



Central Bank of Iraq

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Corporate Governance Guide for Banks



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Preamble

In order to pace up with the international developments and enhance the corporate governance system so as to apply the best practices in the banking sector, the Central Bank of Iraq (CBI) has been keen on establishing and applying the principles of Corporate Governance by introducing the structure, legislative and control developments so as to mitigate the risk exposures in the banking sector. The investors tend to deal with the banks with due governance structures, as governance aims to determine the nature of the relationship between the Bank Board and the Executive Management in a way that shall eventually lead to protecting the funds of Clients, Shareholders and Stockholders, in addition to focusing on achieving other aims like disclosure and transparency. Therefore, this guide has been prepared according to the best internationally recognized practices, the related Iraqi laws, the international standards issued by the international organizations and authorities like the International Finance Corporation (IFC), the Organization of Economic Cooperation and Development (OECD), the Basel Committee on Banking Supervision (BCBS), the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), and the Islamic Financial Services Board (IFSB) so as to help the banks to enhance the general framework of governance and wise management, in addition to helping the Board Members and the Executive Management to supervise and follow up the banks operations and activities in order to preserve the rights of the Clients, Shareholders and Stockholders.

- **The guide hereof has been reviewed and updated on 07/11/2018.**

This guide is comprised of six (6) sections; the first is the Guide General Framework, the Second is the Board Composition, the Third is the Shariah Board, the Fourth is the Committees, the Fifth is the Bank Executive Management and the Sixth is the Main Structures to achieve Control, Transparency and Disclosure.

We would like to seize this opportunity in order to thank the International Finance Corporation (IFC) for its cooperation with the concerned committee on the review of the guide hereof, let alone the continued support of the Central Bank of Iraq (CBI) in the field of banks governance.

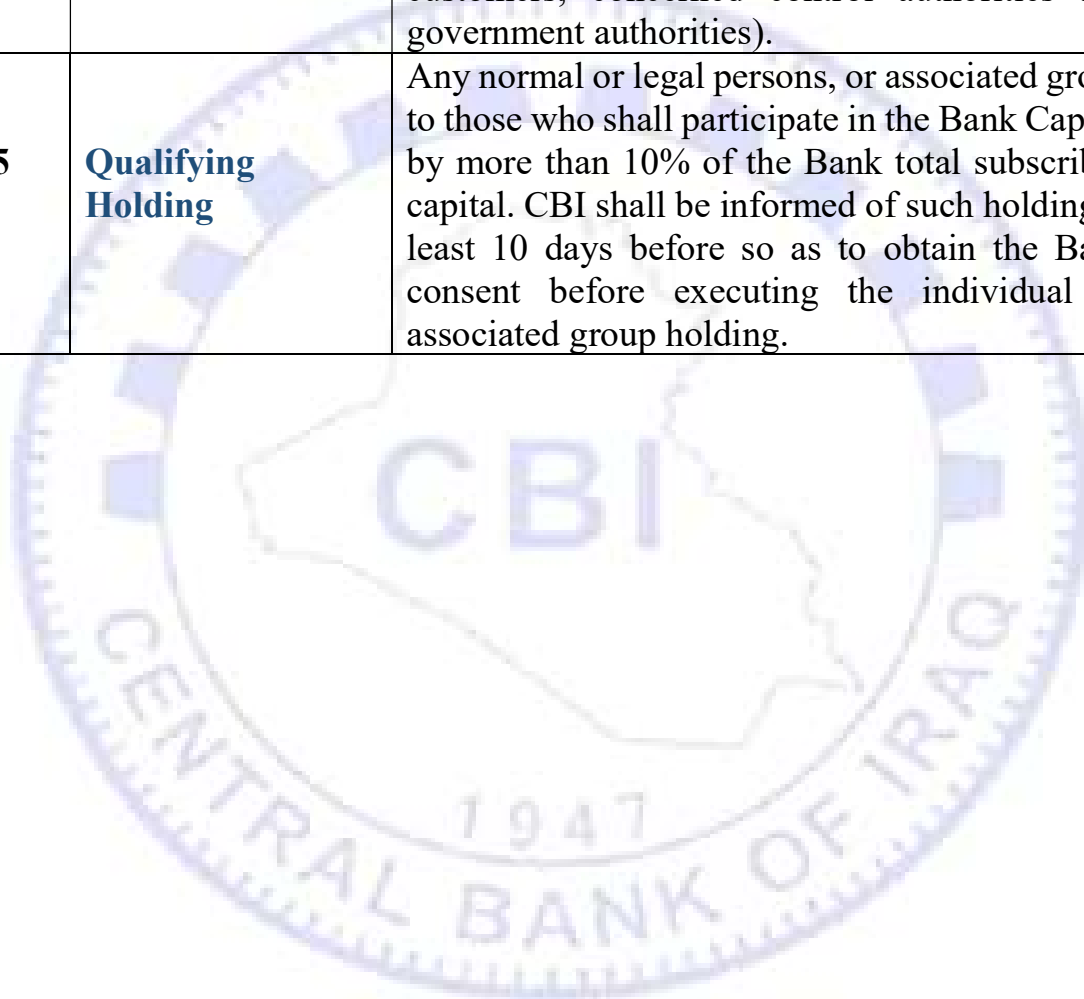
Schedule No. (1) Acronyms and Terms

S N	Acronym	Term
1	CBI	Central Bank of Iraq
2	Bank	The CBI-licensed Banks including the Commercial and Islamic Banks.
3	Board	The Bank's Board of Directors
4	General Assembly / Extraordinary General Assembly	The General Assembly of Shareholders.
5	Shariah Board	The Shariah Board in the Islamic Bank
6	Bank Capital	Paid Capital
7	AML Office	Anti-Money Laundry and Terrorism Funding Office
8	IFC	International Finance Corporation
9	OECD	Organization of Economic Cooperation and Development
10	AAOIFI	Accounting and Auditing Organization of Islamic Financial Institutions
11	IFSB	Islamic Financial Services Board

Schedule No. (2) Definition

S N	Term	Definition
1	Banks Governance	<p>A set of comprehensive systems which prescribe the relationship between the Bank Board, and the Executive Management, Shareholders and other Stockholders. The governance addresses the system by which the Bank is directed, and its activities are controlled by the Board and which affects:</p> <ul style="list-style-type: none"> • The determinations of the Bank Strategy. • The management of the Bank risk profile. • The works and activities of the Bank • The balance between the liability towards Shareholders while protecting the interests of depositors, taking into consideration the interests of other Stockholders. • The Bank compliance to the applicable laws, rules and regulations. • The practices of Disclosure and Transparency.
2	Appropriateness	Meeting the minimum requirements by the Bank Board Members, the Members of the Shariah Board in the Islamic Bank and the Members of the Executive Management.

3	Executive Management	Senior employees as stated in Article 1 of the Banks Law No. 94 of 2004 by virtue of CBI instructions and the Bank organizational structure.
4	Stockholders	Any of the interested parties in the Bank, including without limitation (depositors, shareholders, employees, creditors, clients, customers, concerned control authorities and government authorities).
5	Qualifying Holding	Any normal or legal persons, or associated group to those who shall participate in the Bank Capital by more than 10% of the Bank total subscribed capital. CBI shall be informed of such holding at least 10 days before so as to obtain the Bank consent before executing the individual or associated group holding.



6	Related Person	<p>Shall include the following:</p> <ul style="list-style-type: none"> • The Related Person according to the provisions of Article 1 of the Banks Law No. 94 of 2004. • The Authorized Manager or his deputy, two years after leaving work. • The Independent Auditor (External Auditor) all through the term of his service and two years following the termination of his contract with the Bank. • Any normal or legal person that is related to the Bank with a contractual relation during the contract term.
7	Associated Group	A group of individuals or companies related by kinship or effective economic interests.
8	Independent Member	The Board Member who enjoys total independence from the Management and the Bank. Independence here means the ability to judge matters without prejudice taking into consideration all the related information without being influenced by the Management or any other outer authorities.
9	Executive Member	The Board Member who is a Member in the Bank Executive Management, and who takes part in the Executive Management and receives a monthly salary in consideration thereof.

10	Non-Executive Member	A Board Member who is somewhat related including without limitation (related) by offering the technical opinion and advice and who does not participate in any way in the Bank Management and the daily follow-up of the Bank business and receives no monthly salary in consideration of the same.
11	Cumulative Voting	A method of voting for selecting the Board Members during the General Assembly Meetings, so that the number of votes of any shareholder shall be equal to the number of the shares held by each of them. A Shareholder may vote with all his votes in favor of one nominee for the Board Membership or may distribute the same among the nominees without any repetition of votes. The main objective of such methods is to increase the opportunities of the minority Shareholders to be represented in the Board by Cumulative Voting, in addition to limiting the control of a certain shareholder on the Board seats.

Section One

Guide General Framework

Article (1): Scope of Application

- 1) The guide hereof shall obligatory apply to all the operating banks in Iraq as of the issuance hereof.
- 2) The foreign banks branches shall be excluded from all the provisions related to the Board and Committees.

Article (2): Corporate Governance Guide for Banks

Due to the importance of corporate governance and by virtue of the international standards and practices, banks shall:

- 1) Form a Board Committee, by the name of “Corporate Governance Committee” as shall be stated herein in the Section on Committees.
- 2) The Committee shall prepare the Governance Guide for the Bank that shall be approved by the Board in accordance with the minimum requirements of the Governance Guide issued by this Bank.
- 3) The Bank shall post its Governance Guide on its website and shall ensure that the same is reviewed by all employees and Board Members.
- 4) The Bank may cooperate with the consulting authorities to get consultancies and help in introducing new requirements to the guide hereof according to the best practices in the field of governance.

