DRAFT

CORPORATE GOVERNANCE GUIDELINES FOR UAE BANK DIRECTORS

June 2006 - Revised

FOREWORD

Commercial banks are leading contributors to a successful UAE economy and are expected to show the way on high management standards and corporate governance. Good governance is essential for the long-term success of a bank and good governance depends largely on the skills, experience and knowledge of the directors. If a bank fails it affects the whole economy so directors are the guardians of financial stability.

We urge all bank directors to read and discuss these Guidelines which reflect best international practice. Boards of directors will need to embark on a journey and Central Bank supervisors will help you, and they will be monitoring your progress towards full compliance as part of their risk-based supervision. You will find the Guidelines suggest a route you might take to achieve best practice on a gradual but timely basis. Each Board will need to determine for itself how best to proceed.

It is now over seven years since the Central Bank published Circular 23/00 regarding the requirements for an effective board of directors. You should see these Guidelines as a further step forward to be effective.

These Guidelines will enhance the quality of directors' leadership and significantly improve their board processes. Such improvements will be value-adding and will reinforce the international competitiveness of UAE banks. Banks with good governance and that are transparent in their disclosure practices are trusted by their stakeholders: shareholders, customers, employees and by their regulators. Additionally, as some banks may begin to look for foreign direct investment, you will find that overseas investors and depositors demand high governance standards before they are willing to entrust their capital or their savings with a bank.

Issues UAE banks and their directors need to pay more attention to, and on which these Guidelines are full of practical advice, include:

- To improve disclosure standards and increase transparency
- The need for directors to be more aware of their duties and responsibilities to their banks and to all their investors
- The need for directors to understand more clearly what is expected of them
- The importance of managing conflicts of interest
- The need to establish board committees to handle audit, remuneration and nomination matters and to ensure there are credit and risk committees in place.

Banks in the UAE already accept the need to make improvements on these lines and a number of banks have begun the journey. These Guidelines will be doing the things that boards should be doing, and will be avoiding micromanaging the business and having meetings about matters which should be left to shareholder meetings. Instead you will focus your time on strategic decisions and policy making while ensuring that risks and controls are effectively managed.

Central Bank of the UAE commend these Guidelines to you and ask that you and your boards to start considering what actions you will take towards achieving best international practice. We are confident that the banking sector will be able to set a good example for other parts of the UAE economy.

H.E. Sultan Bin Nasser Al Suwaidi
Governor, Central Bank of the
United Arab Emirates

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PURPOSE OF GUIDELINES

These guidelines apply to all directors Global markets recognise that for businesses to be competitive, standards of corporate governance need to be high. Firms with robust governance models and dynamic boards are more attractive to stakeholders, particularly investors. As more companies look to foreign investors and overseas markets to raise capital, they come under pressure to adopt best international corporate governance practices. We are seeing this in the UAE with the proposed Regulation from the Securities and Commodities Authority Concerning Transparency and Governing the Functions of Listed Stock Companies' Boards of Directors, the proposed introduction this year of corporate governance listing rules in Abu Dhabi, and the DIFC Law No 12 that applies in the Dubai International Financial Centre. There is a growing convergence of corporate governance principles and standards around the world and the OECD has developed global corporate governance principles that guide policymakers across national boundaries.

Many books are written about the role of the board and the role of directors. We hope you will find this brief handbook a useful and practical guide to corporate governance practices and to your obligations as a director of a UAE bank. Although you will find some detailed advice, the Guidance focuses on the principles of good governance rather than seeking to set out detailed rules. The guidance should also help you to become a more effective contributor to your board and to the success of your bank.

Some banks are already applying many of these best practices while, for others, what is presented here will represent more of a challenge. In some cases the Guidance proposes timelines for the journey boards should now be taking towards achieving good corporate governance.

The guidance supplements existing laws and regulations. Directors should familiarise themselves with the relevant rules and regulations.

The Annexes to these Guidelines contain a number of model charters and other documents. Most of these are taken from banks from outside the UAE and should be regarded only as examples. They may help you to prepare your own documents to suit your bank's individual circumstances.

> "There is an urgent need to enhance the standards and understanding of corporate governance, the risks associated with inaction, and the clear opportunities to be gained from implementing strong governance structures"
>
> *H.E. Sheikha Lubna Al Qassimi*
> *UAE Minister of Economy and Planning*

WHAT IS CORPORATE GOVERNANCE?

The OECD Principles define corporate governance as involving "a set of relationships between a company's management, its board, its shareholders and other stakeholders". At its simplest, corporate governance is about how companies are directed and controlled. The focus is on the board of directors and the checks and balances required to ensure the interests of the management of the organisation do not diverge from those of the owners-the shareholders.

Good governance should provide incentives for the board and management to pursue objectives that are in the interests of the bank and should facilitate effective monitoring of management. This has implications for the role and composition of the board, the creation of board committees, especially audit, and the contribution that outside independent directors could make.

A number of international corporate scandals have focussed attention on how companies are directed and controlled. There has never been more attention on the quality of board leadership and the internal control of companies. Corporate governance is the essential factor that determines the accountability of companies to their shareholders and ensures that they are transparent in their activities. **Accountability and transparency build trust and confidence with stakeholders**.

But corporate governance is not all about avoiding scandals. Nor is it entirely about monitoring and controlling the management. It is equally concerned with the development of strategy and enhancing the prosperity of the business. The need for systems of control does not eliminate the need for good strategic decision making. Good board processes and internal relationships with clear lines of authority and decision-making powers help to build a successful business.

So corporate governance is both about accountability of boards and also how directors can best shape and enhance the performance of their organisations. The best boards recognise that sustainable high performance comes from **striking a balance between wealth creation and control**, and promoting high standards of both.

Corporate governance for banks is critically important given their financial intermediation role; the need to safeguard depositors' funds, in particular, and shareholders' funds, and the consequences of ineffective governance practices. Bank failures can pose significant public costs due to their potential impact on deposit insurance mechanisms and macroeconomic implications. Governance failures risk markets losing confidence in the ability of the bank to manage its assets and liabilities which could trigger a liquidity crisis or a run on deposits. Review and analysis of the investments, risk exposures and financial statements of banks can be complex so it is particularly important to have clear and rigorous authorities, responsibilities, systems and processes to ensure that decision making in the bank is properly managed.

Although there is no single agreed system of good governance, and both countries and companies have their own cultures, traditions and priorities, the influence of international capital markets is leading to some convergence of practices. **Investment capital will flow to those companies that adopt efficient governance standards**.

LESSONS

- ☑ Define the purpose and objectives of the bank
- ☑ Board committees needed for monitoring and control purposes
- ☑ Accountability and transparency are key requirements
- ☑ Boards must strike a balance between wealth creation and control
- ☑ Rigorous clear processes needed to ensure decision making is properly managed

DIRECTOR, NOT MANAGER OR SHAREHOLDER

UAE banks are non-executive directors appointed by shareholder groups which may include governments or families who control the bank. However, the board of directors is accountable to **all** the bank's shareholders, who own the company, and not to any particular shareholder or group of shareholders. Directors should act as stewards of the business on behalf of all the shareholders. As required by Central Bank Circular 23/00, directors should contribute to board discussions and decisions **independently**.

The particular requirements for non-executive directors are detailed more fully in the next section. Since many directors on UAE bank boards represent specific shareholders, it is important that these boards look also to appoint **independent directors**. Indicative criteria for selecting independent directors can be found in Annexe B. Including independent directors ensures that a board has members who can exercise good judgement that is not clouded by real or perceived conflicts of interest, and are people of an independent mind who will form a view based on the facts and are able to stand their own ground. Banks should identify independent directors in their annual reports as being people free of any material relationship with the bank's management, controllers or others who might be expected to interfere with the independent exercise of their best judgement in the exclusive interests of the bank.

Appointments of directors will need to be notified to the Central Bank who will wish to be satisfied that they are **"fit and proper"** persons. The regulator will need to be satisfied as to the person's:

- honesty, integrity and reputation
- competence and capability
- financial soundness

As a **non-executive director**, you must leave the operational management of the business to the executives. Let the management run the business in accordance with the strategy, and within the budget, that the board has approved. For instance, **it is not appropriate that you are a member of the bank's executive committee**. That committee will have authority delegated to it by the board to support the CEO in implementing the strategy and policies that have been approved by the board. It should be a management committee only.

Board meetings must be disciplined and discuss those matters that are appropriate for boards to decide rather than turn into shareholder meetings. This Guidance gives further advice on these matters and it is the job of the Chairman to ensure that the board restrains itself from either interfering too much in operational issues or from seeking to make decisions that benefit certain shareholders rather than the shareholders as a whole.

Finally, regulators look to you and other directors to be fit and proper persons able to conduct the bank's operations. It is most important that you familiarise yourself with banking laws, if you have not already done so, and that you build constructive relationships with your regulators.

"The "tone at the top" is a reflection of the integrity, independence and teamwork of individual board members… For the board to be truly effective, not only must an appropriate structure be in place but board members should be engaged, well informed and represent diverse skill sets and perspectives"

Nick Bradley, Standard and Poor's

DIRECTORS

Strategy: Constructively challenge and help develop strategy

Performance: Scrutinise performance of management in meeting agreed objectives and monitor reporting of performance

Risk: Monitor integrity of financial information and review if financial controls and systems of risk management are robust

People: Determine remuneration of executive directors including CEO/General Manager, and participate in appointing and, if necessary, removing senior management, and in succession planning

Before you accept an appointment you should have considered whether you have any conflicts of interest that might prevent you approaching the task in an independent manner. The new non-executive director (NED) must **build trust** with his or her colleagues by winning recognition for the contribution they can make to the board. NEDs need to prove their credibility. A good chairman will foster a spirit of openness with the board and will encourage NEDs to participate in meetings.

Actions that build trust

- Where directors have confidence in each other's values and aims
- Where communications between directors are open and information is shared
- Where all directors seek to do what is best for the business rather than themselves

Actions that destroy trust

- Where directors are suspicious of each other's motives or objectives
- Where directors hold back information
- Where directors openly criticise their board colleagues

Directors need to be **well informed** about the bank's business, its policies and the issues it faces. Read company reports and board Minutes together with brokers' reports and media cuttings. Above all talk to executive colleagues, particularly the CEO and other key managers. Try to visit key locations and meet the staff. Make sure you are offered a comprehensive induction programme. You should expect to be kept fully advised of all material developments in a timely manner. Keep the chairman informed of your movements so you can be contacted quickly in an emergency. If you feel you have been given insufficient information, or insufficient time is being given to consideration of a proposal, you should speak up and, if necessary, ask that the board defers making a decision.

You must give the job the time it deserves and **attend all meetings** for which you are needed. You must prepare properly for meetings and read and digest the agenda papers. You should consider in advance what questions you might raise and whether it might save time if you raised some of your queries with the chairman or CEO before the board meeting. In a crisis such as a takeover situation, you may have to make more time available and don't forget shareholder meetings and strategy away days. Ask for a calendar of meetings for which you are required.

You should seek to be an active participant in meetings and be prepared to **challenge constructively** when necessary. Once the board makes a decision all directors share responsibility for that decision and you should then support management. However, if you feel strongly about an issue you should say so and, if your views are not accepted, you can ask for your disagreement to be recorded.

Decisions must be taken at properly constituted board meetings and must be formally recorded so it is unacceptable conduct for groups of directors to seek to take decisions between board meetings. Such decisions have no proper authority and undermine the concept of the unitary board that acts on a collective basis. **Fragmented boards are a cause of many corporate failures**.

Remember you are there to serve the interests of all shareholders. Directors are independent of management and should be **independent in their judgement**. You must at all times have regard to the rules and standards that apply to managing conflicts of interest and related party transactions (**see page 36**). The position of director is one of special trust and confidence. You are expected to behave in a co-operative and collegiate manner with your board colleagues and to support the executives in their leadership of the business. **Individual interests or the interests of individual shareholders must be subordinated to the interests of the bank** and all its shareholders. You should rely on your own sense of what is fair and in the best interests of the bank.

The effective NED

- Upholds the highest ethical standards of integrity and probity
- Supports executives in their leadership of the business while monitoring their conduct
- Questions intelligently, debates constructively, challenges rigorously and decides dispassionately
- Listens sensitively to the views of others
- Gains the trust and respect of colleagues
- Promotes high standards of corporate governance

Decision making questions

- Do I have a conflict of interests? (If so disclose it)
- Do I have all the facts I need? (If not ask questions)
- Is the decision a rational one based on all the facts? (If not say so)
- Is the decision in the best interests of the bank? (this should be your main concern)
- Will the decision be communicated to stakeholders transparently? (you should always seek to raise standards of disclosure)
- Am I acting as a good steward of the company's assets? (this is your job)
- Will I be embarrassed if the decision and the board process were to be reported in the newspaper? (reputation risk is a driver of good decisions)

CHECKLIST FOR DIRECTORS ON APPOINTMENT

On appointment you are likely to be asked to sign a new contract or receive a letter of appointment with your terms of service. All directors should be elected by shareholders for three-year terms and then be required to seek re-election. You might expect to receive copies of the following documents:

- Bank's Articles of Association
- Banking laws and regulations
- Organisation chart
- Powers reserved to the board and authorities delegated by board to CEO and others
- Bank's corporate governance guidelines
- Board and board committee charters or terms of reference
- Board objectives
- Bank strategy and budget for current year (and 5 year business plan)
- Disaster recovery plan
- Risk management procedures
- Description of board procedures
- Policies on directors share dealings and on conflicts of interest
- Directors and officers liability insurance cover
- Annual Report and Accounts for last three years
- Minutes of board and board committee meetings for last 12 months
- Schedule of board and board committee meetings for current year
- Contact details for directors including CEO/General Manager, company secretary and key managers.

