

## **AL RAYAN BANK PLC**

**(the “Company”)**

### **BOARD TERMS OF REFERENCE**

A. This document sets out the role and responsibilities of the board of directors (the “Board”) in accordance with the UK Corporate Governance Code (2024) (the “Code”) which has been applied on a proportionate basis.

The responsibilities of the Board include adhering to this formal schedule of matters reserved for the decision of the Board (the “Terms of Reference”) as recommended by the Financial Reporting Council’s Guidance on Board Effectiveness 2018.

The Company entered into a memorandum of understanding (“MOU”) with Masraf Al Rayan (“MAR”) in July 2021. The material requirements of the MOU are detailed herein.

As per the Code, a successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The Board should ensure that the necessary resources, policies, and practices are in place for the company to meet its objectives and measure performance against them.

Each director has an overriding statutory duty to promote the success of the Company for the benefit of its shareholders as a whole and, in doing so, to have regard to the factors set out in section 172 of the Companies Act 2006.

In order for the Company to meet its responsibilities to shareholders and stakeholders (including *inter alia* customers and employees), the Board should ensure effective engagement with, and encourage participation from, these parties.

The Board should ensure that workforce policies and practices are consistent with the Company’s values and support its long-term sustainable success. The workforce should also be able to raise any matters of concern in confidence and anonymously (if required).

The Board should therefore establish the Company’s purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

The Board should ensure that the necessary resources are in place for the Company to meet its objectives and measure performance against them.

The Board should ensure that it has a clear understanding of the views of its shareholders.

The Board is the main decision-making body in the Company. Its role is to provide leadership within a framework of prudent controls and effective risk-management.

The Board may exercise all of the powers of the Company, subject to the Articles, any relevant laws and regulations and the provisions of the MOU.

The Board has overall responsibility for the management of the Company's business and affairs. That responsibility includes the oversight of its strategy, values, ethics, capital, operations, management team, controls, risk frameworks, processes, accounting and compliance.

B. Any matters falling inside the powers of the Board that are not reserved for the Board under and in accordance with these Terms of Reference may be delegated to Board Committees, the Chairperson of the Board or the Chief Executive Officer, in accordance with such policies and directions as the Board may determine from time to time.

C. In addition to the delegated matters referred to above, the Board has delegated certain matters as set out in the Company's "Authorised Signatories List" approved by the Board from time to time.

The Board has set and delegated the following expenditure limits:

- business commitments or specific project spend totalling above £500k cumulative must be approved by the Board;
- approval for budgeted spend below this limit is delegated to the Chief Executive Officer, with further delegation in line with the "Authorised Signatories and Approvals Policy"; and
- for spend outside budget, separate authority limits are applicable.

D. Certain fundamental matters relating to the activities of the Company fall outside the powers of the Board or the Board's sole and final decision-making power. They are matters which require the approval of the shareholder(s) of the Company. There are three main sources of these:

- the Companies Act 2006 and related legislation;
- the Company's memorandum and articles of association; and
- the MOU.

The Company Secretary is responsible for advising the Board on the need for shareholder approval.

E. The Board recognises:

- the need on a continuous basis for the Board to foster and promote a healthy culture;
- the need for openness and accountability at every level;
- the need for diversity amongst its members; and
- the need to avoid “group-think” and ensure that all members of the Board are able to contribute to decision making.

Accordingly, each Director shall be expected to promote a culture of openness and debate amongst the Board by facilitating the effective contribution of other directors and ensuring constructive relations between executive, independent and shareholder directors.

### **1. Membership**

Members of the Board shall be appointed by the Board, on the recommendation of the Remuneration and Nomination Committee. The majority of Board members shall be independent non-executive directors. The Chairperson shall be an independent non-executive director.

The Board will always be comprised of a majority of independent non-executive directors as follows (i) at least three independent directors, (ii) at least two non-executive directors, and (iii) the Chief Executive Officer.

Only members of the Board have the right to attend Board meetings, however, other individuals such as senior management and external advisers may be invited by the Chairperson to attend all or part of a meeting as and when appropriate.

The Board shall appoint the Chairperson. In the absence of the Chairperson, the remaining members present shall elect one of themselves to chair the meeting.

