports and quarterly reports, the Bank's executive management includes 'Management Discussion and Analysis' (MD&A) disclosure that allows investors to understand current and future operating results and the financial condition of the Bank, including the possible impacts of known trends and events and uncertainties. The Bank commits to ensuring that such commentary is reliable, complete, fair and balanced, and understandable, and is grounded in the Bank's financial statements as reported.

- vi) As part of its commitment to transparency and full disclosure, the Bank in its Annual Report includes the following information:
- (1) its Corporate Governance Code, and annual details of its compliance;
 - (2) information on each individual Director: qualifications and experience; shareholding in the Bank; whether an independent, non-executive, or executive Director; the membership of Board Committees; dates of appointment to the Board; other directorships; attendance at Board and Board Committee meetings; remuneration; loans from the Bank and other transactions between the Bank and the Director or his companies or other related parties.
 - (3) summary organisation chart;
 - (4) summaries of the terms of reference of Board Committees, and any authorities delegated by the Board to Board Committees;
 - (5) the frequency of Board and Board Committee meetings;
 - (6) summary of the remuneration policy; remuneration of highest-paid executive management;
 - (7) statement by the Board of the adequacy of internal controls;
 - (8) a description of the structure and activities of the risk management department; and
 - (9) the significant shareholders of the Bank (for example, individual or related parties holding or controlling more than 10%), with identification of the ultimate beneficial owners of such interests if this is needed for explanation.