Section Two

Board of Directors

Article (3): Board Composition

- 1) The Board Members shall be elected in the General Assembly Meeting, for a period of four years, at most, following obtaining the consent of the Bank to the same. A Board Member may be re-elected for one more period at most.
- 2) The Board Members shall be 7 Members at least, to be elected in the General Assembly Meeting according to the Cumulative Voting system, provided that there shall be at least 4 independent Members or one third of the Board Members, and at least 1 Member representing the minority Shareholders, such Member may be an independent Member.
- 3) The Board shall elect a Chairman and Deputy Chairman from its Members.
- 4) The Deputy Chairman shall be liable for the Chairman's duties in the Chairman's absence or inability to preside a Board Meeting.
- 5) It is generally preferred to have at least one woman as a Board Member.

Article (4): Board Member Qualifications and Independence

4-1 Board Members Selection:

4-1-1 A Board Member shall meet the legal requirements stipulated in the Banks Law No. (94) of 2004 and the Companies Act No. (21) of 1997 as amended.

4-1-2 Two thirds of the Board Members shall have higher education and university degrees and shall have experience in the banking sector.

4-1-3 A Board Member may not be a board Member, an authorized manager, regional manager or an employee in any other bank inside Iraq, unless the said bank is affiliated to the Bank.

4-1-4 Nonresidents and Non-Iraqis may be appointed as Board Members.

4-2 Terms and Conditions for the Independence of Board Members:

4-2-1 A Board Member may not be a partner or employee at the Bank's Independent Auditor over the last three years before being elected as a Board Member and may not be related by blood to the partner in charge of auditing.

4-2-2 A Board Member may not be a lawyer or a legal consultant of the Bank or an auditor for the Bank.

4-2-3 Neither a Board Member, nor any of the companies in which he is a board Member, owner or main shareholder, may be allowed to have credit facilities from the Bank of more than 5% of the Bank Capital, and may not be a guarantor for a credit facility obtained from the Bank in the aforementioned percentage.

4-2-4 A Board Member may not be a Member in the boards of more than five stock joint or public companies whether in his personal capacity or in his capacity as a representative of a legal entity.

4-2-5 A Board Member may not be an administrative officer, employee or authorized manager in any other bank.

4-2-6 A Board Member may not be a Bank employee or any of the Related Persons to him over the preceding three years.

4-2-7 A Board Member may not be a relative to any of the Board Members or the Senior Management or any of the Related Persons to them until the fourth degree.

4-2-8 Neither a Board Member nor a his/her representative may be a main Shareholder in the Bank.

4-2-9 A Board Member may not directly or indirectly own (including the proprietorship of the family Members of Shareholders or the Related Persons) more than 5% of any company of any types.

Article (5): Board Meetings

- 1) There shall be six Board Meetings a year at least, when necessary.
- 2) The Board Meetings shall be held in the headquarters of the Bank, and if it is impossible to hold them in the headquarters, then, they may be transferred to any other place inside Iraq, provided that all the Board Members shall attend and the Members who fail to attend shall be required to apologize in writing.
- 3) The Board Members shall attend the meetings in person, and in the event that any of the Board Members fail to appear in person, they can attend through the video or on the phone, after obtaining the Chairman's consent to the same. This method may be used in the event that the Board Member fails to attend twice at most in any one year.
- 4) In the event that the times of absence reaches 3 times or more in any year, the Board Chairman shall notify the Bank General Assembly to take whatever measures deemed necessary.
- 5) The quorum of the Board Meeting shall be completed in the presence of 50% of the Board Members or 4 Members whichever is more.
- 6) The Board resolutions shall be approved by the majority of the attending votes, and in case of a tie, then, the Chairman shall provide the casting vote.

- 7) The Board resolutions shall be issued with the signature of all the Members in person (or on video call or phone) in addition to the signature of the Board Secretary on the meeting minutes. Such minutes shall bear the Bank seal within at most 10 business days, and the Board shall be liable for its resolutions and for the consequences thereof.
- 8) The Board Secretary shall accurately and fully write down the minutes of the meetings of the Board and its committees and shall write down any reservations raised by any Member. The Bank shall maintain all such minutes, shall audio and video record such minutes and shall keep the same.
- 9) The Executive Management shall submit detailed information to the Board Members regarding what shall be discussed in the meeting at least 5 business days before the date of the Board Meeting, and the Chairman of the Board shall check the same before the meeting.

Article (6): Board Duties and Responsibilities

The Board Shall:

- 1) Approve the Bank plans including the vision, mission, strategic aims and objectives and the Bank Core Values in light of the General Assembly directives, then, shall issue its instructions to the Executive Management to execute the plans, control, assess and amend its performance, if necessary, to ensure the execution of such plans.
- 2) Supervise the Executive Management and follow up on its performance, while ensuring the safety of the Bank financial status and its coverage, while approving the proper policies and procedures for the regular supervision and control of the Bank performance.
- 3) Approve a policy for controlling and auditing the performance of the Executive Management by laying down the Key Performance Indicators (KPIs) and Key Performance Results (KPRs) to specify, measure and monitor the performance and progress for the sake of achieving corporate objectives of the Bank.

- 4) Ensure the presence of work policies, plans and procedures inside the Bank, including all its activities that comply to the related legislations, which were circulated at all the administrative levels, and have been regularly reviewed.
- 5) Specify the Bank “Core Values” and draw clear lines for responsibility and accountability for all the Bank activities, while deeply rooting the culture of high moral values, integrity and professional behavior for the Bank’s administrative employees.
- 6) Hold responsibility for the safety of all the Bank procedures, including the Bank financial status, reputation, and responsibility of implementing the requirements of CBI in addition to the requirements of the control and organizational authorities in relation to its work, while taking into consideration the “Stockholders”, and that the Bank shall be managed according to the legislations and within the Bank internal policies, and that the effective control is continuously available on all the Bank activities.
- 7) Follow up the execution of the General Assembly resolutions.
- 8) Submit the Bank closing accounts and financial statements, as well as a comprehensive report of the results of implementing the annual plan to the General Assembly to discuss and approve.
- 9) Ensure the compliance to the international standards in all the Bank activities and operations.
- 10) Discuss and approve the annual plans and the balance sheets in relation to the Bank activities, while following up the execution of the same.
- 11) Form the Board Committees and select its Members from the Board Members or others.
- 12) Approve the selection of nominees to occupy the positions of the Executive Management and assess and follow up their performance on a regular basis while supervising and investigating them, so as to obtain a clear explanation of the issue, subject to investigation.

- 13) Appoint and dismiss the Internal Auditor services, specify its remuneration and bonus and assess its performance.
- 14) Approve the internal control systems for the Bank and review them annually. To ensure that the Internal Auditor (and the internal Shariah auditor in the Islamic Banks) shall, in cooperation with the External Auditor (independent auditor), review such systems at least once per annum, and the Board shall include in the Bank annual report evidence to prove the sufficiency of such systems.
- 15) Ensure the initial and continued independence of the External Auditor (independent auditor).
- 16) Approve an efficient risk management strategy, monitor the execution thereof, including the accepted risk appetite, while ensuring that the Bank is not exposed to high risks, that the Board is well aware of the Bank operational work environment and related risks, and shall ensure the presence of enough necessary tools and infrastructure to manage the Bank risks, that are capable of specifying, measuring, controlling and monitoring all types of risks to which the Bank is exposed.
- 17) Ensure that the Bank implements the core principles of “Wise Leadership” as stipulated in the “Rules of Wise Leadership” and the internal control system stated in the Guidelines No. 4 of 2010.
- 18) Ensure the presence of sufficient and reliable Management Information Systems (MIS) covering all the Bank activities.
- 19) Spread the culture of governance in the Bank, and urge all employees and the Executive Management to implement its practices and attend training courses in this respect, while ensuring that the Bank encourages its clients to implement the governance rules in their institutions, and that the Bank credit policy includes the implementation of the corporate governance to its retail and corporate clients, so that the risks shall be assessed in light of the SWOT Analysis, according to their practices in the field of corporate governance.

- 20) Ensure that the Bank abides by the Sustainability principles as stated in Annex (1) hereof.
- 21) Take the necessary measures to clearly separate the authorities of Shareholders, who have a “Qualifying Holding” on one hand and the “Executive Management” on the other, so as to enhance the due corporate governance and find the suitable mechanisms to mitigate the effect of Shareholders with “Qualifying Holding”.
- 22) Approve the Bank organizational structure that specifies the clear administrative hierarchy of the Bank.
- 23) Specify the executive powers and authorities of the Bank’s activities (whether the authorized manager or the Executive Managements, for all the banking transactions, giving credits, and signing transfers, checks, guarantees, bonds, loans, mortgage and letters of credit).
- 24) Approve a succession plan for the Bank Executive Management and review the same on an annual basis.
- 25) Ensure that the Executive Management is informed of the official website of the AML office with regards to freezing the terrorism funds on a daily basis, and immediately inform the AML office and the CBI Banking Monitoring Directorate in the event of the presence of a person whose name has been entered on the list of freezing of terrorist funds.
- 26) Assess the Board performance as a whole at least once per annum, while showing the results of assessment to the General Assembly through a system for assessing the Board works which shall, at least, include:
 - 26-1 Laying down specific objectives and specifying the Board role in supervising the achievement of such objectives in a way that may be measured on a regular basis.

