

Contents

1. Introduction.....	4
2. Policy Purpose.....	4
3. Outsourced Activities.....	5
4. Non-Outsources Activities.....	5
5. Risks of Outsourcing.....	6
6. General Principles.....	7
7. Evaluation Principles of Outsourcing Providers.....	8
8. Outsourcing Agreement Principles.....	10
9. Roles of Relevant Departments (roles and responsibilities).....	12
9.1 Department Requesting Outsourced Service.....	12
9.2 Central Compliance and Governance Department.....	13
9.3 Risk Unit.....	13
9.4 Legal Affairs.....	13
9.5 Administrative and Engineering Affairs Unit.....	14
9.6 Finance Unit.....	14
9.7 Internal Audit.....	15

1. Introduction

Banque Misr's activities have witnessed a development of growth rate, the technological methods adopted as well as changes in the regulatory environment. This has led to a need arising to outsource some tasks to be carried out by external parties. Outsourcing is meant to achieve savings, or help the bank reach specialized expertise that are currently unavailable inside the bank, or to achieve strategic goals.

Realizing the need for outsourcing some selected activities of the bank, the Central Bank of Egypt has set some rules to regulate audit of service providers and outsourcing parties included in its issued instructions in September 2014 (Internal Control Regulation). The document includes some comprehensive guiding principles to address risks that might face banks which outsource some of their services to external parties.

Undoubtedly, outsourcing to external parties may pose several various risks and this is why it is necessary to have procedures in place to prevent or limit these risks. Potential risks include strategic, reputational, commitment, operations, and legal risks.

The purpose for drafting this policy is to define the methodology for utilizing expertise, work force, individuals, means, services from institutions or individuals whether foreign or local to carry out tasks, jobs or activities that were previously carried out by the bank itself. The policy outlines the principles adopted by the bank when outsourcing to a third party to perform an activity on an ongoing basis (including time-limited agreements).

The policy aims at setting the criteria for selecting activities and defining the cases in which the bank resorts to a third-party and how the bank manages the associated risks.

2. Policy Purpose

- Understand the nature and the importance of the activity, such as the services related to the bank activity with an operational nature or those that need certain specialized skills and expertise, and do not carry many risks in case of outsourcing them to an external party.
- Identify the potential positive impact for outsourcing to external parties on the various performance standards, such as profitability Liquidity, capital expenditure, and competitive advantage.

- Measure the potential negative impact on the bank's reputation and its ability to achieve its strategy, goals and plans in case the service provider fails during performing the service.
- Calculate the cost for hiring external parties as a percentage of the bank total operational cost.
- Availability of a well-defined and documentation outlining roles and responsibilities.
- Availability of clear criteria for the selection of a service provider.
- Periodical revision of the outsourcing terms and conditions.
- Availability of a monitoring and evaluation mechanism for both the outcomes of the activity as well as the performance of the service provide.
- Availability of clear procedures to ensure business continuity.

3. Outsourced Activities

The outsources activities include non-decision-making operational activities related to the bank activity and necessary to achieve the bank's goals; such as field visits, inquiring about customers to fill-in forms, activities related to selecting, hiring, and training employees, call center telemarketing activities, payroll and taxation department activities, call center activities, collection activities, back office activities, collection activities, drafting of multilateral contracts, licenses, and some other legal aspects such as arbitration, and others that are generally related to contracts formulation. In summary, services where the service provider is a third party between the bank management and a related party (customers, employees, suppliers, competitors, etc.)

Contracting a company or an individual to carry out a non-banking related task could be considered outsourcing, such as hiring external parties for security, cleaning, transportation, etc. However, since such activities are not directly related to the banking activity, this policy does not cover those kinds of contractual agreements.

4. Non-Outsourced Activities

Non-outsourced activities include the tasks of the main management including decision making, internal audit, compliance such as setting and evaluating the criteria for "Know your customer" for opening deposit accounts, imposing fines on loans and settlements. An exception to the aforementioned are cases in which outsourcing is necessary for lack of the needed caliber internally, provided that such tasks are outsourced on temporary-basis and in a consultancy capacity where the outcome and decision making fall under the responsibility of the bank's respective internal management unit that requested the service.

5. Risks of Outsourcing

Strategic risks: where the bank faces material or moral losses as a result of an outsourcing decision and the timeliness of the decision. Amongst the strategic risks is the service provider performing services in his own name and manner in conflict with the general strategic goals of the bank.

Exit strategy risks: This may result from the excessive use of an outsourcing entity and loss of relevant skills inside the bank which prevents it from going back to carrying out the activities internally. In this case, letting go of the existing outsourcing entity and the timely contracting of another outsourcing entity may prove expensive.

Reputational risks: Arising from poor service delivery by the outsourcing contractor and an inconsistent interaction level with customers that does not match the general standards of the bank.

Compliance risks: Privacy and consumer rights laws may not be adequately observed by the outsourcing contractor.

Operational risks: Emerging from technical failures, fraud, errors, and insufficient capacity to meet obligations on the contractor's part.