Appointments for independent non-executive directors to the Board shall be for a period of up to three years, which may be extended for two further periods of up to three years (i.e. a maximum of nine years from the date of first appointment). Such appointments require shareholder approval. There will be no specific limit on the term of appointment of shareholder or executive directors, but their appointments will be reviewed regularly by the Remuneration & Nomination Committee and MAR.

### **2. Company Secretary**

The Company Secretary or their appointee shall act as the secretary of the Board.

### **3. Quorum**

The quorum necessary for the transaction of business shall be not less than four members of the Board, two of whom must be independent, and one a non-executive director. In the event of a tied vote the Chairperson will have the casting vote.

A duly convened meeting of the Board at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Board.

Decisions can also be made by a written resolution signed by all directors. Such approvals can also be issued electronically via email circulation to directors by the Company Secretary which they can approve by email (subject to all directors approving the proposed resolution(s)).

#### **4. Frequency of Meetings**

The Board shall meet at least four times a year and otherwise as required. The Board is permitted to meet both in person and virtually.

#### **5. Notice of Meetings**

Meetings of the Board shall be summoned by the Company Secretary at the request of any of its members or at the request of the External Auditor or Head of Internal Audit (if they consider it necessary).

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Board and any other person required to attend no later than five working days before the date of the meeting.

#### **6. Minutes of Meetings**

The Company Secretary shall minute the proceedings and resolutions of all meetings of the Board, including recording the names of those present and in attendance.

The Company Secretary shall record any conflicts of interest reported at the meeting.

Minutes of Board meetings shall be circulated to the Chairperson then all directors prior to the next meeting.

#### **7. Role and Principal Functions**

The principal functions of the Board are to:

- Determine and approve the strategy and material policies of the Company;
- Approve the risk appetite within which the Company is managed; and
- Review business performance and approve the financial statements.

- Review the Company's relationship with its Regulatory Bodies.

The Board also has a general duty to ensure that the Company operates within:

- The Articles of Association;
- Rules and guidance issued by relevant regulatory authorities; and
- All relevant laws.

The Board should also have mind to the Senior Managers and Certification Regime of the Financial Conduct Authority and the Prudential Regulation Authority.

## **8. Matters reserved to the Board**

### **8.1 Strategy and management**

- Approval of the Company's long-term objectives and strategy, including *inter alia* its business plan and annual budget (and any material changes).
- Oversight of the Company's operations ensuring:
  - competent and prudent management;
  - sound planning and risk management;
  - sound management and internal control systems;
  - adequate accounting and other records;
  - consideration of environmental, social and governance matters;
  - compliance with statutory and regulatory obligations; and
  - adequate financial resources.
- Review of delivery of the strategy and performance against plan in the light of the Company's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.

### **8.2 Culture, Purpose and Values**

- Establish the Company's purpose and values and satisfy itself that these are aligned with strategy and culture.
- The Board is responsible for setting the tone from top including the assessment and monitoring of the Company's culture and values, seeking assurance that corrective action has been taken where necessary, and explaining to internal and external stakeholders the Board's activities.
- Overseeing the Company's ESG initiatives and strategy and receiving regular updates.

### **8.3 Strategic Initiatives, Company Structure, Capital, and Funding**

- Approval of changes relating to the capital structure of the Company.
- Approval of the Internal Capital and Liquidity Annual Assessment Processes and Recovery Plan and Resolution Pack.
- Approval of major changes to the Company's corporate and management structure including any significant business operation, branches or any other initiative which has significant strategic implications for the Company.
- Approval of changes to the Company's regulatory permissions.
- Approval where the Company is required to obtain any new regulatory permission, licence or authorisation to comply with applicable legal regulatory requirements.

#### **8.4 Financial reporting and controls**

- Approval of the annual report and accounts, going concern and other associated reports.
- Approval of significant changes in accounting policies or practices.
- Approval of dividends or any other distribution of the Company.
- Approval of Pillar 3 disclosures.
- Approval of any changes to the Company's accounting reference date.