- 26-2** Specifying the KPIs and KPRs of the Authorized Manager and the Executive Management which can be deduced from the Bank strategic objectives and annual action plans, and thus, can be used to regularly measure the performance of the Executive Management.
- 26-3** Acting as a communication link between the Board and Shareholders, which communication needs to be made on a regular basis.
- 26-4** Holding regular Board Meetings with the Executive Management.
- 26-5** The Member's role and tasks in the Board Meetings and how committed is he/she to attending the Board Meetings and comparing the Member's performance to that of other Members and also obtaining feedback from the concerned Member for the sake of enhancing the process of assessment.
- 27)** Provide CBI with the information related to the Board Members, the General Assemblies and the executive departments of the affiliated companies inside and outside Iraq, on a semi-annual basis and in case of any amendment to the same.
- 28)** Manage and supervise the quality of disclosure, transparency and information in the Bank as a whole.

Article (7): Chairman of the Board Duties and Responsibilities

The Chairman shall:

- 1)** Build a constructive relationship between the Board, on one hand, and the Banks Executive Management, the Bank, the Shareholders and other Stockholders, on the other.
- 2)** Encourage expressing opinion regarding the issues continuously discussed in general, and those in which different points of views are adopted among the Members, while encouraging discussion, and voting in such issues.

- 3) Ensure that all Members sign the meetings minutes.
- 4) Specify and meet the Board Members' requirements, regarding the development of their continuous experiences and education, while allowing the new Members to attend the Orientation Program in order to get to know the Bank activities.
- 5) Invite CBI to attend the General Assembly Meetings, at least fifteen (15) days before, to enable CBI to name someone to act as CBI representative.
- 6) Ensure that CBI is informed of any substantial information.

Article (8): Selection and Appointment of Authorized Manager

- 1) The Bank Board shall appoint one of its Members to be the Authorized Manager of the Bank.
- 2) The Authorized Manager, to be appointed, shall at least meet the following terms and conditions:
 - 2-1 All the set terms and conditions shall meet the legal requirements stated in the Banks Law No. 94 of 2004 and the Companies Act.
 - 2-2 Full dedication to the management of the day-to-day banking transactions.
 - 2-3 To have at least a bachelor's degree in the financial and banking sciences, business administration, accounting, economy, law or any of the specialties related to the banking business.
 - 2-4 To enjoy integrity and a good reputation.
 - 2-5 To have actual experience in the executive management in banks according to the Bank rules and regulations.
- 3) The Authorized Manager shall be liable for the execution of the Board resolutions within the authorities granted to him.

- 4) The Authorized Manager may not be the Chairman of the Board or the General Manager at the same time.

Article (9): Board Secretary Duties and Responsibilities

The Board shall specify the duties of the Board Secretary so that the Board Secretary shall:

- 1) Attend all the Board Meetings, writing down all the discussions, suggestions, objections, reservations and method of voting over the Board draft resolutions, while approving the audio and video in any other method deemed fit to ensure writing down all remarks mentioned during the Board Meeting, in addition to registering, keeping and authenticating the minutes of the Board Meetings after signing the same by the Board Members in addition to the audio-video recording.
- 2) Propose the issues, after preparing a summary of each one of them, showing the opinion of the Executive Management and its different Committees, linking the documents and the initials to its subject, and submitting the same to the Chairman to approve proposing the same.
- 3) Provide each Member with enough summary of the Bank works upon elections, appointment or upon request.
- 4) Discuss with any new Member, with the help of the Legal Consultant or the Head of the Legal Affairs Department, the duties and responsibilities of the Board specially whatever is related to the legal and organizational requirements to explain the duties, responsibilities and other issues related to Membership, including the term of Membership and dates of meetings, in addition to providing the new Member with the provisions of the laws related to the business of the banks, rules and regulations regarding the Board activities issued by the Bank and the contents of the guide hereof.
- 5) Organize the Board dates and meetings with the consent of the Chairman of the Board.

- 6) Ensure that the Board Members sign the meetings minutes and follow-up on the execution of the resolutions issued by the Board and any other postponed topics raised in a previous meeting.
- 7) Receive the reports of the Board-related Committees and submit the same to the Board.
- 8) Give the resolutions serial numbers as of the start of any year until the end thereof (Board Resolution Number, Session Number, Date).
- 9) Ensure compliance to all the legal requirements regarding the Board affairs.
- 10) Provide CBI with the signed meetings minutes.
- 11) As for the Shareholders and the General Assembly Meetings: contact the Shareholders and help organize the General Assembly Meetings.
- 12) Keep the data of the Shareholders.
- 13) Prepare for the General Assembly Meetings and cooperate with the Board Committees.
- 14) Send invitations to the Shareholders, CBI and the Companies' Registrar.
- 15) Ensure the presence of the Board Members, the Members of the Executive Management and the External Auditor.
- 16) Maintain the records of the General Assembly Meetings.

Section Three: Shariah Board

Article (10): Shariah Control Board in Islamic Banks

- 1) All branches of the foreign Islamic banks shall appoint a local Shariah Board, made up of at least three persons, who shall meet the terms and conditions stipulated herein.
- 2) The Shariah Board may not be dissolved and none of its Members may be dismissed except with a Board resolution giving reasons, with a majority of at least two thirds of the Members and after a notice is sent with the justifications, specifying the term of correction and after listening to the points of view of the Shariah Board or some of its Members who are to be dismissed with the consent of the Bank General Assembly and CBI.
- 3) The Shariah Board Meetings:
 - 3-1 The Shariah Board shall at least hold 6 meetings in a one year to follow up on the compliance of the Bank operations to Shariah.
 - 3-2 The Shariah Board shall convene with the Board, the Shariah Auditing Department and the External Auditing each semester to discuss the matters of common interest.
 - 3-3 The Members of the Shariah Board shall attend their meetings in person, and in case of failure to attend, the Shariah Board Member may attend through a video call or on the phone with the Chairman's consent, and this method may be used in case of the Member's failure to attend maximum twice in any one year.
 - 3-4 If the absence is 3 times or more in any one year the Chairman of the Shariah Board shall notify the Bank General Assembly of the same to take whatever decisions deemed necessary.

4) The Shariah Board Duties and Responsibilities:

The Shariah Board shall:

4-1 Monitor the Bank works and activities to check their compliance or noncompliance to the provisions of the Islamic Shariah and follow-up on and review the operations to ensure they are free of any violation that is forbidden by Shariah.

4-2 Express opinions and approve all contracts, transactions, agreements, products, services, investment policies and the policies which organize the relations between the Shareholders and the Investment Account Holders, including dividends, adding losses following the approval of the same, avoiding returns on the investment accounts, and the disposition mechanism in the non-Shariah compliant income.

4-3 Review the policies and instructions related to the provisions of the Islamic Shariah and approve the same, to ensure the sufficiency and efficiency of the Bank internal Shariah supervision system.

4-4 Provide guidance to the Bank employees and spread the awareness of the principles of the Islamic Shariah, its teachings and the Islamic finance tools.

4-5 Offer Shariah training courses to the Bank employees in coordination with the Human Resources Department.

4-6 Attend the meetings of the Shareholders' General Assembly and submit the report of the Shariah Board to its Chairman or whoever is authorized by him of the Board Members for the sake of approving the same.

4-7 Form and express opinions regarding the Bank compliance to the principles and provisions of the Islamic Shariah, as the Shariah Board shall:

4-7-1 Review and approve the annual report of the Shariah Internal Auditor, which shall be filed to the Auditing Committee by the Shariah Internal Auditing Department.

4-7-2 Issue a semi-annual and annual report on the Shariah compliance, so as to include the validity of the internal Shariah controls, any weakness points in the substantial internal Shariah regulations and controls, provided that such report shall be submitted to the Board on a semi-annual basis, to the Shareholder General Assembly on an annual basis, and a copy of each shall be submitted to the Bank.

4-8 Express opinion in the Bank Articles of Association (AoA) and Memorandum of Association (MoA) and ensure the compliance of the same with the provisions and principles of the Islamic Shariah.

4-9 Submit to the Board the actions for the appointment and dismissal of the Chairman of the Shariah Internal Auditing Department, provided that the final decision on the same shall be taken after obtaining CBI consent.

4-10 Express opinion in the compliance of the paid-up amounts to increase the capital to the Shariah, considering such opinion as a pre-condition for the authenticity of the same.

4-11 The Chairman of the Shariah Board shall ensure that the Bank is informed of any substantial information that might adversely affect the appropriateness of any of the Board Members.

4-12 Write the guide that includes a method for applying for Fatwa by the Bank administrative entities to the Shariah Board, facilitate their meetings and find a mechanism to ensure the actual compliance to any of the Board resolutions, and checking the documentary registers written in hand and maintained in a paper and e-form.

5) The Shariah Board shall have a Secretariat to carry out the following tasks:

5-1 Specify the dates of the Shariah Board Meetings in coordination with the Chairman of the Shariah Board and inform its Members of the same.

5-2 Ensure that the Executive Management shall, long enough before the Shariah Board Meeting, provide the detailed information about the Bank activities and the issues related to the meeting.

5-3 Attend and write down all the Shariah Board meetings, discussions, suggestions and any reservations raised by any Member. All such minutes shall be properly maintained and authenticated.

5-4 Write down the name of the Member who shall fail to attend the meeting, while stating whether this non-attendance is with an excuse or not, and the same shall be stated at the session minutes.

5-5 Follow-up the implementation of the Fatawas and resolutions issued by the Shariah Board and provide the Shariah Internal Auditing Department and the Compliance Department with the same to act upon them, and also to follow the discussion of any postponed topics raised in a previous meeting.

5-6 Submit the meeting minutes of the Shariah Board when requested by the internal Shariah auditor and the Bank supervisors.

5-7 Maintain the reports of the Shariah Internal Auditing Department and follow up on the execution of the Shariah Board recommendations in this respect.