You should look to the CEO or company secretary for this information and for any guidance or advice you require regarding your rights and responsibilities

INDUCTION AND CONTINUING DEVELOPMENT

A well thought out **induction process** is important for all new directors. A high quality process should give new appointees an early feel for the business and an understanding of the key issues whilst, at the same time, giving them an opportunity to make an early positive contribution and add value to the board.

The Chairman should set aside time to talk to you about the bank's corporate governance structure and about both your role and his role on the board. The Chairman, together with the CEO, should explain to you the bank's strategy and talk about some of the current issues. **The CEO** should brief you on the bank's management information system and on performance management. The Chairman should describe the style of board meetings and how issues are dealt with both at board meetings and outside the board.

As a director, you will need to visit some of the bank's locations and meet management both at head office and in the branches.

The company secretary may organise a formal induction session for you to explain your duties as a director and how the board is managed. The Secretary or General Counsel should also explain your corporate governance obligations and relevant requirements of the stock exchange Listing Rules, if your bank is listed.

It is equally important that you keep your skills and knowledge up to date. Nobody is too senior or experienced not to benefit from continuing professional development. There are plans to develop management education capacity in the UAE and directors should make use of these new opportunities. Board performance evaluation (see page 38) and your individual appraisal should be used to identify your development needs. Particular areas might include changes in the legal, regulatory and accounting environments. The HR head should be a source of advice as to suitable courses or seminars.

A particular idea you and your bank might consider is whether you would benefit from having access to an external mentor or coach whom you can consult from time to time on matters such as your leadership style or your effectiveness on the board. Many directors do find mentoring helpful to their personal development.

ACTION PLAN

On appointment

- ⇨ Talk to the chairman about the board
- ⇨ Talk to the CEO about the business
- ⇨ Familiarise yourself with the key functions of the bank
- ⇨ Understand your obligations

Continuing development

- ⇨ Keep your skills up to date
- ⇨ Identify your development needs
- ⇨ Attend relevant courses
- ⇨ Consider mentoring

ROLE OF THE BOARD

> "At the heart of every governance system is a board of directors charged with directing and overseeing corporate affairs".
>
> *Professor Marek Hessel*

The board's role is to encourage the entrepreneurial leadership of the bank within a framework of prudent and effective controls which enable risk to be assessed and managed. The board is responsible for **strategic direction, management supervision and adequate controls** with the ultimate objective of promoting the success and long-term value of the bank. The board must ensure that management balances the promotion of long-term growth with the delivery of short-term objectives.

The board should set the strategic aims and ensure that the necessary financial and human resources are in place for the bank to meet its objectives. The board should ensure that management is focused on implementing the approved strategy. **The board should be clear about the bank's purpose and set its values and ethical standards**. It should ensure that management behaves with integrity and that the bank's obligations to its shareholders and others are understood and met. The consistent practice of high ethical standards will enhance the credibility and trustworthiness of the bank. Management integrity is essential to building relationships of trust with customers, suppliers, employees, regulators and investors. An example of a Code of Ethics can be found in Annexe I.

The board must ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. The key components of internal control are:

- Control environment: directors must set the "tone at the top" that influences the control consciousness of personnel
- Risk assessment: the board must be aware of and deal with the risks it faces
- Control activities: control policies and procedures must be established and implemented to help ensure risks are effectively managed
- Information and communications: information and communication systems, including accounting systems, provide the information needed to manage and control operations
- Monitoring: the control process must be monitored and adapted as conditions change

Staff should be able to communicate concerns about illegal, unethical or practices that might adversely affect the bank's reputation. The board, through its Audit Committee, should ensure the bank has a whistleblowing procedure in place. An example of such a procedure is in Annexe J.

The board should ensure there are policies and procedures to identify, avoid or manage and appropriately disclose potential conflicts of interest. Such policies should ensure that activities that might give rise to conflicts of interest are carried out with a sufficient degree of independence from each other by, for example, establishing information barriers or separate reporting lines. Conflicts between the personal interests of directors and those of the bank or its customers should also be identified, managed and disclosed.

The board should ensure there are policies, based on regulations or otherwise, regarding lending to directors and staff of the bank. Such lending must be consistent with market terms, or terms offered to all employees, and should be reported to the board and reviewed by the auditors.

The board should ensure there are policies regarding transactions and other contractual relations between related companies or other counterparties such as shareholders or directors. More guidance on related party transactions is on page (45).

The board should ensure its disclosure policies are designed to ensure **the fair and timely release of material information to the market** and that such information is honest, accurate, not misleading and reasonably complete. The board of a bank, whose securities are listed, should ensure there are policies in place that require significant information that could affect the price of its securities or an investor's decision to buy, sell or hold those securities to be disclosed promptly to the market authorities and to be placed on the bank's website.

The board should ensure that accounting policies and procedures are such that the bank's financial statements present a true and fair view of its financial position. No accounting transactions should take place that are not recorded in the formal accounts. **The accounts should be prepared and audited in accordance with International Accounting and Auditing Standards (IFRS and IAS).**

The board should determine the corporate governance guidelines for the way in which it wants the bank to be managed and controlled. An example of such guidelines is included at Annexe A.

The board is the decision-making body for all matters that are significant to the bank as a whole because of their strategic, financial or reputational implications or consequences. The board has ultimate authority to decide on all issues except those that are reserved by law or the Articles of Association to the authority of the shareholders in general meeting. The board is likely to delegate some of its authority in specific areas to management or to committees of the board. The board may also delegate to the CEO authority to sub-delegate powers to managers. The scope and extent of authorities and powers that have been delegated by the board should be set out clearly in an organisation manual that should be freely available to all employees. If the board believes management is failing to carry out its delegated powers satisfactorily then it should take back those powers to itself.

The board should formulate in writing those powers and responsibilities that are reserved to the board. A model set of such reserved powers are included in the Board Charter in Annexe C. These will include decisions that are required by law or regulation to be made by the board itself. Other matters that are likely to be reserved to the board include:

- Board and key executive appointments and terms of service
- Board committee appointments and terms of reference
- Approval of remuneration of directors and key executives. Remuneration policies should be consistent with the bank's culture, control environment and long-term objectives. Remuneration policy might be handled by a committee comprising non-executive directors, including independent directors, to avoid potential conflicts of interest.
- Approval of strategic plans and operating budgets
- Approval of major capital expenditure, investments, acquisitions and disposals
- Decisions on the management and control structure of the bank
- Approving the bank's risk appetite, risk management framework and monitoring aggregate risk exposures. The board needs to understand the risk profile and ensure that capital levels adequately reflect such risks.
- Reviewing the effectiveness of the bank's system of internal control annually, although this might be delegated to the audit committee
- Approval of financial results announcements and reports and accounts
- Approval of dividend payments
- Approval of adoption of any significant change in accounting policies or practice
- Approval of pensions policy
- Succession planning for main executive appointments. The board or its Nominations committee selects, monitors and, where necessary, replaces key

managers while ensuring there is a plan for executive succession and ensuring successors are qualified and suitable to manage the affairs of the bank.

- Approval and review of bank’s corporate governance arrangements
- Approval and review of bank’s code of conduct for employees
- Approval of material transactions between the bank and its directors or other counterparties related to the bank.

It is important that managers understand the role of the board and the limits of their authority The reserved powers should be widely communicated and the board should consider holding a regular meeting with the senior management to discuss major strategic and performance issues. This will be an opportunity for the board to explain its role and its recent considerations.

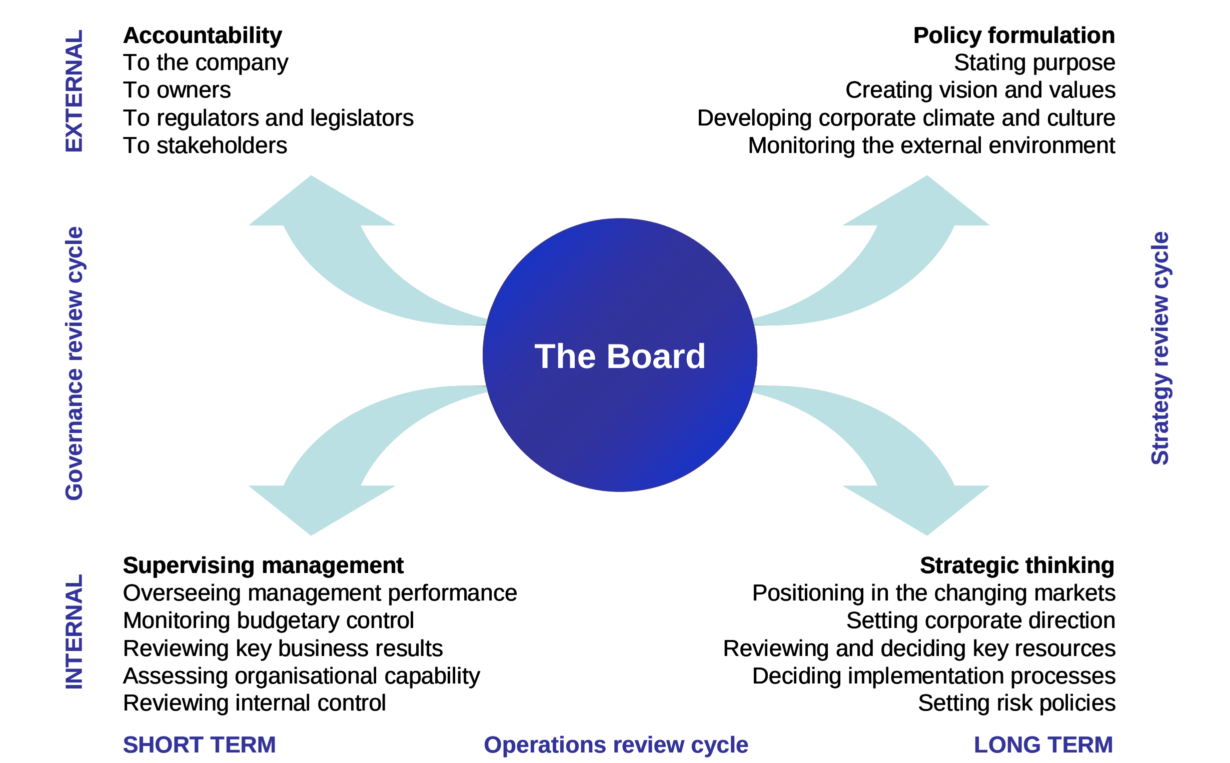
The board is required by Central Bank Circular 23/00 to be provided with the following information:

- Schedules of loans, advances and settlements
- Reports from the Internal Auditor
- Monthly financial reports
- Investment reports
- Personnel statistics

In February 2006, the Basel Committee on Banking Supervision published eight principles for enhancing corporate governance for banking organisations. These principles address the role of the board and are as follows:

1. Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgement about the affairs of the bank NB the discussion of this principle clearly envisages that a unitary board will comprise both executive and non-executive directors.
2. The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organisation
3. The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation
4. The board should ensure that there is appropriate oversight by senior management consistent with board policy
5. The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors and internal control functions
6. The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment
7. The bank should be governed in a transparent manner
8. The board and senior management should understand the bank's operational structure including where the bank operates in jurisdictions, or through structures, that impede transparency (ie "know your structure").

Responsibilities of the Board



Source: Board Performance Ltd

"The role of the board is to govern the company on behalf of the shareholders… clarity is key: clarity in respect of the role of the board and the nature of the delegation to the Executive; clarity in the monitoring role of the board committees; clarity above all in the purpose of the company and its communications to shareholders"

David Jackson, BP

ACTION PLAN

Now

- ⇨ Review as a board whether you are looking at the right issues
- ⇨ Has the board approved a strategy and business plan?
- ⇨ Is the board clear on its objectives?
- ⇨ Has the board defined and communicated the bank's purpose and values?
- ⇨ Check there is an organisation manual defining the delegated authorities
- ⇨ Review all loans to directors and their connected parties
- ⇨ Check required information is being provided to Central Bank

Year 1

- ⇨ Produce Code of Ethics and communicate it widely
- ⇨ Produce whistleblowing policy for all employees
- ⇨ Board and audit committee to review internal controls of bank
- ⇨ Produce (or review) and communicate policy on managing conflicts of interest
- ⇨ Produce or review policy on related party transactions
- ⇨ Produce or review disclosure policies

By Year 2

- ⇨ Prepare accounts in accordance with international standards
- ⇨ Produce corporate governance guidelines for bank
- ⇨ Produce and communicate board reserved powers in a board charter and review
- ⇨ Delegated authorities

BOARD PROCEDURES

A successful board meeting requires considerable attention to detail. Some suggestions for good housekeeping:

- **The board room** should be thoughtfully laid out with a table that allows members to see each other
- The technology for **presentations** involving visual aids should be first class
- Board members should turn off **mobile phones** and the room should have good telecommunications facilities
- **Refreshments** should not interrupt the meeting
- There should be a nearby **waiting area** for presenters of papers
- The meeting should ideally last **no more than 4 hours** and conclude with lunch or dinner so members can continue more informal conversations. Presenters of papers might occasionally be invited to attend.