#### **8.5 Internal controls and risk management**

Ensure the maintenance of a sound system of internal control and risk management including:

- Approving the Company's Risk Appetite Statement;
- Approving the Company's Risk Management Framework;
- Receiving reports on and reviewing effectiveness of the Company's risk and control processes to support its strategy and objectives;

#### **8.6 Communication**

- Approval of resolutions and corresponding documentation to be put forward to shareholders.
- Any changes to the Company's listing or its status as a public company.
- Approval of circulars and listing particulars as appropriate.

#### **8.7 Board membership and other senior management issues**

- Approval of changes to the structure, size and composition of the Board, following recommendation from the Remuneration & Nomination Committee.

- Approval of appointments to the Board, following a recommendation by the Remuneration & Nomination Committee, including the appointment of the Chairperson, the Chief Executive Officer, Chief Financial Officer, the Senior Independent Director and the Company Secretary, and the selection of members and Chairpersons of Board Committees.
- Approval of the suspension or termination of service of an executive director or an Executive Committee member as an employee of the Company, subject to the law and their service contract.
- Recommend the appointment, reappointment or removal of the external auditor, following the recommendation of the Audit Committee, to the shareholders for approval.
- Approving policies and procedures for the detection of fraud and the prevention of bribery;
- Receiving an annual MLRO Report; and
- Receiving the Annual Whistleblowing Report.
- Approving the Company's Risk Appetite Statement;
- Entering into, monitoring or termination of any material outsourcing arrangements as defined internally.
- Agreeing to take any freehold or leasehold or other interest in, or licence over, any real property, other than interests taken in customers' real property in the ordinary and usual course of business.

### **8.8 Remuneration**

- Approval of the annual remuneration recommendations for the Company (including pay and bonus) and assessing whether it is aligned to the Company's risk culture and appetite.

### **8.9 Corporate Governance Matters**

- Undertake a formal and rigorous review annually of its own performance, that of the Board Committees, and individual directors. Composition, diversity and how effectively members work together to achieve objectives shall also be considered as part of these reviews. Every two years this shall be externally facilitated in line with the requirements of Code.
- Determine the independence of Directors.
- Ensuring that the Company's corporate governance model is fit for purpose if necessary through use of Internal Audit or an external firm.
- Receive General Counsel & Company Secretary Report
- Receive Legal & Regulatory Horizon Scanning

- Receive minutes and reports from the Board Committees on their activities.

### **8.10 Policies & Other Material Documentation**

Approval of policies and other material documentation, including *inter alia*:-

- Prudential Risk Management Policy
- Health & Safety Policy
- Remuneration Policy
- Conflicts of Interest Policy
- Credit Risk Policy
- Credit Risk Management Policy
- Raising Concerns – Whistleblowing Policy & Report
- Vulnerable Customer Policy
- Data Protection Policy
- ESG Policy
- Business Continuity Planning Policy
- Financial Reporting & Accounting Policy
- Model Risk Management Policy
- Operational Resilience Policy
- Information Security Policy
- Financial Crime Prevention Policy and supporting policies
- Sharia Governance & Compliance Policy
- Related Party Transactions
- Capital Management
- Risk Committee delegated authority credit limits
- Consumer Duty compliance report
- Modern Slavery Act Statement
- Operational Resilience Self Assessment



## **9. Other Matters**

The Board shall:

- ensure that each director has access to sufficient resources in order to carry out his or her duties, including access to the Company Secretary for assistance, as required;
- ensure that all Board members are provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- give due consideration to all relevant laws and regulations;
- receive regular updates on interactions with the regulators;
- oversee any prosecution, commencement, conduct, defence, settlement or abandonment of any litigation involving the Company, except litigation relating to the collection of debts where the amount at issue is less than £50,000;
- any decision likely to have impact on the Company from any perspective, including, but not limited to, financial, operational, strategic or reputational, subject to shareholder approval (if required).
- any proposal to wind up the Company or to take any other action seeking liquidation, administration (whether out of court or otherwise), reorganisation or relief under any bankruptcy, insolvency or similar laws.
- approve the making of any political donations;
- oversee any investigation of activities which the Board may decide to carry out;
- establish regular communication channels between the Chair of the Board and the Chairman or Vice Chairman of MAR Board, to enable the chairs of those boards to share ideas and information and to enable MAR and the Company to fulfil their respective statutory and regulatory obligations effectively; and
- establish regular communication channels between (i) the Chair of the Audit Committee and the Chair of MAR's Audit Committee, and (ii) Chair of the Board Risk Committee and the Chair of MAR's Risk & Policies Committee., and (iii) Chair of the Remuneration & Nomination Committee and the Chair of MAR's equivalent Committee.