Article (11): Appropriateness of Shariah Board Members in Islamic Banks

- 1) The academic qualification of the Chairman of the Shariah Board may not be less than a master's degree from an acknowledged university in the field of Shariah sciences including the Fiqh of Transactions, with at least 3-year experience in the issuance of Fatawas and Shariah provisions or at least 4 years after graduation in education or scientific research in the Islamic finance field.
- 2) The Shariah Board Members shall at least have a bachelor's degree in the field of specialty.
- 3) CBI may object to the nomination of any person to the Shariah Board Membership, if such person does not meet any of the conditions stated in Clause (2) hereof, or for any other reasons or objections that CBI may deem fit.
- 4) When there is a need to appoint Members of the Shariah Board who live outside Iraq, it is set as a condition that they may not be more than 2 out of 5 Members.
- 5) The Shariah Board Chairman and Members shall be independent, which may be achieved by ensuring that:
 - 5-1 None of the Shariah Board Members may be a Bank Shareholder, a Bank Board Member, or an employee in the companies affiliated to the Bank over the two years preceding the date of appointment.
 - 5-2 None of the Shariah Board Members may be a first or second degree relative to any of the current or previous senior executive officers (during this year or over the past year) in the Bank or any of its affiliated companies.
 - 5-3 None of the Shariah Board Members may be a member in the Shariah Board of any other Islamic bank inside Iraq.

Figure (1) The Board Committees

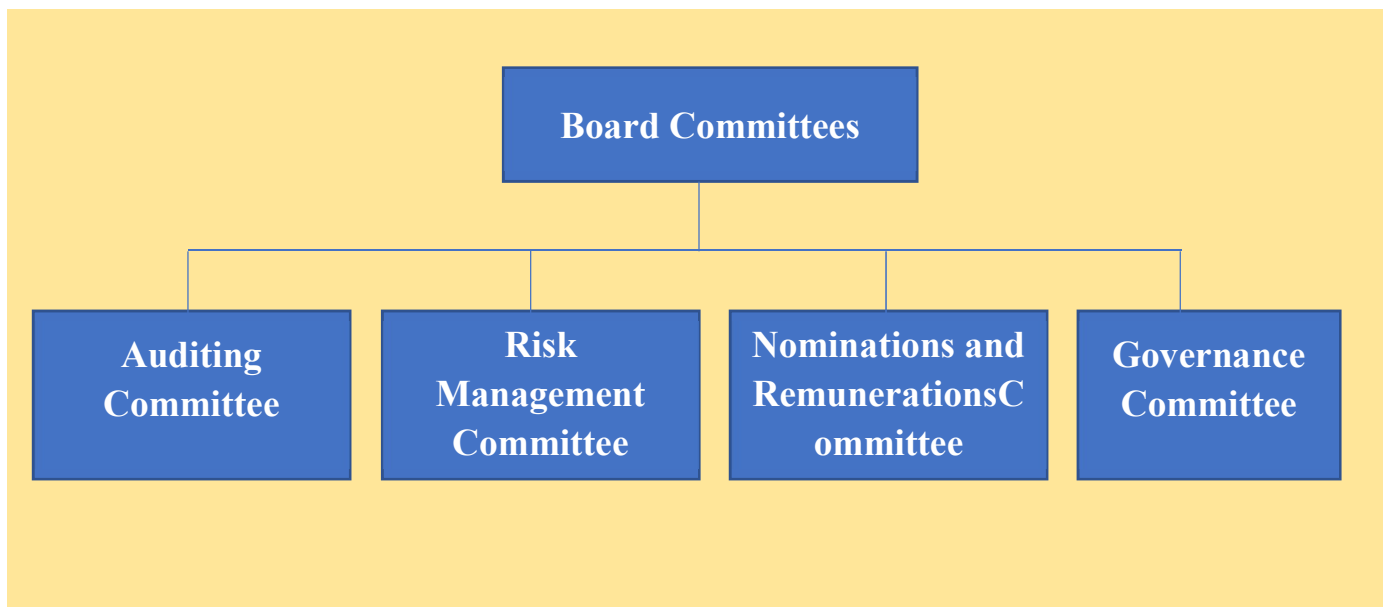
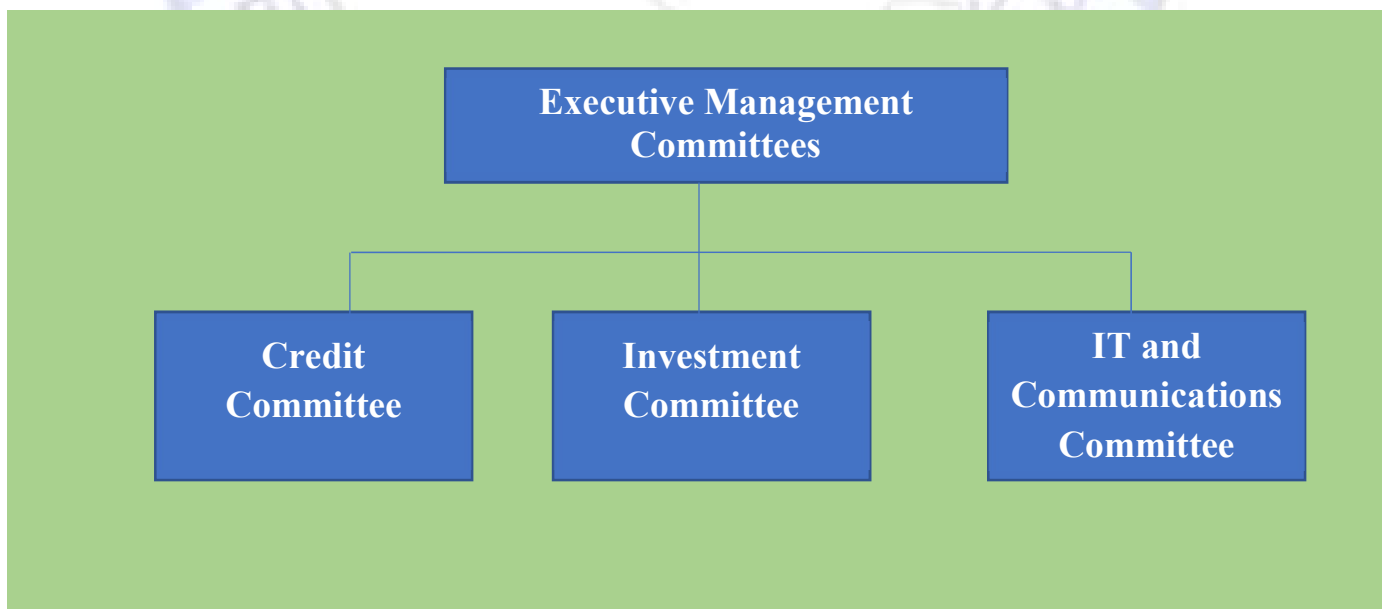


Figure (2) The Executive Management Committees



Section Four

Committees

Article (12): The Board Committees

The Board Committees shall play an important role in supporting the Board during the decision-making process, and thus, a suitable number of committees shall be formed according to the Bank size and the diversity of its business activities, provided that such committees shall at least include the following: Auditing committee, Risk Committee and Nominations and Remunerations Committee.

1) The General Framework for forming and following up on the activities of the Board committees:

1-1 The Board shall constitute the Committees from among the Board Members, and shall specify the objectives and authorities thereof, provided that such Committees may not take unilateral resolutions without the voting of the Bank Board. Also, the Board shall continuously follow up on the work of the Committees to ensure the efficiency of their roles and the potentialities of merging Committees according to the proximity of their specialties, provided that there shall be no conflict between the duties and responsibilities of such Committees.

1-2 Ensuring that the Committees can easily obtain enough information from the Management and that any Committee can obtain consultations and technical support from external sources with the knowledge and consent of the Board.

1-3 Abiding by transparency in forming the Committees and disclosing the names of the Members thereof, the committees formed by the Board, the mechanism of their work and scope of supervision in the annual report to be submitted to the Board.

104 Upon constituting the Committees, factors like specialization, experience, objectivity and conflict of interests must be taken into consideration.

1-5 Following up on the Board-related Committees and filing their reports and outputs to the Chairman of the Board.

1-6 Each Committee shall have an internal charter showing its duties, scope of work and procedures including how to prepare reports to the Board and what is expected from the Board Members regarding their membership in such Committees.

1-7 The Bank shall provide this bank with a list including all the Board affiliated Committees, their duties, procedures and the names of their Members.

1-8 The Board Committee Rapporteur shall be either the Board Secretary or any other executive employee to be selected by the Committee except for the Head of the Department in relation to the work of the concerned Committee.

1-9 The Chairman of each Committee, to be constituted, must be an independent Board Member.

2) Organization of the Committees Works:

2-1 The Committee shall hold regular meetings whose number shall be specified according to the nature of the activities of each Committee.

2-2 The Committee Rapporteur shall record the Committee meeting minutes and write down the recommendations according to the authorities granted to the said Rapporteur.

2-3 The Chairman of the Committee shall submit its meeting minutes and recommendations to the Board for voting.

2-4 The Committees shall submit to the Board regular reports and an annual report about the results of its work.

2-5 Temporary Committees shall be constituted with a Board resolution or upon the request of the bank, and the resolution shall specify the Committee structure, scope of work, responsibilities and the term required for the completion of the works there

3) The Auditing Committee:

3-1 The Committee shall be comprised of at least three Members who shall be independent from the Board, consultants or experts in the financial sector or auditing with CBI consent. The Committee Chairman shall be an independent Member from among the Board Members and may not be a member in any other Board Committee.

3-2 The Board shall ensure that all the Board Members have enough financial capacities and expertise that include:

3-2-1 Experience in auditing procedures and practices.