Board meetings should be held **at least 4 times in a year** with a maximum interval of 4 months between meetings. The quorum for a board meeting is a majority of directors.

The **board agenda** needs careful consideration by the chairman, CEO and company secretary. There needs to be a **balance between operating decisions, performance reporting and more forward looking strategic issues.** There should be regular reports on performance, monitoring and control issues. Formal decisions on regulatory matters will be required. More strategic issues require plenty of time for debate. Some may need to be brought to the board a number of times as strategy or transactions are developed. Too much board time should not be "stolen" by more routine or administrative matters. It helps if the agenda shows how much time is allocated for each item.

Board discussions are helped by **short, focused papers** distributed in good time before the meeting. Papers need not be more than 4-6 pages with any further detail in annexes. If a proposal is more complex or requires additional explanation, thought should be given to having either additional informal meetings of available directors before the formal board meeting, or arranging one to one briefings by the promoter of the proposal with each director.

Oral presentations of proposals can assist the board and copies of visual aids should be handed out after the presentation. Presentations should add to, not repeat, what is in the paper. Directors must read the papers before attending the meeting. A presentation should not take up more than one third of the time allocated on the agenda for the item. The chairman should encourage full participation by directors in the debate. It can assist if directors who have questions on the paper contact the author before the meeting to try to resolve them. All board meeting papers and copies of presentations should be left on the table when the meeting is over. These papers should be collected by the Secretary and shredded. Directors must **not** take board papers away from the meeting.

Minutes of board meetings should strike a balance between being a bare record of decisions and a full account of discussions. On more routine housekeeping matters or more sensitive personnel issues a short record is acceptable, but for most items there should be a summary of the matter discussed and the main points raised in the discussion as well as the decision recorded. This amount of attention is desirable to show the board has acted with due care. Minutes also serve as reminders of action to be taken between meetings. Drafting of Minutes should also take into account the possibility they could be used as evidence in litigation.

> “Not all business judgements are right but a wrong decision combined with the wrong process may result in corporate failure”
>
> *Judge Mervyn King*

BOARD COMMITTEES

The board should look to delegating specific responsibilities to the following committees:

Executive or Management Committee: Chaired by the CEO/General Manager and comprising senior management and key managers. The committee should not include non-executive directors.

The committee supports the CEO in the day-to-day management of the business. The committee develops strategies and policies for recommendation to the board and implements the strategy approved by the board.

Remuneration Committee: Comprising directors with the chairman, CEO and Head of HR normally, but not always, in attendance.

The Committee considers matters relating to executive reward, including policy for executive directors' and senior managers' remuneration and their annual individual remuneration awards. The committee approves changes to incentive and benefits plans applicable to senior managers. The committee may also review strategic

HR issues including employee retention, motivation and commitment; and succession planning for senior manager positions.

Nomination Committee: Comprising directors and chaired by the chairman of the board.

The committee is responsible for considering matters relating to the composition of the board, including the appointment of new directors, making recommendations to the board as appropriate. The committee reviews succession plans for the chairman, CEO and other key board positions. This committee might also review corporate governance arrangements and oversee the annual performance evaluation of the board, its committees and the individual directors.

Audit and Compliance Committee:	Comprising directors with the CFO, heads of internal audit, risk and compliance, and the external auditor in attendance. The committee approves the appointment of external auditors and oversees their relationship with the bank. It monitors the effectiveness of, and receives regular reports from the internal audit and compliance functions. The committee reviews financial statements and procedures and systems of internal control over financial reporting. The committee reviews arrangements for compliance with the requirements of regulators and receives reports on the operation of the bank's whistleblowing arrangements.
Credit Committee	Not a board committee but a management committee that approves credit proposals up to limits agreed by the board.

Examples of terms of reference for these committees can be found in the Annexes.

Note that all these committees, apart from the Executive Committee and Credit Committee, comprise only directors and it is not expected that external third parties should be members of such committees. It is quite acceptable for the committee to appoint an expert consultant (e.g. HR consultant for the Remuneration Committee or a search firm for the Nomination Committee) to attend meetings from time to time to provide advice. Board committees allow time away from the Board meeting itself for directors (particularly non-executive directors) to carry out their corporate governance responsibilities more effectively. It is important that the board is not distanced from the work of the committees and there should be reports from each committee to the board and their minutes should be circulated to all directors. In many cases the committees will be making recommendations to the board which remains the final decision-making authority.

In addition, the board should establish a **Risk Committee** at senior management level to oversee the management of credit, market liquidity, operational, legal and other risks. The committee recommends risk philosophy and tolerance for board approval, defines the bank's risk appetite and reviews risk management processes used by the Risk Department.

ACTION PLAN

Now	Year 1	By Year 2
⇨ Executive and Credit Committees should be in existence but review their charters ⇨ Establish Audit and Compliance committee and draft its charter	⇨ Establish Risk Committee if not in existence and draft its charter	⇨ Establish Remuneration and Nomination Committees and draft their charters

ROLE OF CHAIRMAN

Circular 23/00 requires the positions of chairman and CEO/General Manager to be held by different persons. By Federal law the board should also appoint a Vice Chairman.

The chairman is responsible for:

- **leadership of the board**: ensuring its effectiveness, setting its agenda and chairing its meetings
- ensuring the provision of accurate, timely and clear **information to directors**
- ensuring effective **implementation** of board decisions
- ensuring effective **communications** with shareholders
- arranging the regular **evaluation** of the performance of the board, its committees and individual directors including the CEO
- facilitating the **effective contribution** of directors and ensuring constructive relations between executive and non-executive directors
- ensuring that a comprehensive **induction** programme is provided for new directors
- addressing the **development** needs of individual directors and the board as a whole
- encouraging active **participation** by all members of the board

A critical issue for the chairman is to ensure that sufficient time is allowed for discussion of complex or contentious issues. This may require informal meetings of directors outside board meetings but **decisions must only be taken at formal meetings**. If you believe insufficient time has been allowed and unrealistic deadlines have been set, you should discuss your concerns with the chairman. Board decisions should always be taken at properly constituted board meetings and such decisions should be formally recorded in the board Minutes.

The chairman should always promote the highest standards of corporate governance and ensure that the board discharges its duties and complies with relevant laws and regulatory requirements. It is critical that the chairman establishes a close **relationship of trust with the CEO**, and is available to provide support and advice to the CEO. In co-operation with the CEO the chairman should develop the bank's communications policy. It is essential that the chairman does not exceed his authority by seeking to make decisions or issue instructions on his own without agreement with the full board.

The chairman needs to build an effective board and, with the help of the Nomination Committee once it exists, plan **succession to board appointments**. The chairman should ensure the board has within its membership relevant knowledge of the banking industry together with financial and accounting expertise. If the bank operates in international markets then relevant expertise on international matters should be sought for the board.

"It is board leadership which generates the drive on which the growth of companies depends"
Sir Adrian Cadbury

"The cultural tone of the board is set by the chairman's own behaviour. If the chairman is dominant, it is harder for directors to contribute…a good chairman provides a cultural environment in which high-level, open and honest debate can take place"
Lynn McGregor

RIGHTS AND DUTIES OF DIRECTORS

Unfortunately, directors enjoy few rights but bear many responsibilities. You should expect to receive timely and accurate information. **Papers** for board meetings should be issued well in advance before a meeting. They should not be so lengthy as to be impossible to consider fully before and at the meeting, You have the right to access any company information, records and books through the Chairman. You should also receive and review any **financial information** before it is published to shareholders. You should inform the Chairman if you consider the information you receive as a board member is insufficient to help you contribute to taking sound decisions and to carrying out your monitoring responsibilities effectively.

Board agendas should strike a balance between reviews of past performance and more forward looking strategic issues. You may request the Chairman to include any matter on the board agenda and, should you disagree with a decision of the board, you may ask for your disagreement to be recorded in the minutes of the meeting. This could be particularly important to avoid liability for any decision which involves a breach of the law or misuse of the board's powers. It is always preferable to deal with disagreements on the board by reasoned discussion in the hope of reaching a consensus or, ultimately, a majority decision.

Your legal duties as a director are found in company law. As Federal UAE laws are supplemented by further local laws it is not possible to provide a uniform or comprehensive list of duties. You should consult your bank's legal advisors for more detailed information.

Directors are required:

- to act honestly and **in good faith** in the best interests of your bank
- to exercise reasonable **care**, diligence and skill to a standard that would be expected of a director in your position
- to avoid **conflicts of interests**, and to disclose to your board any personal interest in a transaction to be entered into by your bank which may conflict with the interests of the bank. You must not participate in a board discussion on such a transaction and you must refrain from any vote on the transaction. You should disclose any financial interests or business activities which might affect the bank's financial position. You must not participate in any business that competes with the bank nor carry out trade activities for your own account in any of the bank's activities.

- You should **deal fairly** and in an equal manner with all of the bank's employees, suppliers, customers and competitors. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation or any other unfair dealing practice.

In addition, you should seek to exercise **independent judgement** in carrying out your responsibilities. You should consider both the short and long-term consequences of your decisions. Although your duties are owed to the bank and the enhancement of shareholder value is likely to be an objective of your bank, you should also take into account the impact of your decisions on employees, customers and suppliers. You should bear in mind that your responsibilities are owed to the bank and **all** its shareholders. This is particularly important if the bank is state or family controlled. The controlling shareholder must respect the independence of the board.

In acting honestly and with integrity, you should comply at all times with your bank's code of conduct. You should always act so as to uphold the **reputation and trustworthiness** of your bank. You must not take for yourself opportunities that arise from the use of bank property, information or market position without the approval of the board. You should disclose to the board any litigation which involves you personally and which could affect the reputation of the bank.

You should keep all the bank's information **strictly confidential** so long as such information has not been made public, and you must only use the bank's property for legitimate business purposes. You must not make use of information you receive as a director to gain a personal benefit such as by buying or selling securities that relate to the information you have obtained.

You should only make statements to the media about the bank's business operations with the agreement of the Chairman or the CEO.

You should **attend all board meetings** and all meetings of board committees for which you are required. There are limits on the number of external appointments you can accept and **you should not accept an appointment to be a director of more than one bank.** You should always consider the calls on your time before accepting an appointment. You should disclose any other board appointment or external appointment to the board. By UAE law you cannot accept more than 5 other directorships or be a Chairman or vice chairman of more than two companies. You may only be a CEO of one company.

Your bank may well have its own rules or guidelines relating to the conduct of directors and you should make yourself familiar with these rules and comply with them at all times.

Principles of Leadership

- Good faith
- Care
- Skill
- Diligence
- Fairness
- Accountability
- Responsibility
- Transparency

Directors' Checklist

- Attend meetings
- Ask questions
- Be a good listener
- Be a team player
- Understand your responsibilities and relevant laws and regulations
- Constantly monitor and review
- Keep yourself well informed and take advantage of training opportunities
- Ask for help or information when necessary
- Respect confidentiality
- Keep up to date with the bank's relationships with its stakeholders
- Be aware of your ethical responsibilities

Source: National Association of Corporate Directors

Information checklist

- Financial statements that compare current period and year to date results to budget and previous year; reasons for variances and revised forecast for rest of year
- Strategy proposals and updates
- Regular reports on risk management and credit matters
- Market share information and analysis of competition
- Minutes of Board Committee meetings
- Media articles on company
- Brokers' reports and reports on investor relations activities
- Customer and employee surveys

FURTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to your general obligations covered elsewhere in this handbook, you are likely to have a number of further obligations related specifically to your role as a director of a financial institution.

Your additional duties as a director of a banking institution are of a different type altogether. Due to your bank's integral position in the provision of credit, taking of deposits and effecting of financial transfers, there are a number of external regulators who expect you to oversee the functioning of your bank.

There are several areas of particular importance including capital adequacy requirements, risk management, implementation of measures to prevent money laundering and measures intended to protect depositors and investors. These guidelines do not aim to provide legal advice, and you are recommended to seek professional advice when in doubt. You should, however, have a general understanding of your responsibilities with regard to these areas and their implications for you and your bank.

As a director of a credit institution you are answerable to the Central Bank for any activities carried out by your bank. The Central Bank also has in place a regulatory and supervisory regime to protect the integrity of the payments system, macroeconomic stability, liquidity and the savings of depositors. In addition, your bank should be in compliance with the **requirements of the Basel Committee** on Banking Supervision of February 2006. It is good practice for you to make yourself acquainted with national banking law such as the 'Banking Law' of Union Law No. 10 of 1980. A more detailed description of the requirements for banks and their directors is found in Annexes K and L.