Matters which the Board considers suitable for delegation are contained in the terms of reference of the Board Committees.

In addition, the Board will receive reports and recommendations from time to time on any matters which it considers significant to its interests.

#### **10. Authority**

The Board may:

- seek any information it requires from any employee of the Company in order to perform its duties;
- obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so; and
- request the attendance of any employee at a meeting of the Board as and when required.

The Board may also establish Board sub-committees and review and approve conflicts of interest.

#### **11. Review**

The Board shall at least annually review its constitution and Terms of Reference to ensure it is operating at maximum effectiveness. The Board shall approve this document.

### **Schedule 1**

#### **Matters requiring prior Approval by Masraf Al Rayan**

**prior to Board approval being obtained**

**in accordance with the MOU**

The Board shall not take any action or decision in respect of any of the matters set out in this Schedule 1 without the prior approval of MAR.

Such approval shall be communicated by MAR via the MAR-appointed non-executive directors of the Company or the Company Secretary.

1. Any material change in strategy or material change in the nature or scope of the Company's business (other than operational actions or decisions implementing the Company's agreed strategy, which shall be the responsibility of the Board), provided that MAR shall not be entitled to withhold its approval to any specific action which is required to comply with the law or mandatory requirements of the PRA or FCA, unless MAR approves alternative action which will ensure such compliance.
2. The disposal by the Company of the whole or any material part of its undertaking, property or assets.
3. The acquisition by the Company of any business (or any material part of any business) or any shares or other securities in any company, or the Company entering into or terminating or materially varying the terms of any joint venture, which in each case will, or may be expected to, have a material effect on the business, finances or future prospects of the Company.
4. The entering into by the Company of any capital commitment (including, without limitation, any IT project or expenditure) in excess of £1,000,000 or which, when aggregated with all other capital commitments entered into during the then current financial year, exceeds £2,000,000 (which approval may be given by MAR at the time when the Board approves the Company's annual budget).
5. The allotment or issue of any share capital of the Company or the creation or grant of any option or right to subscribe for or acquire, or convert any security into, any share capital of the Company.

**Schedule 2**

**MAR Consultative Matters in accordance with the MOU**

The Board shall not take any action or decision in respect of any of the matters set out in this Schedule 2 without prior consultation with MAR.

This consultation shall take place through the Non-Executive Directors.

The Board shall consider the views and opinions expressed by MAR about each proposal that is tabled for consultation with MAR, but the final decision in respect of each such proposal shall be made by the Board.

1. Any disposal of any of the assets or property of the Company, other than in the ordinary and usual course of the Company's business as envisaged in its annual business plan approved by the Board, other than a disposal approved by MAR under Schedule 1 as a MAR reserved matter.
2. The acquisition by the Company of any business (or part of a business) or company, or interest in a company, or the Company entering into, terminating or varying the terms of any joint venture, other than an acquisition or transaction approved by MAR under Schedule 1 as a MAR reserved matter.
3. The issue of any new capital or raising of any additional finance by the Company other than in the ordinary and usual course of the Company's business in accordance with its annual business plan approved by the Board, other than an issue of shares approved by MAR under Schedule 1 as a MAR reserved matter.
4. The creation of any encumbrance over the whole or any part of the undertaking, property or assets of the Company other than in the ordinary and usual course of the Company's business.
5. The commencement, settlement or abandonment of any material litigation involving the Company and, for this purpose, material means a claim or potential liability in excess of £250,000.
6. The Company taking or agreeing to take any freehold or leasehold or other interest in, or licence over, any real property where the related capital commitment or annual cost is in excess of £500,000, other than interests taken in customers' real property in the ordinary and usual course of the Company's business.