3-2-2 Understanding of the means and methods of the internal auditing and the procedures for preparing financial reports.

3-2-3 A comprehension of the accounting standards applicable to the Bank financial statements.

3-2-4 An understanding of the duties and importance of the Auditing Committee.

3-2-5 The ability to read, understand and assess the Bank financial statements, including the balance sheet, Statement of Income, Statement of Cash Flows and the Statement of Changes to Shareholders' Equity.

3-3 The Committee Duties and Authorities:

The Committee shall:

3-3-1 Specify the scope, results and sufficiency of internal auditing, and follow up with the External Auditor to discuss auditing reports.

3-3-2 Specify the accounting issues that have a substantial effect on the Bank financial statements.

3-3-3 Lay down the internal control and supervision systems inside the Bank.

3-3-4 Ensure compliance to the international standards and the AML and anti-terrorism funding procedures in all the Bank activities and procedures. The Committee shall be entitled to investigate, consider and audit any processes, procedures or regulations that might affect the Bank strength and safety.

3-3-5 Submit recommendations to the Board on approving the Bank organizational structure, introducing, cancelling or merging organizational structures, and specifying the tasks and specialties of such structures and their amendments.

3-3-6 Review the annual training and development plan and follow-up on the implementation of the same, in addition to reviewing the reports of the Executive Management on the HR status.

3-3-7 Review the recruitment, promotions, resignation and termination of service policies and guidelines for all the Bank employees including the Executive Management without prejudice to the applicable laws and regulations.

3-3-8 Prepare a quarterly report on the activities of the Committee following the end of each quarter which shall be submitted to the Board.

3-3-9 Audit and approve the accounting procedures, the annual auditing plan and the accounting regulations.

3-3-10 Ensure the Bank compliance to the disclosures as specified according to the International Financial Reporting Standards (IFRS), CBI instructions, and other related rules and regulations, and ensure that the Executive Management is well aware of the changes to the IFRS and other related standards.

3-3-11 Include in the Bank annual report a report on the sufficiency of internal control and supervision systems with regards to Financial Reporting, so that the report shall at least include:

3-3-11-1 A clause showing the Internal Auditor's responsibility in cooperation with the executive departments for laying down the internal control and supervision systems regarding the Bank financial reporting and maintaining such systems.

3-3-11-2 A clause on the framework employed and assessed by the Internal Auditor, to specify the efficiency of the internal control and supervision systems.

3-3-11-3 Ensure compliance to the international standards in all the Bank activities and operations.

3-3-11-4 Ensure the presence of a Board-related AML and anti-terrorism office, that shall implement the policies of Know Your Customer (KYC), and the duties and obligations resulting from the same, including that this office shall prepare regular reports about its activity.

3-3-11-5 Supervise the compliance to the US Foreign Account Tax Compliance Act (FATCA).

3-3-11-6 Disclose the weak points in the internal control and supervision systems so as to prevent or eliminate any possibility to disclose any wrong statements with a substantial effect.

3-3-11-7 The External Auditor report shall express his opinion in the internal control and supervision systems.

3-3-12 The Committee Relationship to the External Auditor: The Committee shall be directly responsible for:

3-3-12-1 Propose the persons qualified to be External Auditors and issue recommendations on their dismissal.

3-3-12-2 Provide methods of direct contact between the External Auditor and the Committee.

3-3-12-3 Agree on the scope of auditing with the External Auditor.

3-3-12-4 Receive the auditing reports and ensure that the Bank Management takes the necessary corrective measures at the right time towards the problems identified by the External Auditor.

3-3-13 The Committee Relationship to the Internal Auditor: The Committee shall be directly responsible for:

3-3-13-1 Appoint the Internal Auditor, and issuing recommendations on his dismissal, promotion, transfer following obtaining the Bank consent to the same.

3-3-13-2 Study and approve the internal auditing plan.

3-3-13-3 Request reports from the Head of Internal Auditing.

3-3-13-4 The Auditing Committee shall ensure the availability of enough financial resources, and the suitable number of human calibers to manage and train the internal auditing.

3-3-13-5 The Auditing Committee shall ensure that the internal auditing employees are not assigned any executive missions and shall ensure their independence.

3-3-14 Monitor compliance to the AML and anti-terrorism funding and the rules, regulations applicable on the Bank and file a report on the same to the Bank.

3-3-15 Review the reports that the Bank submits to the bank.

3-3-16 Submit the annual report to the Bank disclosing the Bank activities and operations.

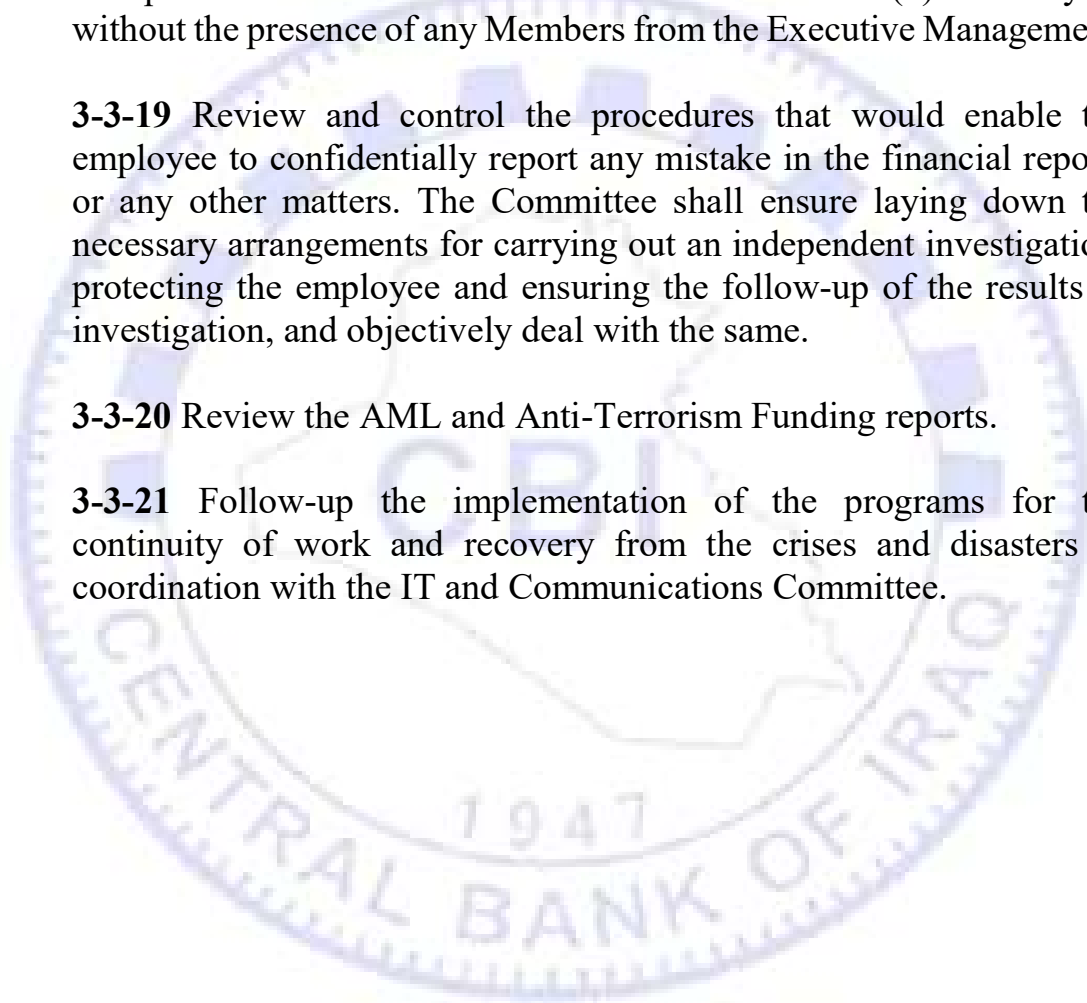
3-3-17 Have the authority to access any information from the Executive Management, and it shall have the right to summon any manager to attend any of its meetings without being a member in the Committee, provided that the same shall be stipulated in the Internal Auditing Charter.

3-3-18 Convene with the External Auditor, the Internal Auditor, the Compliance Officer and the AML Officer a least four (4) times a year without the presence of any Members from the Executive Management.

3-3-19 Review and control the procedures that would enable the employee to confidentially report any mistake in the financial reports or any other matters. The Committee shall ensure laying down the necessary arrangements for carrying out an independent investigation, protecting the employee and ensuring the follow-up of the results of investigation, and objectively deal with the same.

3-3-20 Review the AML and Anti-Terrorism Funding reports.

3-3-21 Follow-up the implementation of the programs for the continuity of work and recovery from the crises and disasters in coordination with the IT and Communications Committee.



4) The Risk Management Committee:

4-1 The Committee shall be comprised of at least three Members of the Non-Executive Members, provided that the Chairman of the Committee shall be an independent Member. The Committee Members shall be required to have experience in risk management and the related practices and issues.

4-2 The Committee shall:

4-2-1 Review the Bank risk management strategy before approving the same by the Board.

4-2-2 Review the credit policy and issue recommendations in this respect to the Board for approval, in addition to the supervision on the implementation of the credit policy proposed by them.

4-2-3 Monitor the “Credit Risk” borne by the Bank, whether related to the “Standardized Approach” or the “Internal-ratings based Approach (“IRB approach”)”, the “Operational Risk”, the “Market Risk”, the “Supervisory Review” and “Market Discipline” as established in the decisions and resolutions of Basel Committee on Banking Supervision (BCBS).

4-2-4 Specify the credit ceiling that exceeds the authority of the Authorized Manager or the Regional Manager.

4-2-5 Control the Bank ability to avoid cash risk according to Basel (III) resolutions, including the cash standards.