It is essential that your bank has in place appropriate and suitably qualified personnel to carry out the operational risk management functions that ensure full compliance with the requirements of the regulatory and supervisory regime. It is important that the bank maintains **clear and appropriate reporting lines** and any delegation of responsibilities between the senior management is delineated. The allocation of responsibilities must be done is such a manner so as to ensure that the activities of the bank may be effectively monitored and controlled by the board.

It is good practice to establish a fast-track procedure for the purpose of informing the board of any deviations or breaches of the established policies and procedures. There may be a legal obligation for bank directors to make the Central Bank aware of such issues.

Another area of importance is the implementation of effective **anti-money laundering** (AML) and countering the financing of terrorism (CFT) rules. Your bank should have a designated money laundering reporting officer, who supervises the implementation of the rules relating to this illicit activity. It is important that this individual is given access to the Audit Committee or, at least a director of the bank, and that any serious concerns are immediately investigated and resolved.

You should ensure that the board has put in place a system that ensures full compliance with the AML/CFT laws and regulations, as breaches of these may have serious legal, commercial and reputational consequences for your bank. You should familiarise yourself with Financial Action Task Force 40+8 Rules dealing with the prevention of money laundering and countering the financing of terrorism.

Finally, offers of securities in any jurisdiction, whether private or public, are likely to be governed by prospectus and securities laws. In many jurisdictions, the laws impose personal liability on the directors for statements made in prospectuses or other offering documents. There may also be various laws restricting marketing, aimed at protecting investors in these jurisdictions.

BOARD PERFORMANCE EVALUATION

It is best practice that the performance of the board, its committees and its members is evaluated at least once a year. The purpose of these evaluations is to help the board achieve its objectives more effectively. As most banks that are following these Guidelines will be making fundamental changes to their structures and processes over the next few years, the benefits of stepping back each year to assess the effectiveness of what has been put in place should be self-evident. Boards should consider the issues that are appropriate to their own and the bank's circumstances. This guideline does not deal with individual director appraisal but banks are encouraged to move in that direction to comply with best international practice.

Board evaluation tends to break down into people and process factors. Here are some specific questions you might ask:

- Has the board set clear **performance objectives** and how well has it performed against them?
- What has been the board's contribution to the **development of strategy**?
- What has been the board's contribution to ensuring effective **risk management**?
- Is the membership of the board and its committees appropriate with the **right mix of skills and knowledge**?
- Are **relationships** between the directors and the CEO/General Manager working effectively?
- How well has the board responded to any **problems** or crises?
- Is the board dealing with the **right issues**?
- Are there effective **relationships** between the board and its committees?
- How well does the board **communicate** with the management team?
- Is the board kept up to date with **regulatory and market developments**?
- Is the board provided with appropriate and timely **information** of the right length and quality?
- Are sufficient board and committee meetings of the **right length** held to enable proper consideration of issues?
- Are board **procedures** adequate for effective performance?

With regard to board committees here are a few more questions:

- Does each committee have appropriate **terms of reference**?
- Is the **amount of business** handled by the committee set at the right level?
- Does the committee **keep the board adequately informed** of its work?

- Are the committees **effective**? (further specific questions will be needed)
- Are the committees being **used to best advantage**?

A decision to start an evaluation needs **the full support of the chairman** who is likely to lead the process. It is not just a compliance exercise. Every director needs to understand what is involved and the chairman needs to consider what he wants to achieve. The chairman should also consider how far to take the evaluation: board only or committees and individual directors. A decision is needed on how the process is to be carried out and whether to use an **external facilitator** such as one of the bank's professional advisors.

Many companies prefer to start with using an "in house" facilitator who has a better understanding of the company, its history and culture. Such a facilitator could be the chairman himself or a senior member of the board. The facilitator should prepare a **questionnaire** to be completed by each director. The results from the completed questionnaires should be reported to, and discussed with, the chairman, where he is not the facilitator, before being shared with the full board in a written **report** identifying strengths and weaknesses and making recommendations for action.

The board should agree an **action plan** with areas for improvement and should monitor progress against the plan at least annually.

Questionnaires should be reinforced by one to one **interviews** conducted by the facilitator with each director, but directors might be uncomfortable with discussing any sensitive matters with a board colleague and this can be a reason for using an external facilitator to take control of the process. In this case the interviews should be carefully structured and the facilitator might ask to sit in on some board and committee meetings. In selecting an external facilitator it is important to be satisfied as to their independence and to ensure there are no conflicts of interest e.g. does the facilitator see itself getting any commercial advantage from your bank by offering this service? You also need to be satisfied that the facilitator is discreet and will handle the evaluation with tact and diplomacy. Each year, after the first evaluation, the board should then consider the nature and extent of a further evaluation. Full annual evaluations may be unnecessary but once an evaluation is done further evaluation exercises become easier.

In summary the board should consider:

- **Who will be responsible for the evaluation process?**
- **Who will contribute to the process?**
- **What will be the extent of the process?**

- **To whom will the results be reported?**
- **Most importantly, how will the board act on the outcome?**

ACTION PLAN

Year 1	Year 2	Year 3
⇨ Board to consider performance evaluation of itself with internal facilitator	⇨ Board committees to be evaluated	⇨ Introduce individual director appraisal ⇨ Repeat Board evaluation with external facilitator

> "Evaluation is essential to improving a company's performance…this is as true for the board as it is of every other part of the business… Any company that wants to improve its performance should take board evaluation very seriously"
>
> *Sir Bryan Nicholson, ex Chairman Financial Reporting Council*

SPECIFIC ISSUES

1. Internal control

As a director, you are responsible for the adequacy of internal control and for reviewing its effectiveness. It is important that procedures have been designed by management for the purpose of safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information., Such procedures are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and cannot provide absolute assurance against material errors, losses or fraud.

These procedures should include the following:

- Functional, operating, financial reporting and certain management reporting standards should be established by management for application across the whole of the bank and any subsidiaries.
- Systems and procedures should be in place to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, breaches of laws or regulations, unauthorised activities and fraud.
- Centralised functional control should be exercised over all computer system developments and operations. Common systems should be employed where possible for similar business processes. Credit and market risks should be measured and reported on in subsidiaries (if any) and aggregated for review of risk concentrations on a group-wide basis (if applicable).
- Responsibilities for financial performance versus budget plan and for capital expenditure, credit exposures and market risk exposures should be delegated with limits to line-management in any branches or subsidiaries (where applicable). In addition, functional management should be given responsibility to set policies, procedures and standards in the areas of finance; legal and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; computer systems and operations; and property management.
- Policies and procedures to guide management at all levels in the conduct of business to safeguard the company's reputation should be established by the board. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. Your bank's good reputation depends mainly upon the way in which it conducts its business, but it can also be affected by the way in which its clients conduct their business, hence it is important to implement appropriate "know your client procedures".

The internal audit function should be independent and should monitor compliance with policies and standards and the effectiveness of internal control across the whole of the bank. The work of the internal audit function should focus on areas of greatest risk to the bank as determined by a risk-based approach. The head of internal audit should report to the chairman of the audit and compliance committee.

The audit and compliance committee should keep under review the effectiveness of the system of internal control and report regularly to the board of directors. The key processes used by the committee in carrying out its reviews should include regular reports from the heads of key risk functions; the production annually of reviews of the internal control framework applied at head office measured against the bank's benchmarks, covering all internal controls, both financial and non-financial; annual confirmations from business lines, operational divisions and subsidiary companies (if any) that there have been no material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews and regulatory reports. You and your fellow directors should, through the audit and compliance committee, conduct an annual review of the effectiveness of the bank's system of internal control covering all controls, including financial, operational and compliance controls and risk management.

2. Risk

As a director, you have certain responsibilities related to risk management. You are responsible for analysis of the bank's current and future capital requirements in relation to its strategic objectives. This is a vital element of the strategic planning process. The bank's internal control structure is essential to the capital assessment process. You and your colleagues must ensure that management has implemented a good risk assessment system. The bank's risk management must be conceptually sound and implemented with integrity.

You, and your colleagues on the board, should be actively involved in the risk control process and you should ensure that daily activity reports are reviewed by management of suitable seniority to enforce decisions. The board has the responsibility of setting levels of 'risk tolerance'.

You should also ensure that:

1. The board or a designated committee approves all material aspects of the rating and estimation processes.

2. Senior management must provide notice to the board (or designated committee) of material changes, or exceptions from established policies that will materially impact the operations of the bank's rating system.

3. The bank establishes an adequate system for monitoring and reporting risk exposures (with specific areas detailing the largest balance sheet risks), and that this system is able to assess how the bank's changing risk profile affects the need for capital. Senior management or the board should, on a regular basis, receive reports on the bank's risk profile and capital needs.

4. The credit rating system of the bank and classification of assets is appropriate and that there are proper reporting arrangements to the board on material issues regarding this system

When developing an appropriate risk management environment you should apply three guiding principles:

1. The board should be aware of the major aspects of the bank's operational risks, as a distinct category that should be managed.

2. The board should ensure that the operational risk management framework is subject to effective, comprehensive internal audit. The internal audit function should not be directly responsible for operational risk management.

3. Senior management should implement the operating risk management framework approved by the board.

3. Compliance

Compliance means compliance with the conduct of business rules imposed by the regulator, laws governing capital markets, as well as with established market practices and other regulatory requirements and standards.

Every bank must allocate at least one individual to have oversight responsibility for compliance. The compliance officer should be a person of sufficient seniority. It is not uncommon for the chief legal officer in the bank to hold the joint responsibility for compliance oversight. It is advisable that the compliance officer should report directly to the board in respect of his or her compliance responsibilities. Depending on the structure of the bank, it may be appropriate for the compliance officer to report to a Compliance or Risk Committee.

Some banks, particularly those with complex structures, or which are part of a group, may find it appropriate to have several compliance managers overseeing their designated areas. In such a case, a decision as to the ultimate structure and allocation of compliance responsibilities must rest with the board, having regard to the particular risks presented by each area of business. The board may, for example, designate separate compliance managers to each of the various financial products. It may also be appropriate to have a designated compliance team within each of the subsidiaries.

Where compliance responsibilities are allocated in such a manner, it is advisable that each of the compliance managers should report to an appointed chief compliance officer who would then report to the board.

The ultimate responsibility for compliance oversight will rest with the directors of the bank. It is therefore essential that the directors should keep themselves appraised of the latest regulatory and legal developments that may affect the bank’s business. From a legal and reputational risk perspective, it is very important that the board should receive regular updates from the compliance officer as to the state of affairs. Advice from the compliance officer and, where appropriate, from the legal advisers should be sought whenever any new type of business or product is considered. The concerns of the compliance officer should be taken with utmost seriousness and may not be disregarded simply because they stand in the way of revenue-generating business.

Banks may choose to have a separate individual with responsibilities for money laundering reporting. It is quite common, however, for the chief compliance officer also to hold the responsibility of the money laundering reporting officer.

4. Credit and credit risk management

As far as the credit policies adopted by your bank are concerned, you have certain responsibilities as a director. You and your colleagues must establish policies under which loans are granted and monitored. You must also ensure that the bank has in place appropriate structures (including establishing credit committees at different levels), procedures (such as “two pairs of eyes”) and reporting lines together with clear definitions of responsibilities. These must be ‘watertight’ so as to prevent anything escaping scrutiny. While it is for your board of directors to decide on the exact nature of specific policies, it is important that loan officers dealing with all forms of financing (including mortgages, loans, letters of credit.) are instructed to report on a client's total liability to the bank. In addition your duties as a director include the effective oversight of the credit risk system and credit risk management of the bank, especially in the following areas:

1. Ensuring that appropriate officials or committees receive reports monthly on new credit facilities (other than small ones), and also full particulars of those that are overdue or in default (together with details of the proposed recovery action).

2. Ensuring that all credit facilities are monitored annually at the appropriate level.

3. Considering aggregate obligor liabilities and their funding.

4. Sanctioning the writing-off of material non-performing debts (you should bear in mind that loan officers are often reluctant to admit the existence of non-performing loans and should be encouraged to speak out on this issue).

5. Related Party Transactions

As a director, you must ensure that any related party transactions entered into by the bank are disclosed and evaluated impartially. The purpose of ensuring this is to avoid any weakening of day-to-day business disciplines that could have an adverse effect on the risk profile of your bank's asset base.

Definition

The definition of related parties broadly speaking includes:

1. You and your colleagues on the board of directors, the bank's external auditors, advisers, a senior manager or one of his deputies or equivalent.
2. Any relatives of the parties listed in 1) above.
3. Any businesses owned, or substantially controlled, by any of the above parties.
4. Any natural person or entity that directly or indirectly owns a material percentage of the bank's voting shares and relatives of the natural person.
5. Subsidiaries or other affiliates of the bank.
6. Any entity in which the bank directly or indirectly owns a sufficient percentage of shares to enable the bank to influence its operations.