4-2-6 Recommend giving up the activities that cause risk to the Bank and which the Bank may not be able to face.

4-2-7 Ensure the Bank compliance to the applicable risk management rules, regulations and policies.

4-2-8 Convene at least four (4) times a year, and any Members of the Senior Management may be invited to its meetings, to explain some issues that the Committee deems necessary.

4-2-9 Regularly monitor the Risk Management Policy proposed by the Bank Senior Management and submit recommendations on the same to the Board for approval.

4-2-10 Supervise the Senior Management measures towards compliance to the Bank-approved Risk Management Policies.

4-2-11 Continuously communicate with the Head of Risk Management Department and obtain regular reports from him on the issues related to the current status of the risk in the Bank and the risk culture, in addition to the reports regarding the limits and ceilings laid down, any violations thereto, and the plans for mitigating risks.

4-2-12 Supervise the capital strategies, manage cash flows and all the related risk management strategies to ensure their compliance to the Bank-approved frame of risks.

4-2-13 Receive the regular reports from the Executive Management Committees (Credit Committee, Investment Committee, IT and Communications Committee).

4-2-14 Review the investment policy and submit recommendations on the same to the Board for approval, in addition to supervise the implementation of the investment policy proposed by them.

4-2-15 Assess the performance of the investment portfolio regarding the returns and risks related to the Bank internal and external investments and continuously follow up on the local and foreign capital markets movement and indices.

5) The Committee of Nominations and Rewards:

5-1 The Committee shall be comprised of at least three Members who shall be Independent and Non-Executive Members, while the Chairman of the Committee shall be an independent Member:

5-2 The Committee shall:

5-2-1 Specify the qualified persons to join the Board Membership or to join the Bank Senior Management except for specifying the qualified persons to work as the Internal Auditing Manager who shall be selected by the Auditing Committee.

5-2-2 Prepare the rewards and remuneration policies and submit the same to the Board for approval, and supervise the implementation thereof, taking the following into consideration:

5-2-2-1 The compliance to the due governance practices and policies so as to ensure weighing out the Bank interests on the long run in light of the current or short-term considerations.

5-2-2-2 The Bank achievement of its long-term objectives according to its approved strategic plan.

5-2-2-3 The remuneration and reward policy shall take into consideration all types of risks to which the Bank is exposed, so that the profits made and the degree of risk included in the banking activities and businesses shall be weighed out against each other.

5-2-2-4 The remuneration and salaries policy shall include all the Bank employees in all levels and categories, and a regular review shall be made for the policy of remuneration, rewards, salaries and incentives upon the Board recommendations, and the recommendations on the same shall be submitted to the Board to amend or update such policy as necessary. A regular assessment shall also be made to assess the sufficiency and efficiency of the remuneration, salaries and incentives policies so as to ensure that the declared objectives thereof are achieved.

5-2-2-5 A succession policy shall be laid down to secure the Executive Management positions at the Bank, and shall be reviewed at least once per annum, so that the Bank would be ready to normally deal with any change to the occupiers of such Executive Management positions without prejudice to the Bank performance and the continuity of its operations.

5-2-2-6 Plans and programs shall be made to continuously train and qualify Board Members to pace up with the latest developments in the sector of banking and financial services (Commercial and Islamic).

5-2-2-7 The Bank HR Management performance shall be supervised specially the Executive Management, and the reports on the same shall be reviewed, and then, the recommendations thereon shall be filed to the Board.

6) The Corporate Governance Committee:

6-1 The Committee shall be comprised of three Members; most of whom are Independent Non-Executive Members, and the Committee shall include the Chairman of the Board.

The Committee shall:

6-2 Review the guide hereof and supervise laying out the Corporate Governance Guide for the Bank according to the size and diversity of the Bank activities and shall update and control the application of the same.

6-3 Supervise and prepare the governance report and include the same in the Bank annual report.

6-4 Ensure the Bank application of the Corporate Governance principles and the due practices thereof.

Article 13: Executive Management Committees

The Senior Management shall comprise committees to help it achieve its duties and regularly file the reports to the concerned Board Committees to ensure the efficiency of control and supervision. The Executive Management Committees shall be comprised of at least three Members. Board Members may attend in the capacity of controllers to help them. The Committees shall inform the Board of the dates of their meetings so that any of the Board Members may attend in the capacity of controllers, if they wish to.

1) The Credit Committee:

1-1 The Committee shall convene at least once per month or as necessary:

1-2 The Committee shall:

1-2-1 Supervise and follow up the implementation of the instructions issued by CBI regarding the basis for assessing the credit worthiness of the clients and forming allocations.

1-2-2 Follow up the credit exposures in cooperation with two sides:

1-2-2-1 Credit Register Accounts.

1-2-2-2 Clients Affairs (consumers and beneficiaries).

1-2-3 Follow up the movement of loans repayment.

1-2-4 Cooperate with the Legal Affairs Department in following up the collection of bad loans.

1-2-5 Work on the collection of the doubtful debts, as much as possible.

1-2-6 Facilitate the procedures for granting loans.

2) The Investment Committee:

2-1 The Committee shall convene at least once per month or as necessary.

2-2 The Committee shall:

2-2-1 Divide the Investment Portfolio into “Title Rights” and “Debt Instruments” including all the treasury transfers, government stocks as well as the portfolio components from the foreign instruments.

2-2-2 Propose the sale and purchase transactions or keep the components of the investment portfolio, while following up the implementation of the same in the case of the Board approval.

2-2-3 Review the regular indices used by the Investment Department or Investment Units and submit the necessary suggestions in this respect.

3) The IT and Communications Committee:

3-1 The Committee shall convene at least once a month or as necessary.

3-2 The Committee shall:

3-2-1 Review and develop the uses of IT and Communications and ensure the security of information and communications.

3-2-2 Ensure the sufficiency of the infrastructure, IT and communications systems, electronic networks and software used in the Bank.

3-2-3 Ensure the sufficiency of the procedures taken to keep updated backup information copies to face the potential crises and the loss of databases.

3-2-4 Follow up the technologies of the customer e-services.

3-2-5 Ensure the quality and appropriateness of the management of the Bank intranet and website.

3-2-6 Follow up the implementation of continued business programs and crises and disasters recovery.

3-2-7 Ensure that a guide is prepared for the IT and Communications policies and procedures, and update the same, while offering the necessary suggestions for the development of the guide according to the work requirements.

3-2-8 Ensure the separation of the duties of the IT and Communications Department on one hand and those of the other Bank department on the other hand.

Fifth Section: Executive Management

Article 14: Appropriateness of Executive Management Members

- 1) The Executive Management Members shall enjoy a high degree of credibility, integrity, efficiency, banking experiences and commitment and shall be keen to dedicate overtime for the Bank work. The Board and the Nominations and Rewards Committee shall be responsible for ensuring the same, as specified in the responsibilities stipulated herein.
- 2) The Executive Management Framework:
 - 2-1 The Executive Management shall be comprised of the Bank officials.
 - 2-2 The Executive Management shall exercise its authorities and perform its responsibilities according to the authorization granted and the resolutions issued by the Board.
 - 2-3 The Executive Management shall be responsible before the Board for achieving the Bank objectives and operations.
 - 2-4 The Board Members may not intervene in the daily executive works in the Bank.
- 3) The Executive Management shall:
 - 3-1 Prepare and implement the strategic and operational plans, following the Board approval on the same and ensure their efficiency while submitting proposals on the development or amendment of the same.
 - 3-2 Duly and diligently implement the applicable related laws, regulations and guidelines as well as the policies and instructions issued by the Board.

3-3 Submit the recommendations regarding important decision making related to the Bank operations including the management of deposits, loans, investments and the provision of local and international services concerning the requirements, method of implementation and the continuous enhancement of the same.

3-4 Review the expansion plans in branches and new offices and work on the execution the same.

3-5 Lay down and develop the policies and procedures related to all the work details.

3-6 Prepare the Bank organizational structure that includes specifying the main duties and responsibilities and distributing them on the organizational structures while specifying the main horizontal and vertical communication lines.

3-7 Prepare the Bank annual balance sheets.

3-8 Comply to the internal control regulations to protect the Bank funds and assets and ensure the safety of the financial acts and information while working on the implementation of the same.

3-9 Lay down the suitable systems for all risks management.

3-10 Provide the internal and external control authorities with reports and information they require and facilitate the completion of its control and supervisory missions.

3-11 Ensure compliance to the international standards in all the Bank activities and operations.

3-12 File the regular reports to the Board about the Bank work progress.

3-13 Keep due and complete information records and systems of all the activities and resolutions with the necessary supporting documents.

3-14 Discuss and follow-up the work progress in the Bank and suggest solutions.

- 3-15** Coordinate efforts between the different departments to ensure compliance, harmony and integration.
- 3-16** Specify the HR needs and follow up their training and performance development.
- 3-17** Monitor the Bank financial status and ensure that it makes suitable profits within the framework of the due balance between risks and returns and in light of the Bank annual plan.
- 3-18** Review the official website of the AML office for the list of freezing of terrorism funds and inform the AML office and the Banking Control Department in CBI immediately whenever there is a person whose name is entered on the list of freezing of terrorist funds.
- 4)** Obtain the Board consent upon the appointment of any of the Bank Executive Management Members.
- 5)** The conditions to be met upon the appointment of the Bank Executive Management.

The Executive Management Member:

- 5-1** May not be a member in the Board of another bank, unless such other bank is affiliated to this Bank.
- 5-2** Shall be fully dedicated to the management of the Bank business.
- 5-3** Shall at least have a preliminary university degree in the financial or banking sciences, or in the business administration, finance, accounting, economy, law or IT sciences that are related to the Bank business activity.
- 5-4** Shall have an experience in the banking or related businesses of no less than five (5) years, except for the position of General Manager, Authorized Manager or Regional Manager whose experience may not be less than ten (10) years in the banking or financial sector-related businesses.

- 6) A No-Objection Certificate (NOC) shall be obtained from CBI prior to the appointment of any Member in the Bank Executive Management. Therefore, before the appointment of any Members in the Bank Executive Management, the Bank shall obtain from the nominee his/her resume along with the supporting documents and academic certificates, experience certificates, good conduct certificates and other documents.
- 7) The Administrative Officer, who has been dismissed by CBI from his job, may not be a Board Member, an Authorized Manager of any other bank or a branch of a bank, and may not be an Administrative Officer or in the Executive Management in any other bank.
- 8) CBI shall be notified upon the resignation or dismissal of any of the Members of the Executive Management within three (3) days and shall be notified of the reasons for such resignation or dismissal.
- 9) The person who has been a Member in the Executive Management of the Bank whose license has been cancelled or has been decided to be liquidated while holding his/her position, may not be a Member of the Executive Management of any other bank, unless CBI decides otherwise.

Article 15: Conflict of Interests

- 1) The Board shall ensure due diligence in arranging the Bank affairs and the personal affairs so as to avoid any conflict between personal interests and the Bank interests.
- 2) The Board shall approve the policies and procedures for handling the conflict of interests which may result when the Bank is a part of a banking group and shall disclose, in writing, any conflict of interests that may result from the Bank relation to the group companies.
- 3) The Bank shall approve the policies and procedures for dealing with the related persons, so as to include the identification of such persons, taking into consideration the legislations, policies and procedures, and control mechanism so as not to violate the same.

- 4) The Bank control departments shall ensure that the related persons' operations have been done in accordance with the applicable policies and procedures. The Auditing Committee shall review and monitor all the operations of the related persons and inform the Board of such transactions.
- 5) The Board shall approve the Code of Conduct and policies and shall circulate the same on all the employees so as to include, at least, the following:
 - 5-1 Employees may not use the Bank internal information for their own personal interests.
 - 5-2 Rules and regulations organizing the dealings between the related persons.
 - 5-3 Dealing with the cases that may result from the conflict of interests.
- 6) The Board shall ensure that the Executive Management is integral in practicing its business, that it implements the applicable policies and procedures and avoids the conflict of interests.
- 7) Board members shall obtain the right information on time and clearly so as to duly meet their obligations and perform their duties.
- 8) The Bank shall provide CBI with the number of shares mortgaged by the Bank Shareholders who own 1%, or more, of the Bank capital, and the mortgagee of the same.

Section Six

Main Structures to Achieve Control, Disclosure and Transparency

Article 16: Internal Auditing

Internal Auditing provides the regular assessment required for the quality of the Bank accounts, performance and work progress, while ensuring compliance to the international standards, and submits regular reports to the Auditing Committee on the efficiency and appropriateness of the internal control operations and procedures approved and executed by the Bank Management.

1) Requirements of the Internal Auditing Management Employee:

1-1 The Internal Auditing Manager and his assistant shall at least have a bachelor's degree in accounting, bank management, financial and banking sciences or any of the banking related fields of study and shall have the experience and practice in the field of control according to the rules and regulations issued by the Bank in this respect.

1-2 Upon selecting the Internal Auditing employees, they shall be specialized in accounting and auditing and shall have enough experience in the same.

2) Internal Auditing Relation to the Bank:

2-1 The Board shall ensure that the Internal Auditing Department is subject to direct supervision by the Auditing Committee and that it files its reports directly to the Auditing Committee Chairman to ensure its independence.

2-2 The authority of directly communicating with the Bank Board, the Chairman of the Board, the Auditing Committee, Independent Auditor or the Compliance Officer.

2-3 Monthly, quarterly, semi-annual and annual reports on the results of work shall be submitted to the Auditing Committee.

2-4 A guide shall be made on the Internal Auditing Department policies and procedures which shall be approved by the Auditing Committee and the Board and shall be subject to review and update by the Auditing Committee at least annually or biennially.

2-5 The internal control and supervision systems structure shall be reviewed by the Auditing Committee, the Internal Auditing Department and the Shariah Auditing Department in the case of Islamic banks, at least once per annum or as necessary.

Article 17: Internal Shariah Auditing

Shall be concerned with following up and reviewing the work guides and systems procedures in the Islamic banks regarding how suitable they are to the rules laid down and reviewed by the Shariah Board and shall ensure that all the products and services provided by the Bank have been approved by the Shariah Board.

1) The Relation between the Shariah Board and Shariah Internal Auditing:

The Shariah Internal Auditing shall:

1-1 Ensure the completion percentages of the auditing plans and follow up any updates of the same based on the field remarks.

1-2 Review the work guide which lays down the objectives, authorities and responsibilities of the Department.

1-3 The Shariah Internal Auditor shall not have any executive powers or responsibilities towards the works carried by him.

1-4 Specify the deviations and violations in executing the Shariah Board resolutions and Fatawas.

1-5 Assess the performance of the Shariah Internal Auditing manager and employees.

1-6 Review and assess the efficiency and sufficiency of the Bank Shariah Internal Auditing system.

1-7 Follow up the compliance of the Bank Management to the Shariah aspects, fatawas and resolutions issued by the Board.

1-8 Follow up the Bank compliance to the Shariah and accounting standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

1-9 Lay down the annual Shariah Auditing Plan, to be approved by the Shariah Board and comply to the implementation of the same.

1-10 Inspect the receivables and funding which are categorized within the non-operating facilities, or which have been decided to be dumped, and which have been financed by the common investment accounts to ensure that no violation nor breach is committed by the Bank.

1-11 Ensure the Executive Management compliance to the policy which organizes the relationship between Shareholders and investment accounts holders specially the basis for the distribution of profits.

2) The Board relation to the Shariah Internal Auditing Department:

The Board shall:

2-1 Ensure and enhance the independence of the Shariah Internal Auditors and ensure that they are well qualified to carry out their job duties, including access to all the records and information and the ability to communicate with any of the Bank employees so that they might be able to carry the duties assigned to them and prepare their reports without any external intervention.

2-2 Take the necessary measures to enhance the efficiency of the Shariah Internal Auditing by:

2-2-1 Giving due importance to the Shariah auditing processes and deeply promoting the same in the Bank.

2-2-2 Follow up the correction of the Shariah Auditing feedback.

2-3 Ensure that there are enough financial resources and human resources qualified for the Shariah Internal Auditing Management and train them so that the employees shall at least have:

2-3-1 A specialized university degree with knowledge of the bases of Islamic financial transactions, the conditions of each contract and the grounds of its corruption.

2-3-2 The Head of Shariah Internal Auditing Department shall have (a Controller certificate, a Shariah Auditor certificate) which includes the certificate of the approved Shariah Consultant and the Approved Shariah Auditor granted by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), as obtaining any of such certificates shall be enough to meet their requirements.

2-4 Ensure that the Shariah internal auditing employees shall not be assigned to carry out any further executive tasks.

2-5 The Internal Audit Charter shall be approved which shall include the Shariah Auditing Department duties, authorities and responsibilities and the same shall be circulated within the Bank.

2-6 Ensure that the internal Shariah Auditing Department shall be subject to the direct supervision by the Shariah Board and shall file its reports to the Chairman of the Shariah Board, with a copy to the Auditing Committee.

Article 18: Board Relation to the External Auditor

The Board shall:

- 1) Ensure a regular rotation of the External Auditor among the auditing offices and the affiliated, allied or sister companies in any way every five (5) years at most, as of the date of election.
- 2) Take the necessary measures to treat the points of weaknesses in the internal control and supervision systems or any other points raised by the External Auditor.
- 3) Contribute to enhancing the role of the External Auditor and ensure that the financial statements do reflect the Bank performance in all aspects and reflect its actual financial status.
- 4) Stress the importance of efficient communication between the External Auditor and the Bank Auditing Committee.

Article 19: Board Relation to the Risk Management

The Board shall:

- 1) Ensure that the Risk Management Department monitors the Bank executive departments according to the specified accepted risk levels (ARLs).
- 2) Investigate the treatment of all violations at the accepted risk level (ARL), including investigating the concerned Executive Department regarding such violations.
- 3) Ensure that the Risk Management Department is carrying out “pressure tests” on a regular basis to measure the Bank ability to stand the shocks and face high risk. The Board shall have a main role in approving the assumptions and scenarios (scenes) used, discussing the results of tests and approving the procedures to be taken based on such results.

- 4) Approve an internal assessment methodology of the sufficiency of the Bank capital, in accordance with the resolutions of Basel Committee on Banking Supervision (BCBS): Basel II and Basel III and any other international standards so that such methodology shall be comprehensive, effective and capable of specifying all the risks that the Bank may expose, taking into consideration the Bank strategic plan, the capital plan, the regular review of such methodology and ensuring the implementation of the same while ensuring that the Bank keeps enough capital to face all risks to which the Bank is exposed.
- 5) Consider the resulting risks and the abilities and qualifications of the Risk Management employees, prior to the consent to any expansion in the Bank activity.
- 6) Ensure the Bank Risk Management Department independence, by filing its reports to the Risk Management Committee, and giving such Department the necessary authorities to enable it to obtain information from the Bank other departments and to cooperate with other committees to carry out its task.
- 7) The policies to be approved by the Board shall include the Bank Risk Appetite, which shall necessarily conform to the Bank ability to accept the risk and how appropriate is that to its capital.
- 8) Measure the appropriateness of the continuity of work steps with regards to measuring, following up and controlling risk, and amending the same, if necessary, according to the market developments and the environment in which the Bank operates.
- 9) Use the suitable and efficient information and communications systems in relation to the follow up and control of risks and ensuring the efficiency of the information management system so that the Bank Senior Management, the Risk Committee and the Board shall be provided with regular reports (on a monthly bases) at least, that reflect the Bank compliance to the accepted risk level (ARL) and show the violations of the same, its reasons and the necessary corrective measures.