In cases of related party transactions, your bank should have a well-developed system for assessing and monitoring loans and for addressing the element of risk in any kind of transaction. You should also ensure that the bank has trained staff and has devoted sufficient resources to the future training of staff in the implementation of optimal rules related to such transactions. You must ensure that staff are not put under pressure to relax any lending criteria and rules when dealing with related parties. Such pressure can cause confusion, and such relaxation may mean participating in a transaction they would otherwise have declined; or doing so on unusually favourable terms; or allowing situations to develop that should have be faced sooner (like cancelling a loan facility that may have become untenable). You and your colleagues should ensure that any credit assessments should always be conducted on an arm's length principle and not make any special allowances for related parties.

Finally, your bank should ensure that any related party transactions are disclosed in the annual report and accounts.

6. Communications with Shareholders

The main objective of an investor relations programme is to keep the market informed of developments that may affect the share price, including any change in the bank's financial condition, its financial performance or its expectations of performance. Stock markets need a flow of relevant and timely information to function efficiently. Investors should be provided with a clear, honest and accurate picture of the bank's performance and prospects. This is the information on which many investment decisions are made, and on which the bank can hope for a fair market valuation to be put on its shares to reflect its circumstances and its longer-term value.

For listed companies it is essential that senior management is familiar with the requirements of the regulatory market authorities for the communication of information. Important principles which are capable of general application are set out below:

- Significant information should be communicated promptly to the market as a whole through the recognised channels and not to select groups or individuals
- Information communicated must be sufficient, accurate and not misleading
- The bank should have a written procedure for determining what information is significant and for communicating that information to the market. The procedure should identify who in the organisation is responsible for making communications.
- The bank should have adequate arrangements to keep significant information confidential until it is announced.
- If significant information is accidentally disclosed on a selective basis, the bank should immediately make a full announcement to the market.
- The bank's website can be used as a tool for investor relations but not as a substitute for communications to the market through the proper channels.

- The Annual Report and Annual General Meeting should be seen as opportunities for the bank to reinforce its messages in simple terms and to indicate its future direction. The AGM is also an opportunity for shareholders to question the board and for their concerns to be answered.
- Investor and analyst meetings, media briefings and road shows are all opportunities for the bank to communicate its strategy, display the quality of its management and the value the board is creating for shareholders.

Particular care must be taken not to disclose confidential significant information at meetings with investors, analysts and the media.

7. Succession Planning

It is an important part of the board's work to ensure that there is adequate management development and succession planning. Once the Nomination Committee is established this will be part of its remit. An assessment needs to be made of the challenges and opportunities facing the bank, and an evaluation of the skills and expertise that will be needed on the board and in the most senior management positions.

The Nomination Committee (or board, where the Committee is not yet created) should ensure that processes and plans are in place for orderly succession for appointments to the board and to senior management to maintain an appropriate balance of skills and technical knowledge on the board.

When a vacancy occurs, the Nomination Committee (or board) should prepare a description of the role, experience and skills required. The Committee or board should consider how the appointment will strengthen the board as a whole rather than considering each vacancy in isolation. It is essential that the board continues to function effectively as a team.

Issues for the Nomination Committee (or board) to address in evaluating the board's skills and experience include:

- Is the board reasonably diverse or does it run the risk of thinking in a uniform fashion?
- Does the board have the sufficient experience necessary for the work of its committees?
- Is there a particular expertise that the board is lacking?
- Is the board turnover sufficient to bring in fresh independent thinking?

In considering the personal qualities and technical requirements for board appointments, the following checklist might be helpful.

Technical requirements relate to:

- **Corporate strategy and development**-understanding of what drives a business, and the principles of risk management and strategic change
- **Legal, regulatory and corporate governance**-including directors' duties
- **Principles of financial management**-and accounting

Personal qualities include:

- **Integrity**-honesty and the capacity for independent thought
- **Leadership**-ability to command respect and display good judgement and courage
- **Strategic perception**-capacity to put a company's strengths and weaknesses, and the potential impact of a proposal into broad context, and identify opportunities and threats
- **Analytical skills**-and ability to use them under pressure
- **Commitment**-to the business and to acting in the best interests of shareholders
- **Ability and flexibility** to work as a team-requires listening and influencing skills

8. Incident management

It is essential that your bank is properly prepared for any serious incident and that you have a disaster recovery plan. No one can afford to be complacent about the challenges that inevitably arise in an environment where the potential threat is so great. You should work with the regulator and with other banks on your business continuity arrangements. The regulator will want to know that your bank is well prepared for disaster recovery and can react promptly to any disruption in trading, settlement and payment functions.

You should have a robust contingency plan prepared and expert advice should be sought if not available in house. Plans should be simple, concise, accessible and meaningful. There should be a back up site identified and capable of being equipped in the event of a disaster and the plan must include recovery tasks. The plan should be regularly rehearsed.

The four phases of managing an incident are:

Assessment

- Initial impact assessment
- Establishing correct level of response
- Prioritisation
- Communication

Reaction

- Establishing crisis management centre
- Initiating staff call out process
- Establishing recovery team
- Re-assessment and communications

Management

- Establishing strategic approach to incident
- Planning
- Executing plan
- Re-assessment and communication

Recovery

- Establishing strategic approach to recovery
- Planning
- Executing plan
- Review

A robust plan should identify two teams: an Incident Management Team (IMT) to be responsible for the management of the incident and a Crisis Management Team (CMT) making the high level strategic decisions that are raised by the IMT. As a director you may be asked to serve on the CMT. Its priorities are:

- to protect staff, the bank's reputation and retain the confidence of the bank's stakeholders
- to identify which business activities must be resumed as a matter of priority
- to monitor and re-prioritise the bank's needs until a full recovery is established.

SUMMARY OF ACTION PLANS

Induction AND Continuing Development Action Plan

On appointment

- ⇨ Talk to the chairman about the board
- ⇨ Talk to the CEO about the business
- ⇨ Familiarise yourself with the key functions of the bank
- ⇨ Understand your obligations

Continuing development

- ⇨ Keep your skills up to date
- ⇨ Identify your development needs
- ⇨ Attend relevant courses
- ⇨ Consider mentoring

Role of the Board Action Plan

Now

- ⇨ Review as a board whether you are looking at the right issues
- ⇨ Has the board approved a strategy and business plan?
- ⇨ Is the board clear on its objectives?
- ⇨ Has the board defined and communicated the bank's purpose and values?
- ⇨ Check there is an organisation manual defining the delegated authorities
- ⇨ Review all loans to directors and their connected parties
- ⇨ Check required information is being provided to Central Bank

Year 1

- ⇨ Produce Code of Ethics and communicate it widely
- ⇨ Produce whistleblowing policy for all employees
- ⇨ Board and audit committee to review internal controls of bank
- ⇨ Produce (or review) and communicate policy on managing conflicts of interest
- ⇨ Produce or review policy on related party transactions
- ⇨ Produce or review disclosure policies

By Year 2

- ⇨ Prepare accounts in accordance with international standards
- ⇨ Produce corporate governance guidelines for bank
- ⇨ Produce and communicate board reserved powers in a board charter and review
- ⇨ Delegated authorities

Board Committees Action Plan

Now	Year 1	By Year 2
⇨ Executive and Credit Committees should be in existence but review their charters ⇨ Establish Audit and Compliance committee and draft its charter	⇨ Establish Risk Committee if not in existence and draft its charter	⇨ Establish Remuneration and Nomination Committees and draft their charters

Board Performance Evaluation Action Plan

Year 1	Year 2	Year 3
⇨ Board to consider performance evaluation of itself with internal facilitator	⇨ Board committees to be evaluated	⇨ Introduce individual director appraisal ⇨ Repeat Board evaluation with external facilitator

Annexe A: Model Corporate Governance Guidelines

Mission

.... Bank, aspires to the highest standards of ethical conduct; doing what we say; reporting results with accuracy and transparency; and maintaining full compliance with the laws, rules and regulations that govern the Company's businesses.

Board of Directors

The Board of Directors' primary responsibility is to provide effective governance over the Company's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, including its customers, employees, suppliers and local communities. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Company and to comply with relevant laws, regulations, rules and best banking practices. In discharging that obligation, Directors may rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors.

Selection of Board Members

Candidates for nomination to the Board shall be selected by the Nomination Committee, and recommended to the Board of Directors for approval, in accordance with the guidelines recommended by the Committee, taking into consideration the overall composition and diversity of the Board and areas of expertise that new Board members might be able to offer.

Independence and Qualification of Directors

A number of the members of the Board should meet the criteria for independence as established by the Board and any applicable laws, rules and regulations regarding independence in effect from time to time. The number of other public company boards on which a Director may serve shall be subject to a case-by-case review by the Nomination Committee, in order to ensure that each Director is able to devote sufficient time to perform his or her duties as a Director.

Evaluation of Board Performance

The Board shall conduct an annual review of Board performance in accordance with guidelines to be agreed by the Board.

The results of the review of Board performance shall be summarized and presented to the Board.

Board Meetings

Directors are expected to attend Board meetings and meetings of committees and subcommittees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and materials that are important to the Board's understanding of the business to be conducted at a Board or committee meeting should be distributed to the Directors prior to the meeting, in order to provide ample time for review beforehand. The Chairman shall establish a calendar of standard agenda items to be discussed at each meeting scheduled to be held over the course of the ensuing year, and shall also establish the agenda for each Board meeting. Each Board member is free to suggest items for inclusion on the agenda or to raise subjects that are not on the agenda for that meeting.

Annual Strategic Review

The Board shall review the Company's long-term strategic plans and the principal issues that it expects the Company may face in the future during at least one Board meeting each year.

Communications

The Board believes that senior management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company, subject to prior consultation with the Chairman or CEO.

Board Committees

The committees of the Board will be the Executive Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board may establish additional committees as necessary or appropriate. Committee members shall be appointed by the Board upon recommendation of the Nomination Committee, after consulting the individual Directors. Each committee shall have its own written charter. The charters shall set out the mission and responsibilities of the committees as well as qualifications for committee membership, committee structure and operations and reporting to the Board. The Chairman of each committee, in consultation with the committee members, shall determine the frequency and length of the committee meetings consistent with any requirements set out in the committee's charter. The Chairman of each committee, in consultation with the members of the committee and appropriate senior management, shall prepare the committee's agenda. At the beginning of the year, each committee shall establish a schedule of agenda topics to be discussed during the year (to the degree these can be foreseen). The agenda for each committee meeting shall be distributed to all Directors in advance of the meeting.

The Board and each committee shall have the power to engage independent legal, financial or other advisors as they may deem necessary.

Director Access to Senior Management

Directors shall have full and free access to senior management and other employees of the Company. Any meetings or contacts that a Director wishes to initiate may be arranged through the CEO or the Secretary or directly by the Director. The Board may invite senior management of the Company to attend Board meetings for specific items on the agenda. If the CEO wishes to have additional Company personnel attendees he will first obtain the consent of the Chairman.

Director Remuneration

The form and amount of director remuneration is determined by the Board based upon the recommendations of the Remuneration Committee. The Remuneration Committee shall conduct an annual review of director remuneration. Directors who are not employees of the Company or any of its subsidiaries or affiliates shall not enter into any consulting arrangements with the Company.

Director Induction and Continuing Development

The Company shall provide an induction programme for new Directors and continuing education opportunities for all members of the Board. The induction programme shall include presentations by senior management on the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programme, its Code of Conduct, its management structure together with meetings with senior management and the internal and external auditors. The induction programme may also include visits to the Company's significant facilities.

CEO Performance

The Remuneration Committee shall conduct an annual review of the CEO's performance, as set forth in its charter. The Board of Directors shall review the Remuneration Committee's recommendations in order to ensure that the CEO is providing the best leadership for the Company in the long and short term.

Succession Planning

The Nomination Committee shall make an annual report to the Board on succession planning. The Nomination Committee shall consider all appointments to the Board and make recommendations to the Board for filling any vacancies. The Board shall work with the Nomination Committee to nominate and evaluate potential successors to the CEO. The CEO shall meet periodically with the Nomination Committee in order to make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

Code of Conduct

The Company has adopted a Code of Conduct and other internal policies and guidelines, consistent with the Company's purpose and values, and to comply with the laws, rules and regulations that govern the Company's business operations. The Code of Conduct applies to all employees, temporary workers and other independent contractors and consultants when engaged by, or otherwise representing, the Company and its interests. The Audit Committee shall monitor compliance with the Code of Conduct.

Insider Transactions

Directors and executive officers may not trade Company shares during a close or blackout period as defined by regulations or Stock Exchange listing rules.

Transactions with Directors

To the extent transactions, including brokerage services, banking services, insurance services and other financial services, between the Company and any Director or family member of a Director are not otherwise specifically prohibited under these Corporate Governance Guidelines or other policies of the Company, such transactions should be made in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliates.

Loans to Directors and Senior Management

The Company may grant credit facilities to Directors or senior managers or their interested companies or immediate family no more favourable than those may be offered to the general public.