10) The Risk Management Department shall, at least:

10-1 Study and analyze all risks the Bank may expose.

10-2 Prepare a Risk Management Framework in the Bank and file the same to the Board.

10-3 Implement the risk management strategy and develop the business policies and procedures to manages all kinds of risks.

10-4 Develop methodologies for identifying, measuring, controlling and regulating all risks of all types.

10-5 File reports to the Board, through the Risk Management Committee, and send a copy to the Executive Management including all the actual Risk Profile of all the Bank business activities, comparing the same to the Risk Appetite, and follow up the negative declines.

10-6 Ensure the integration of the Risk Measuring Mechanisms with the Management Information System (MIS).

10-7 Submit recommendations to the Risk Management Committee about the Bank risk exposures and record the exceptions made from the risk management policy.

10-8 Provide the necessary information about the Bank risks to be used for disclosure purposes.

Article 20: Board Relation to the Compliance Department

- 1) The Board shall adopt a clear policy to ensure the Bank compliance to all the related legislations and guidelines and shall regularly review and check the implementation of the same.
- 2) The Board shall approve the tasks and responsibilities of the Compliance Department.
- 3) The Compliance Department shall file its reports to the Auditing Committee and shall send a copy of the same to the General Manager or the Authorized Manager.
- 4) The Bank shall compose an independent Compliance Department, which shall be boosted by trained human resources and shall be duly remunerated, in accordance with the CBI instructions in this respect.
- 5) The Compliance Department shall prepare efficient policies and procedures to ensure the Bank's compliance to all the applicable legislations and guidelines and any related instructions and evidence, and the Bank shall document the tasks and the responsibilities of the Compliance Department and shall circulate the same in the Bank.

Article 21: Board Relation to AML and Terrorism Funding Department

The Board shall:

- 1) Ensure, through the Auditing Committee and the Bank control departments and divisions, that the Bank has taken the due diligence measures towards the clients according to the AML and Terrorism Funding Law No. 39 of 2015 and the regulations thereof.
- 2) Ensure that the Bank is keeping all the following documents, registers and records for at least five (5) years as of the end of the employment relation with the client or as of closing the account, or implementing transactions for transient clients, whichever is longer, and shall allow the concerned authorities access to the same as soon as possible. Such records, documents and registers shall include the following:

- 2-1** Copies of all registers obtained through the due diligence process in checking transactions, including the ID documents of the actual beneficiary clients, the accounting records and the business correspondences.
- 2-2** All registers of the local and international transactions whether actually executed or which were attempted to be executed, provided that such registers shall be as detailed as possible to allow for the representation of each individual transaction.
- 2-3** The registers relating to the risk assessment or any other information on executing and updating the same.
- 3)** Approve the AML and Terrorism Funding programs which shall include:
- 3-1** An assessment of the AML and Terrorism Funding risks to which the Bank is exposed.
- 3-2** Approving the internal policies, procedures and regulations, suitable for implementing the necessary obligations in the field of AML and Terrorism Funding.
- 3-3** An independent audit to test the efficiency of the policies and procedures and the implementation thereof.

Article 22: Board relation to Stockholders

- 1)** The Board shall provide a specified mechanism to ensure communication with “Stockholders” through the efficient disclosure and the provision of significant information on the Bank activities to the “Stockholders” through:
- 1-1** The General Assembly Meetings.
- 1-2** The Annual Report and the Governance Report.

- 1-3** Quarterly reports that include financial information, in addition to the Board report on the exchange of the Bank shares and financial status over the year.
- 1-4** The Bank website.
- 1-5** A report on the Shareholders Relations Department.
- 2)** Individual votes shall be held on each and every matter raised in the annual General Assembly Meeting.
- 3)** Following the end of the annual General Assembly Meeting, reports shall be made to inform the Shareholders of the remarks made during such meeting, the results and the resolutions including the results of voting and the questions which the Shareholders posed, and the responses of the Executive Department to the same.
- 4)** The Board shall ensure holding an effective conversation with the Shareholders, by providing the following at least:
- 4-1** Ensure that the Board members are informed of the Shareholders viewpoints specially in relation to the Bank strategies and governance.
- 4-2** Hold regular meetings with the Senior Shareholders and the Non-Executive and Independent Members to check their opinions and viewpoints towards the Bank strategies.
- 4-3** The report shall include the steps taken by the Board Members and specially the Non-Executive Members within the framework of reaching an agreement and a common understanding of the views of senior shareholders on the Bank performance. The Chairpersons of both the “Auditing Committee” and the “Nomination and Rewards Committee” and any other Board Committees shall be required to attend the General Assembly annual meetings.
- 5)** The External Auditor or whoever is representing him shall attend the General Assembly annual meetings, submit the report and respond to all inquiries.

Article 23: Disclosure and Transparency

- 1) The Board shall post the financial and non-financial information that are of interest to the Stockholders.
- 2) The Bank annual report shall include a provision to state that the Board shall be responsible for the accuracy and sufficiency of the Bank financial statements and the information stated in this report and for the sufficiency of the internal control and supervision systems.
- 3) The Board shall ensure the Bank compliance to the disclosures as stipulated in the International Financial Reporting Standards (IFRS), CBI instructions and other related instructions, and shall ensure that the Executive Management is well aware of all changes to the IFRS and other related standards.
- 4) The Board shall ensure that the Bank annual report and its quarterly reports shall include the disclosure to inform the Stockholders of the results of operations and the Bank financial status.
- 5) Disclosures should be made in Arabic and English.
- 6) **The Board shall ensure that the annual report shall include the following, at minimum:**
 - 6-1 The Bank organizational structure showing the Board Committees.
 - 6-2 A summary of the Board Committees Tasks and Responsibilities.
 - 6-3 The information of interest to the Stockholders as shown in the Corporate Governance Guide for the Bank and how compliant are they to the Guide provisions.
 - 6-4 Ensuring that the Bank Governance Report is made and that the same is included in the annual report.

- 6-5** Information about each of the Board Members, in light of their qualifications, experiences and shares in the Bank capital, membership in the Board Committees, date of appointment, abidance by the attendance of the Board Meetings, any other membership in the boards of other companies, the remuneration of all forms obtained from the Bank, if any, for the previous year, the loans taken from the Bank and any other processes between the Bank, the Member or any other related persons.
- 6-6** Information about the risk management, including its structure, nature of processes, and the developments to the same.
- 6-7** The number of Board and Board Committees Meetings, and the attendance of each Member in the same.
- 6-8** The work Code of Conduct and the names of the Members of the Board, Executive Management and Independent Members over this year.
- 6-9** A summary of the Bank remuneration and rewarding policy, and the remuneration of all forms given to each and every Member of the Executive Management over the past year.
- 6-10** The names of the Shareholders who own 1% or more, and the Associated Groups which own 5% or more of the Bank capital while “specifying the actual beneficiary” of such contributions and any part thereof and explaining whether such contributions were fully or partially mortgaged.
- 7) Posting a report on Corporate Governance practices.
- 8) The Bank Sustainability Policy and the latest developments of the same.

Article (24): Shareholders Rights

The Shareholders shall:

- 1- Have access to all the related information that would enable them to fully exercise their rights on a regular basis and without delay.
- 2- Participate and vote in the General Assembly Meetings, taking into consideration the subjects which the Shareholders would like to raise in such meetings.
- 3- Discuss the subjects enrolled on the General Assembly agenda and make inquiries to the Board Members.
- 4- Elect the Bank Board Members.
- 5- Receive the information about the time and date of holding the General Assembly, and the agenda thereof thirty (30) days before the meeting is held.
- 6- Nominate, elect and terminate the service of the Board Members, enquire about their qualifications, experiences and ability to perform their job, discuss the size remunerations and financial incentives given to the Board Members and Senior Executives, and they shall also be entitled to enquire the Board about any non-professional practices.
- 7- Small Shareholders may elect one Member or more to represent them in the Board based on the Cumulative Voting mechanism.

Annex (1)
Sustainability Principles

S N	Principles	Provisions
1	Business Activities: Management of Banking and Environmental Risk	Merge the social and environmental considerations in the decision-making process with regards to the Bank activities to avoid, mitigate, or compensate the adverse effects.
2	Commercial Processes: Environment and Social Print	Avoid, mitigate, or compensate the adverse effects of the Bank processes on the local and environmental communities in which they work and as much as possible to boost the positive effects.
3	Human Rights	Respect human rights in all the processes and activities of the Bank.
4	Women Economic Enablement	Enhance the economic enablement for women through the work place culture so as to include both males and females in the Bank operations and seeking to find new products and services specially designed for women through the commercial activities.
5	Financial Inclusion	Seeking to provide financial services for individuals and communities, which are traditional, with limited reach or cannot reach to the official financial sector.
6	Governance	Applying strong and transparent governance practices in the Bank.
7	Building Capacities	Develop the individual and sector corporates necessary to specify the social and environment risk management, the business-related opportunities and the commercial processes.
8	Cooperative Partnerships	Cooperating with all sectors and making use of the international partnerships to pace up the social progress and enhance the sector as a one whole to ensure the corporate vision matches the international standards and the requirements of local development.
9	Reports	Regularly previewing and reviewing the reports on progress to meet the principles hereof at the individually and all over the entire sector.

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