Investments

Neither the Company nor any member of senior management shall make any investment in a partnership or other privately-held entity in which a Director is a principal, or in a publicly-traded company in which a Director directly owns or controls more than a 10% interest. No Director may invest in a third party entity when the investment opportunity is made available to him or her because of such individual’s status as a Director. A Director, or family member of a Director, may participate in investment opportunities offered or sponsored by the Company provided they are offered on substantially similar terms as those for comparable transactions with similarly situated non-affiliated persons.

Directors and members of senior management may not invest in partnerships or other investment opportunities sponsored, or otherwise made available, by the Company, unless their participation is approved in advance by the Audit Committee.

Directors and members of senior management may not invest in a third party entity when the investment opportunity is made available to him or her as a result of such individual’s status as a Director or member of senior management of the Company.

Annexe B: Indicative Independent Director Criteria

An indicative definition of independent director follows. In each case, the bank should consider changes tailored to those sorts of relationships that would impair a director's independence, taking into account the circumstances of the particular bank.

"Independent Director" means a director who is a person who:

1. has not been employed by the Company or its Related Parties in the past five years;

2. is not, and is not affiliated with a company that is an advisor or consultant to the Company or its Related Parties;

3. is not affiliated with a significant customer or supplier of the Company or its Related Parties;

4. has no personal service contracts with the Company, its Related Parties, or its senior management;

5. is not affiliated with a non-profit organization that receives significant funding from the Company or its Related Parties;

6. is not employed as an executive of another company where any of the Company's executives serve on that company's board of directors;

7. is not a member of the immediate family of an individual who is, or has been during the past five years, employed by the Company or its Related Parties as an executive officer;

8. is not, nor in the past five years has been, affiliated with or employed by a present or former auditor of the Company or of a Related Party; or

9. is not a controlling person of the Company (or member of a group of individuals and/or entities that collectively exercise effective control over the Company) or such person's brother, sister, parent, grandparent, child, cousin, aunt, uncle, nephew or niece or a spouse, widow, in-law, heir, legatee and successor of any of the foregoing (or any trust or similar arrangement of which any such persons or a combination thereof are the sole beneficiaries) or the executor, administrator or personal representative of any Person described in this sub-paragraph who is deceased or legally incompetent,

10. and for the purposes of this definition, a person shall be deemed to be "affiliated" with a party if such person (i) has a direct or indirect ownership interest in; or (ii) is employed by such party; "Related Party" shall mean, with respect to the Company, any person or entity that controls, is controlled by or is under common control with the Company.

Annexe C: Model Board Charter

The Company is led by a board and should meets at least four times a year. It should have a programme designed to enable the directors regularly to review corporate strategy and the operations and results of the businesses, and discharge their duties within a framework of prudent and effective controls relating to the assessment and management of risk.

Within the framework of its duties and responsibilities, including those prescribed by statute, regulations and the articles of association, the board has delegated certain authorities and powers to committees or individuals, including the CEO, as indicated in the Company's organisation manual, but the board reserves the authority to deal with the following matters:

- decisions on the long-term objectives of the bank;
- decisions on the credit and investment policies of the bank;
- approval of the strategies necessary to achieve these objectives, bearing in mind the activities of competitors and potential competitors and the risks inherent in these strategies;
- approval of authorities and powers delegated to the CEO and to board and management committees or senior management;
- approval of the bank's annual budget (and specific approval of capital expenditure, investments and disposals involving amounts exceeding ……. dirhams);
- approval of limits for deposits, transactions and exposure risks;
- reviewing and, where appropriate, approving material related party transactions which are not in the ordinary course of business;
- approval of the basis of allocation of capital within the bank;
- decisions on the organisation structure of the bank;
- approval of the establishment of any subsidiary company;
- ensuring that the bank manages risk effectively by:
  - (a) approving the bank's risk appetite (the extent and categories of risk which the board regards as acceptable for the company to bear);
  - (b) approving the bank's risk management framework (embracing principles, policies, methodologies, systems, internal controls, processes, procedures and people); and
  - (c) monitoring the bank's aggregate risk exposures and risk/return;
- ensuring that the executive management of the bank:
  - (a) establishes and maintains appropriate systems to plan and control bank operations and risks and to comply with relevant legislation and regulations; and
  - (b) provides regular and sufficient information to the board to enable it to discharge its monitoring duties in relation to these matters;
  - (c) implements disclosure policies and procedures that comply with regulatory requirements;
- approval of the financial results announcements and reports and accounts;

- approval of interim and recommendation of final dividend payments;
- approval of the adoption of any significant change in accounting policies or practice;
- approval of the policy relating to charitable donations;
- approval of the company's main professional advisers and their fees, where significant;
- ensuring that the board has the appropriate number and quality of directors to fulfil its responsibilities;
- appointment of committees of the board with terms of reference as necessary;
- ensuring the forward planning of the main executive appointments within the organisation;
- approval of the appointment, dismissal, and remuneration of the directors of the bank and of executives one level below the board including all members of the Executive or Management Committee;
- approval of annual bonus pool for employees;
- approval of the appointment and removal of the company secretary;
- approval and review of the corporate governance arrangements of the bank.

Annexe D: Model Executive Committee Charter

Mission

The mission of the Executive Committee is to support the Chief Executive Officer (CEO) to determine and implement the Bank's business policies within the strategy approved by the Board of Directors

1. Membership

1.1 The Executive Committee shall include the CEO and the Chief Financial Officer (CFO), and others senior management appointed by the Board

1.2 Any Board Member shall also be members of the Executive Committee

1.3 The Company Secretary shall be the Secretary to the Executive Committee

2. Functioning

2.1 Meetings

(a) The CEO shall be the chairman of the Executive Committee

(b) The Executive Committee shall meet monthly or whenever its chairman considers it necessary

(c) The Executive Committee shall have a quorum when a majority of its members are present

2.2 Decision making

Decisions of the Executive Committee shall be reached by consensus and, in the case of disagreement, the CEO may bring the matter to the Board for decision.

2.3 Secretary

(a) The Secretary shall be responsible for organising meetings, preparing and issuing the agendas and taking minutes of the meetings

(b) Notice of each meeting confirming the venue, date and time together with the agenda and supporting papers will be distributed to each member of the Committee not later than three days before the date of the meeting or a shorter time in exceptional circumstances

(c) Minutes of Committee meetings shall be circulated within seven days to all members of the Committee and, once approved, will be sent to all members of the Board.

3. Responsibilities

The Executive Committee has the following responsibilities:

3.1 Organisation

(a) On a proposal from the CEO, the Committee shall discuss and agree recommendations to the Board on issues relating to the organisation structure of the Bank,

(b) On a proposal from the CEO, the Committee shall decide on the establishment of management committees and their terms of reference.

3.2 Bank Strategy

On a proposal from the CEO, the Committee shall discuss and recommend to the Board the Bank strategy, strategic priorities and business plan as well as annual targets.

3.3 Financial and Business Planning

(a) On a proposal from the CFO, the Committee shall discuss and recommend to the Board the annual budget for the Bank. Within the budget, it shall approve budgets for each business line and operating division

(b) On a proposal from the CEO, the Committee shall approve key performance indicators for the Bank and each business line

(c) On a proposal from the CFO, the Committee shall approve significant changes to the Bank's Management Information System

(d) The Committee shall receive and discuss the monthly report from the CFO regarding the financial performance of the Bank and the progress in achieving the annual targets

(e) The Committee is authorised to approve budgeted expenditure as follows:

1. Transactions in respect of the Bank's assets but not exceeding defined limits

2. Implementation of technical projects or IT programmes but not exceeding certain limits

3. Procurement of equipment and materials for Bank operations but not exceeding certain limits

3.4 Group Management

(a) On a proposal from the CEO, the Committee shall decide on the establishment of branches, agencies or subsidiary companies, the transfer of shares as well as the establishment and winding up of subsidiary companies, for sums not exceeding certain limits

(b) On a proposal from the CFO, the Committee shall decide on the incorporation, winding up, transfer, merger or liquidation pf special purpose entities.

3.5 Investments

On a proposal from the CFO, the Committee shall decide on the investment policy in shares and other products as well as any financial transactions not exceeding certain limits

3.6 Lending

On a proposal from the Credit Committee, the Executive Committee shall approve loans not exceeding certain amounts.

3.7 Capital Management

(a) On a proposal from the Assets and Liabilities Committee. The Executive Committee shall approve the principles and targets relating to the Bank's capital management

(b) On a proposal from the CFO, the Committee shall discuss and recommend to the Board an increase or reduction in Bank capital

(c) On a proposal from the CFO, the Committee shall decide on increases in Tier 1 capital (apart from capital increases mentioned in (b) above) and the issue, repurchase or repayment of Tier 2 and Tier 3 capital

3.8 Human Resources

On a proposal from the Head of HR, the Committee shall discuss and recommend to the Board HR principles and policies including remuneration.

3.9 Other Issues

(a) On a proposal from the CEO, the Committee shall discuss matters to be brought for decision before the Board and prepare recommendations thereon.

(b) The Committee shall obtain information and, where necessary, take decisions on all other matters presented for discussion by the CEO, and on those matters submitted to it by lower level authorities in accordance with the delegated authorities set out in the Bank's organisation manual.

The CEO shall report to the Board at each Board meeting on the proceedings of the Executive Committee, and shall keep the Chairman informed on a timely basis.

Annexe E: Model Audit and Compliance Committee Charter

Purpose of Committee

Audit

- The role of the Board Audit and Compliance Committee, in consultation with the Chief Financial Officer, the Group Auditor and the External Auditor, is to receive and consider reports and recommendations from Management and to make recommendations to the Board in respect of the financial reporting, systems for internal control and both internal and external audit processes, of .the bank.

Compliance

- To monitor the compliance systems in place by which management discharges its legal obligations in respect of the Bank's business.
- To receive information and monitor that “due diligence” matters which arise are being reported to senior Management and the Board and that there are appropriate mechanisms in place for dealing with such matters.
- To review compliance systems and procedures within the Bank to monitor that there is appropriate disclosure to the Board of areas of operating and non-financial risk.

Membership

Non-executive Directors and members must be financially literate, at least one member must have financial expertise and some members must have an understanding of the financial services industry.

Chairman

The Chairman must not be Chairman of the Board. The Board will rotate the role of Chairman of the Audit Committee at least once every four years.

Other Regular Attendees at Meetings

For Audit Section

- A representative of the External Auditors
- Chief Financial Officer
- Group Auditor

The Committee will set aside a portion of each of its meetings for a discussion with the External Auditors without management present.

For Compliance Section

- Chief Financial Officer
- General Counsel & Secretary

Meetings

Quarterly. The Committee shall also meet at such other times as considered necessary to undertake its role effectively.

The Committee will keep minutes of its meetings and these will be included in the papers for the next full Board meeting after each Committee meeting.

Quorum

Three members.

Responsibilities and Authorities

The Committee shall be responsible for carrying out its above purposes. In so doing it shall:

Audit

- Facilitate an open avenue of communication between the Internal Auditors, the External Auditors and the Board of Directors.

- Confirm and assure the independence of the Internal Auditors.

- Consider, in consultation with the External Auditor and the Group Auditor (who shall head the Internal Auditors), the audit scope and plan of the Internal Auditors and the External Auditors.

- Review with the Group Auditor and the External Auditor the co-ordination of audit effort to assure completeness of coverage and effective use of audit resources.

- Review interim and year end accounts to monitor that such accounts have been prepared in accordance with proper accounting principles and recommend them for adoption by the Board.

- Review and consider any changes to accounting policies.

- Review relevant issues relating to financial markets activities, particularly trading and derivatives.

- Consider and review with the External Auditors, the Group Auditor and Management:

  (a) the adequacy of the Bank's internal controls to minimise risk or exposures, including computerised information system controls and security;

(b) any related significant findings and recommendations of the External Auditors and the Group Auditor together with Management's responses to such findings and recommendations.

- Consider and review with Management and the Group Auditor:

  (a) significant findings during the year and Management's responses to such findings;

  (b) any difficulties encountered in the course of internal audits, including any restrictions the scope of their work or access to required information;

  (c) any changes required in the planned scope of the internal audit plan;

  (d) the Internal Audit budget and staffing;

  (e) the Internal Audit Charter.

- Review with the Group Auditor, the results of their review of the Bank's monitoring of compliance with the Bank's code of conduct.

- Review legal and regulatory matters that may have a material impact on related company compliance policies and programs and reports received from regulators.

- Review the Bank's insurance arrangements.

- Consider and review the policies and procedures for the selection, appointment and re-appointment of the External Auditor, the rotation of external audit engagement partners and the terms of any such appointment.

- Recommend the appointment and removal of the External Auditor.

- Consider the level of fees payable to the External Auditors.

- Assess the performance and independence of the External Auditor and whether the independence of this function is maintained having regard to the provision of non-audit related services.

- Request the External Auditors to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

- Ratify proposals, approved by the Chairman during the preceding quarter, for the performance of non-audit related services by the External Auditors, where the proposed fees are above certain limits or more. Non-audit related services requiring approval include legal services and corporate finance services, litigation support services, consulting services, temporary staff assignments (including secondments of junior staff), due diligence work (excluding securitisation), accounting advice on new Accounting Standards, regulations or policies, regulatory advice on new prudential standards or requirements, valuation services, internal audit services, IT systems services and recruitment of senior management for the audit client.

- Meet with the Group Auditor, the External Auditor and Management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Audit Committee.

- Report Committee action to the Board with such recommendations as the Committee may deem appropriate. Such report should contain all matters relevant to the Committee's role and responsibilities.

- Prepare a draft statement for inclusion in the Annual Report of the Bank which describes the Committee's composition and responsibilities and how they were discharged.

Compliance

- Monitor the Bank's compliance with legal obligations to which its businesses are subject except for those obligations relating to the preparation of accounts and integrity of financial systems which are monitored by the Board's Audit & Compliance Committee.

- Monitor management's analysis of the legal obligations and risks arising in respect of the Bank's businesses and advise the Board of developments in, or changes to, those obligations.

- Review major disclosure documentation prior to the issue to the market, such as quarterly and yearly financial results and other significant disclosures made to the market.

- Monitor the relevance and continuity of due diligence procedures and oversee an ongoing due diligence system to ensure:

  (a) that the Board may make a private or public placement with confidence that procedures are in place which are designed to ensure that the relevant provisions of the Companies Law;

  (b) time and expense with further capital raisings which require a prospectus will be reduced because of an on-going due diligence process which requires only “stepping up” for a particular issue;

  (c) there is an adequate overseeing process to ensure the reporting of relevant matters which should be brought to the attention of any Due Diligence Committee formed for specific documentation for issue to the market or to shareholders and of the Board;

  (d) a high degree of management accountability is maintained.

- Assist and provide information to any Due Diligence Committee formed under the auspices of the Board for documentation issued to shareholders or the market.

- Monitor controls and systems within its areas of interest and assist information flow within the Bank.

- Draw upon the reporting procedures for the other Board Committees and the key Management Committees of the Bank to review where appropriate matters which are relevant to the purpose of the Committee.

Publicly available information

The following material will be made publicly available, and updated as required, by posting the material on the Bank's website in a clearly marked corporate governance section:

- the audit committee charter;
- information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners;
- a description of the Bank's risk management policy and internal compliance and control system.

Annexe F: Model Remuneration Committee Charter

1. Membership:

The committee and chairman shall be appointed by the board and shall comprise directors of the company. In the chairman's temporary absence, one of the other members nominated by the chairman or elected by the other members of the committee will act as chairman.

2. Quorum:

Two members.

3. Authority:

The committee is authorised by the board to:

(a) investigate any activity within its terms of reference;

(b) seek any information it requires from any employee and all employees are directed to co-operate with any request made by the committee; and

(c) obtain outside legal or other independent professional advice.

The committee will be supported by one or more senior human resources officials of the bank.

4. Responsibilities:

The responsibilities of the committee shall be to:

1. review, at least annually, the remuneration policy for those considered by the committee and the CEO to be in the top management group, to ensure that members of the executive management are provided with appropriate incentives to encourage them to enhance the performance of the group and that they are rewarded for their individual contribution to the success of the organisation; asking the board, where appropriate, to seek shareholder approval for any long-term incentive schemes.

2. determine the terms of service, including remuneration, for:

   (a) the Chairman, and Company Secretary of the bank;

   (b) to ensure that, within the policy mentioned at (a), the terms of service facilitate the employment, motivation and retention of individuals of the highest calibre who are expected to perform to the highest standards;

3. determine the pension arrangements of those mentioned in 4 (b) above;

4. determine the targets for performance related pay schemes for executive directors and others mentioned in 4 (b) and review individuals' performance against these targets, agreeing appropriate incentive payments;

5. determine proposals for granting and, when necessary, exercising share options under the executives' share option schemes;

6. be aware of and advise on major changes to employee benefit schemes;

7. agree the policy for authorising claims for expenses from the Chief Executive and the Chairman;

8. report on these matters and on any other matters referred to it by the Chairman or the board, at the first convenient board meeting following the committee's decision: the non-executive directors being given copies of the minutes of each remuneration committee meeting as soon as possible after the meeting and having seven days from the date of circulation to comment to the Secretary, before decisions are implemented;

9. submit to the board a draft of the remuneration report; and

10. periodically review and update its own terms of reference to reflect best practice, requesting board approval for all proposed changes and, at appropriate intervals, evaluate its own performance against the terms of reference.

5. Frequency of meetings:

Meetings shall be held as circumstances require, but no less than four times each year.

6. Secretary:

Company Secretary.

Annexe G: Model Nomination Committee Charter

1. Membership

The committee shall comprise not less than two directors.

The company chairman shall act as chairman. The board may from time to time appoint additional members to the committee from the directors. The committee may invite any director, executive or other person to attend any meeting of the committee as it may from time to time consider desirable to assist the committee in the attainment of its objective.

2. Quorum

The quorum for meetings shall be two independent directors.

3. Authority

The committee is authorised by the board to:

1. lead the process for board appointments
2. identify and nominate, for approval of the board, candidates for appointment to the board.

4. Responsibilities

The committee shall:

(a) make recommendations to the board concerning:

(b) plans for succession for directors;

(c) the appointment of any director to executive or other office other than to the positions of chairman and CEO, the recommendation for which is to be considered at a meeting of the board;

(d) the re-election by shareholders of directors retiring by rotation;

(e) the renewal of the terms of office of non-executive directors;

(f) membership of board committees, in consultation with the chairman and the chairmen of such committees as appropriate;

(g) any matters relating to the continuation in office of any director at any time;

(h) directors' fees and committee fees for the company and any of its subsidiaries as appropriate; and

(i) appointments and re-appointments to the boards of directors of major subsidiary companies as appropriate

1. Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the board and make recommendations to the board with regard to any changes;

2. Give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the board and among senior executives in the future;

3. Before recommending an appointment, evaluate the balance of skills, knowledge and experience on the board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the committee shall:

   (a) use such method or methods to facilitate the search as it may deem appropriate;

   (b) consider candidates from a wide range of backgrounds; and

   (c) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;

4. Keep under review the leadership needs of the bank directors, with a view to ensuring the continued ability of the bank to compete effectively in the marketplace;

5. Keep up-to-date and fully informed about strategic issues and commercial changes affecting the bank and the market in which it operates;

6. Review annually the time required from directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties; and

7. Ensure that on appointment to the board, directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The committee shall make a statement in the annual report about its activities; the process used for appointments.

The committee may appoint, employ or retain such professional advisors as the committee may consider appropriate. Any such appointment shall be made through the secretary to the committee, who shall be responsible for the contractual arrangements and payment of fees by the bank on behalf of the committee.

The committee shall review annually the committee’s terms of reference and its own effectiveness and recommend to the board any necessary changes.

5. Frequency of Meetings

Meetings shall be held as often as circumstances require, but at least once each year.

6. Secretary

Company Secretary

Annexe H: Model Credit Committee Charter

PURPOSE:

The purpose of the Committee, on behalf of the Board of Directors, is to review the quality of the Company's credit portfolio and the trends affecting that portfolio; to oversee the effectiveness and administration of credit-related policies; and to approve larger loans.

MEMBERSHIP:

The Committee is comprised of at least three senior management members and meets at least monthly. Committee members are appointed by the Board on the recommendation of the Executive Committee.

AUTHORITY AND RESPONSIBILITIES:

1. The Committee shall set credit limits and obligor limits, and shall determine authorities for approvals of loans.

2. The Committee shall monitor the performance and quality of the Company's credit portfolio through the review of selected measures of credit quality and trends and such other information as it deems appropriate.

3. The Committee shall oversee the administration and effectiveness of, and compliance with, the Company's credit policies through the review of such processes, reports and other information as it deems appropriate.

4. The Committee shall review and approve such of the Company's credit-related activities as may be required by applicable law, including annual reviews of the credit quality plan for the coming year, exposure to domestic and foreign banks and broker dealers, international country exposures and real estate lending policies.

5. The Committee shall review and approve loans that exceed credit limits or when obligor limits for individual debtors are breached

6. In performing its responsibilities, the Committee is authorized to obtain advice and assistance from external legal, accounting or other advisors at the Company's expense without prior permission of the Board of Directors or management.

7. The Committee shall review all debt restructuring and write-off cases, and shall make decisions regarding the reclassification of loans and any other issues relating to non-performing loans.

8. The Committee shall make regular reports to the board and the Executive Committee summarising the matters reviewed and actions taken at each Committee meeting.

9. The Committee shall regularly review and assess the adequacy of this Charter. The Committee may recommend amendments to this Charter at any time and submit amendments for approval to the Board.

Annexe I: Model Risk Committee Charter

1. PURPOSE

The Risk Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities in respect of:

- The risks inherent in the businesses of the Bank and the control processes with respect to such risks.
- The risk profile of the Bank.
- The risk management, compliance and control activities of the Bank.

The Risk Committee shall not have responsibility for matters subject to the jurisdiction of another committee of the Board of Directors pursuant to that committee's charter.

The Risk Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to anyone in the organization. The Risk Committee has the ability to retain, at the Bank's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties.

2. ALLOCATION OF RESPONSIBILITIES

The function of the Risk Committee is oversight. The management of the Bank is responsible for maintaining operational controls and procedures designed to provide reasonable assurance of compliance with those laws and regulations applicable to the Bank's various business activities. The internal auditors are responsible for providing reliable and timely information to the Board of Directors and senior management concerning the quality and effectiveness of, and the level of adherence to, the Bank's control procedures and risk management systems. It is not the responsibility of the Risk Committee to plan or conduct investigations or to assure compliance with laws and regulations and the Bank's Code of Conduct. Each member of the Risk Committee shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, prepared or presented by those persons and under those circumstances specified by the law.

3. COMPOSITION AND MEETINGS

The Risk Committee shall be comprised of three or more members as determined by the Board of Directors, each of whom shall, in the Board's business judgment, be free from any relationship that would interfere with the exercise of his independent judgment. Risk Committee members, including a Chairman, shall be appointed by the Board of Directors on recommendation of the Nomination Committee. The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The agenda for each Risk Committee meeting will provide time during which the Committee can meet with the Chief Risk Officer, the Chief Compliance Officer and the internal auditor. The Risk Committee may form subcommittees for any purpose that it deems appropriate and may delegate to such subcommittees such power and authority as it deems appropriate.

4. RESPONSIBILITIES AND DUTIES

A. Review Procedures

The Risk Committee shall:

1. Review the risk appetite of the bank on the basis of the analysis from the Chief Risk Officer and formulate appropriate policies for its implementation

2. Approve the credit rating system used by the bank and the basic policies for asset and liability management as developed by the Assets and Liabilities Committee (ALCO).

3. Review significant financial and other risk exposures and the steps management has taken to monitor, control and report such exposures, including, without limitation, review of credit, market, fiduciary, liquidity, reputation, operational, fraud and strategic risks; and evaluate risk exposure and tolerance and approve appropriate transaction or trading limits.

4. Review the scope of the work of the risk department and their planned activities with respect to the risk management activities of the Bank.

5. Except to the extent subject to the jurisdiction of another committee of the Board of Directors pursuant to that committee's charter,

   (a) review reports and significant findings identified by the risk department with respect to the risk management activities of the Bank, together with management's responses and follow-up to these reports; and

   (b) review significant reports from regulatory agencies relating to risk issues, and management's responses.

6. Review and re-assess the adequacy of this charter periodically and recommend changes to the Board when necessary

B. Other Risk Committee Responsibilities

The Risk Committee shall:

1. Perform any other activities consistent with this Charter, the Bank's Memorandum and Articles of Association and governing law as the Board of Directors shall specifically delegate to the Risk Committee.

2. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

Annexe J: Model Code of Ethics

Compliance with Laws, Rules and Regulations

Respect, and comply with, the laws, rules and regulations of the countries in which we operate as well as with the internal directives and policies of the Bank. It is the personal responsibility of each officer, director and employee to adhere to the standards and restrictions imposed by those laws, rules and regulations.

Confidentiality

Maintain the confidentiality of confidential information entrusted to us by the bank and its customers, except when disclosure is authorised or required by law or regulation.

Integrity and Conflicts of Interest

Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships. A conflict of interest exists when a person's private interest interferes, or appears to interfere, in any way with the interests of the bank. Any director or employee who becomes aware of a conflict of interest or potential conflict of interest must promptly bring it to the attention of their manager or other appropriate person.

Competition and Fair Dealing

Respect the rights of, and deal fairly with, customers, suppliers, competitors and employees of the bank. We seek competitive advantage through superior and honest performance, never through unethical or illegal business practices. We do not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice. We particularly respect and promote compliance with applicable insider-trading laws, rules and regulations as well as with the internal directives and policies of the bank concerning the illegal and unethical trading of material non-public information.

Corporate Opportunities

Abstain from taking personally, or directing to third parties, opportunities that are discovered with corporate property, information or position, or otherwise competing with the interests of the bank, unless the bank has already been offered the opportunity and turned it down. We owe a duty to the bank to advance its legitimate interests when the opportunity to do so arises.

Protection and Proper Use of the Bank's Assets

Protect the bank's assets and ensure their efficient use. Theft, carelessness, and waste have a direct impact on the bank's profitability, bank's equipment should not be used for non-bank business,

Reporting any Violations of the Code

Promptly report to managers or other appropriate persons any observed violations of this Code, including any violations of laws, rules, regulations or other legal requirements in accordance with the Whistleblowing policy. It is the policy of the bank not to allow retaliation for reports of misconduct by others made in good faith by a director or employee. Reports may be made anonymously if your situation requires that your identity be kept secret.

Compliance Procedure

If you are unsure about how to handle a situation with regard to this Code, promptly contact the Office of the General Counsel or the Head of the Compliance Department. The bank should hold information and training sessions to promote compliance with laws, rules and regulations. Those who violate the standards in this Code will be subject to disciplinary proceedings or dismissal.

Disclosure in Reports and Documents

Disclose information fully, accurately, timely and understandably in reports and documents that the bank files with, or submits to, regulatory authorities and in other public or market communications.

Annexe K: Model Whistleblowing Policy

POLICY

As the bank seeks to conduct its business honestly and with integrity, encourage and expect all staff to maintain high standards of business conduct. Report any wrongdoing that falls short of these fundamental principles. It is the responsibility of all employees, contractors and those working on the Bank's premises to raise any concerns that they might have about malpractice within the workplace.

This policy sets out the procedure by which staff can report concerns about workplace practices.

RESPONSIBILITY FOR IMPLEMENTATION OF POLICY

The board's audit committee has overall responsibility for this policy, but has delegated day-to-day responsibility for overseeing and implementing it to the compliance department of the Bank. Responsibility for monitoring and reviewing the operation of the policy and any recommendations for action resulting from investigations into complaints lies with the audit committee.

Management must ensure that employees feel able to raise concerns without fear of reprisals. All employees should ensure that they take steps to disclose any wrongdoing or malpractice of which they become aware. If you have any questions about the content or application of this policy, you should contact compliance department of the Bank.

WHAT CONSTITUTES MALPRACTICE?

A genuine concern should be reported if there are reasonable grounds for believing that:

1. A criminal offence has been committed is being committed, or is likely to be committed; or

2. a person has failed, is failing, or is likely to fail to comply with their legal obligations (for instance by making misleading or deceitful statements to the authorities, self-dealing, not disclosing related third-party transactions, accepting bribes or kickbacks, aiding or not reporting incidences of money-laundering ; or

3. the health and safety of any individual has been, is being, or is likely to be endangered; or

4. any of the above are being, or are likely to be, deliberately concealed.

In general, this policy covers actions or omissions that are illegal, contrary to policy or established procedure or outside the scope or any individual's authority, actions which could damage the Bank's reputation and conflicts of interest.

TO WHOM SHOULD A DISCLOSURE BE MADE?

For the purposes of this procedure you are asked, in the first instance, to raise concerns about any form of malpractice with your line manager or a senior manager in your Department. If you feel unable to do this, you should contact the compliance department of the Bank.

If the disclosure is extremely serious or in any way involves the compliance department of the Bank, you should report it directly to the chairman of the Bank's audit committee.

HOW SHOULD A DISCLOSURE BE MADE?

You can raise your concerns orally or in writing and you should specify whether you wish your identity to be kept confidential. You will be asked to formalise your concerns in writing either before or after the first meeting. Your manager or the compliance department of the Bank will acknowledge receipt of your formal written disclosure and keep a record of further action taken.

Recognise that disclosure made under this policy may involve highly confidential and sensitive matters and that you may prefer to make an anonymous disclosure. However, the bank cannot guarantee to investigate all anonymous allegations. Proper investigation may prove impossible if the investigator cannot obtain further information from you, give you feedback, or ascertain whether your disclosure was made in good faith.

INVESTIGATION OF DISCLOSURE

Following your submission of a formal written disclosure, the compliance department of the bank (or another individual acting in his place) will acknowledge receipt within few days and make appropriate arrangements for an initial investigation.

In most instances, the compliance department of the bank will carry out an initial assessment of the disclosure to determine whether there are grounds for a more detailed investigation to take place. A report will be produced and copies will be provided to the audit committee and, where appropriate, you will also receive a copy.

If a longer investigation is considered necessary, the compliance department of the bank might appoint an investigator or investigative team including personnel with experience of operating workplace procedures or specialist knowledge of the subject matter or the disclosure.

So far as the compliance department of the Bank considers it appropriate and practicable, you will be kept informed of the progress of the investigation. However, the need for confidentiality may prevent the bank giving you specific details of the investigation or actions taken.

Also, recognise that there may be matters that cannot be dealt with internally and in respect of which external authorities will need to be notified and become involved either during or after the investigation. Therefore, the bank will endeavour to inform you if a referral to an external authority is about to or has taken place, although we may need to make such a referral without your knowledge or consent if we consider it appropriate.

CONFIDENTIALITY

Every effort will be made to keep the identity of an individual who makes a disclosure under this policy confidential. In order not to jeopardise the investigation, you will also be expected to keep the fact that you have raised a concern, the nature of the concern and the identity of those involved confidential.

PROTECTION AND SUPPORT FOR WHISTLEBLOWERS

No member of staff who raised genuinely-held concerns in good faith under this procedure will be dismissed or subjected to any detriment as a result of such action. Detriment includes unwarranted disciplinary action and victimisation. If you believe that you are being subjected to a detriment within the workplace as a result of raising concerns under this procedure, you should inform the bank's General Directorate of Human Resources, immediately. Workers who victimise or retaliate against those who have raised concerns under this policy will be subject to disciplinary action.

If an investigation under this procedure concludes that a disclosure has been made maliciously, vexatiously, in bad faith or with a view to personal gain, the whistleblower may be subject to disciplinary action. Any such determination is however subject to review by the Audit Committee.

CORRECTIVE ACTION AND COMPLIANCE

As part of the investigation into disclosures made under this policy, recommendations for action will be invited from the compliance department of the bank and its investigative team to enable the bank to minimise the risk of the recurrence of any malpractice or impropriety, which has been uncovered. The Audit Committee will be responsible for reviewing these recommendations and for reporting on any actions required to the board and the CEO.

Annexe L: Basel Committee on Banking Supervision

Below are summary notes from a report by the Basel Committee's on Banking Supervision Report produced in February 2006. They should be read in conjunction with the chapter titles "Further Legal and Regulatory Issues", as well as Appendix M which addresses certain specific laws.

Basel Committee on Banking Supervision February 2006

Basel Committee on Banking Supervision

Introduction

Banks are a critical component of any economy…..

"Given the important financial intermediation role of banks in the national economy, the high degree of sensitivity to potential difficulties arising from ineffective Corporate Governance and the need to safe guard depositors funds, corporate governance for banking organization is a great importance to the international financial system and merits targeted supervisory guidelines."

Bank Corporate Governance

From a banking industry perspective, corporate governance (CG) involves the manner in which business and affairs of individual institutions are governed by their boards of directors and senior management, affecting how banks:

- Set corporate objectives
- Run day to day operations of the business
- Consider the interests of recognized stakeholders
- Align corporate activities and behaviours with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations
- Protect the interests of depositors

Strategies and techniques that are basic to sound CG include:

- Establishing the corporate values, codes of conduct and other standards of appropriate behaviour and the systems used to ensure compliance with them
- Establishing a well articulated corporate strategy against which the success of the overall enterprise and the contributions of individuals can be measured
- The clear assignment of responsibility and decision-making authorities incorporating a hierarchy of required approvals from individuals to the board

- Establishment of a mechanism for the interaction and co-operation among the board, senior management and the auditors

- Strong internal control systems, including internal and external audit functions, risk management functions, independent of business lines, and other checks and balances

- Special monitoring of risk exposures where conflicts of interest are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management; or key decision-makers within the firm (e.g. traders)

- The financial and managerial incentives to act in an appropriate manner being offered to senior management, business line management and employees in the form of compensation, promotion and other recognition; and

- Facilitating appropriate information flows both internally and to the public

Sound governance can be practiced regardless of the form used by a banking organization.

Four forms of 'oversight' recommended for use in a banking organization:

- Oversight by the board

- Oversight by individuals not involved in the day to day running of the various business areas

- Direct line supervision of different business areas

- Independent risk management, compliance and audit functions

In addition, key personnel must be fit and proper for their jobs. The above principles are also applicable to state owned banks.

Sound CG principles (See Basel Committee on Banking Supervision dated February 2006, "Enhancing corporate Governance for banking organization)

1. Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgement about the affairs of the bank.

    - Understand and execute their oversight role, including understanding the bank's risk profile;

    - Approve the overall business strategy of the bank, including the approval of the overall risk policy and risk management procedures;

    - The board should ensure that senior management implements policies that prohibit (or limit) activities and relationships that diminish the quality of CG, such as conflicts of interest, lending to officers/employees/self-dealing, and providing preferential treatment to related parties and other favoured entities;

- Exercise your "duty of loyalty" and "duty of care" to the bank under applicable national laws and supervisory standards;
- Processes should be established that allow the board to monitor compliance with these policies and ensure that deviations are reported to an appropriate level of management.

2. The board of directors should approve and oversee the bank' strategic objectives and corporate values that are communicated throughout the banking organization:

   - The board should establish the strategic objectives and high standards of professional conduct that will direct the ongoing activities of the bank, taking into the accounts the interest of shareholders and depositors, and should take steps to ensure that these objectives and standards are widely communicated within the organization.
   - The board of directors should ensure that senior management implements strategic policies designed to promote professional behaviour and integrity.
   - The board of directors should also ensure that senior management implements policies that prohibit (or appropriately limit) activities, relationships or situations that might diminish the quality of the corporate governance

3. The board of directors should set and enforce clear lines of responsibility and accountability throughout the organization.

   - Effective board of directors clearly define the authority and key responsibilities for themselves as well as for senior management.
   - In addition, where the a bank outsource key functions, the accountability of the directors and senior management of the bank cannot be delegated to the entities providing the outsource services.

4. The board should ensure that there is appropriate oversight by senior management consistent with board policy.

   - Senior management consists of a core group of individuals including, for example, the chief financial officer and division heads, who are overseeing the day-to-day management of the bank. These individuals should have the necessary skills to manage the business under their supervision as well as have appropriate control over the key individuals in these areas
   - Avoid: 1) senior managers who are overly involved in business line decision making 2) senior managers being assigned to an area to manage without the requisite skills and knowledge 3) senior managers who are unwilling to exercise control over successful key employees (i.e. star traders) for fear of losing them

5. The board and senior management should effectively utilise the work conducted by internal audit function, external auditors, internal control functions

6. The board should ensure that compensation policies and practices are consistent with bank's corporate culture, long-term objectives and strategy and control environment

7. The bank should be governed in a transparent manner

   - Transparency is essential for sound and effective corporate governance. It is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly hold accountable the board of directors and senior management when there is a lack of transparency.

   - Transparency reinforces sound CG, therefore public disclosure is desirable in the following areas: 1) board structure 2) senior management structure 3) basic organizational structure 4) Incentive structure such as: remuneration policies, executive compensation, bonuses, options 5) transactions with affiliates and related parties

8. The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or through structures that impede transparency (i.e. "know-your-culture").

Ensuring a supportive environment

Good CG can also be promoted by other organizations in addition to boards themselves: 1) Governments 2) Bank Regulators 3) Stock Exchanges 4) Auditors via standards 5) Banking industry associations.

Annexe M: Basel II Gap Analysis Project Summary

"Risk Governance Benchmarking and Board Responsibilities"

Section B: Direct Responsibilities of Boards under Basel II

Generic

1. Par. 729. Analysis of a bank's current and future capital requirements in relation to its strategic objectives is a vital element of the strategic planning process.

2. Par. 744. The bank's internal control structure is essential to the capital assessment process. Boards must ensure that management has implemented a good risk assessment system.

3. Recognition shall only be given if an institution's risk management is conceptually sound and implemented with integrity. Stresses: boards should be actively involved in the risk control process, and daily activity reports should be reviewed by management of suitable seniority to enforce decisions.

4. Board has the responsibility of setting levels of 'risk tolerance'.

Specific

1. Par. 438. All material aspects of the rating and estimation processes shall be approved by the board or designated committee of the board.

2. Par. 438. Senior management must provide notice to the board (or designated committee) of material changes, or exceptions from established policies, that will materially impact the operations of the bank's rating system.

3. Par. 743. The bank should establish an adequate system for monitoring and reporting risk exposures, and assessing how the bank's changing risk profile affects the need for capital. Senior management or the board should, on a regular basis, receive reports on the bank's risk profile and capital needs.

4. Par's. 663 onwards. Relates to using the standardized approach, qualifying for it etc.

Developing an Appropriate Risk Management Environment

1. **Principle 1**: The Board should be aware of the major aspects of the bank's operational risks, as a distinct category that should be managed (Page 6).

2. **Principle 2**: The board should ensure that the operational risk management framework is subject to effective/comprehensive internal audit. (Page 6) The internal audit function should not be directly responsible for operational risk management (Page 6).

3. **Principle 3**: Senior management should implement the operating risk management framework approved by the board.