Legal risks: Including but not limited to fines, penalties or punitive damages due to the breach of any legal contractual clause.

International risks: Emerging from contracting service providers in another country which may expose the bank to risks. Economic, social, and political circumstances and events in that other country may prevent the service provider from delivery on its contractual commitments towards the bank. To manage international risk, the bank shall examine the government policies as well as the political, social, economic, and legal circumstances in the country where the contracted service provider is located during the risk assessment process. The bank shall also put in place procedures for dealing with such risks.

Taking into consideration the numerous risks associated with outsourcing operations, it is necessary to have in place evaluations and an effective unit to manage those risks.

6. General Principles

- All laws, regulations, guidelines, conditions for approval, or licensing or registration related to the nature of the service provider's activity and that govern its work should be considered.
- Hiring an external party for any activity by the bank does not diminish the bank's obligations. The bank management unit that requests the outsourcing service remains accountable for the activity itself whether by executing it internally or through outsourcing to an external party. The bank must ensure the contracted service provider adopts the same performance level in carrying out the outsourced services, as if they are done by the bank itself and not through an external party.
- All measures and procedures must be followed to verify the identity of the service provider. All compliance measures must be applied to the service provider.
- A tender or a bid must be announced for each new outsourcing arrangement. The nature of the bidding or procurement process may vary depending on the type of outsourced activity. In all cases, the details of this policy must be followed.
- The bank must ensure that the service provider does not hinder or oppose the bank in effectively supervising and managing the bank's activities. The bank must also ensure that the service provider does not hinder the bank from performing its supervisory role and from achieving its objectives.
- The customer's rights towards the bank should not be affected by the outsourcing arrangements, including the customer's right for fair dealings in accordance with the relevant laws. Since the customers are required to deal with the service providers when dealing with the bank, the customers' contracts with the bank should include a clause stating that the bank may use external contractors to perform certain activities and deliver certain services.
- Service providers may not violate professional behavior standards, risk the bank's reputation, or deliver poor quality of service. Banque Misr's code of conduct and code of ethics must be applied to external service providers, the same as they apply to internal employees and suppliers of the bank. The bank must ensure that the external contractor and its employees are adequately trained to deal with customers, especially when it comes to contacting customers, the suitable timings for calling customers, customer data privacy, informing customers of the correct relevant terms and conditions for the offered products, etc. The service providers must never resort to any kind of intimidation or harassment, whether verbal or physical, against any person when performing collection or marketing activities. That includes actions aimed at humiliating the customer or any actions that breach

- the privacy rights of family members of debtors or guarantors, threats, anonymous calls, and making false or misleading statements.
- The banks endeavors to protect the privacy of the customer’s data held by the service provider. As such, access to customer data by the service provider employees is based on a “need-to-know” basis, which means that knowledge is limited to the minimum data required to perform the service.
 - Taking into account the conflict of interest instructions as per the bank’s governance policy, the service provider – if not a company affiliated to the bank – must not be owned or controlled by any of the bank board members of Banque Misr, or any of the bank’s senior management members or any of their relatives down to the second degree relatives.
 - The procedures for ending or terminating a contract must be clear and comprehensive. These procedures must ensure business continuity and data integrity including data transfer or disposal.
 - In case of outsourcing to an entity that resides outside the Arab Republic of Egypt, the bank shall take all the necessary measures to comply with the Egyptian laws and legislations and to have the Egyptian courts as the jurisdiction for any disputes that may arise. In some cases, this aforementioned condition may be exempted, and the laws, legislations, and courts of the service provider’s country may be used upon the approval of the Banque Misr Board of Directors following the submission of this exemption request to the legal affairs unit at the bank.

7. Evaluation Principles of Outsourcing Providers

When hiring new service providers or renewing the contract for existing outsourcing contractors, the bank shall conduct a careful review of the service provider, including the following:

- Good identification of the service provider – the same as the bank does with a new customer, in case the service provider is not already a customer of the bank. The bank must ensure that neither the service provider company owner(s) himself/themselves nor any of the company managers are amongst the list of entities/people that are blacklisted by the bank and should not be dealt with.
- Ensure that the service provider has the necessary experience and expertise to implement the proposed activity over the contractual time period. The bank must also ensure that the service provider’s reputation is good and that they have in place good compliance, complaint and grievance systems.

- Ensure the service provider is able to adhere to the performance standards set by the bank.
- Ensure the service provider is financially capable of implementing its contractual agreement even in adverse circumstances, and to ensure its ability to comply with the terms of the contract.
- The bank may get independent reviews and market research of the services provided by the service provide to the bank to supplement findings.
- External factors such as the political, economic, social, and legal environment of the jurisdiction in which the service provider operates should be taken into account as well as any other factors that may affect the performance of the outsourced contractors.

8. Outsourcing Agreement Principles

The terms and conditions governing the agreement between the bank and the service provider must be carefully defined in writing and examined for its legal effects by the legal affairs unit at the bank. The agreement should provide enough flexibility for the bank to maintain an appropriate level of control on the outsourced contractors, reserve the right for the bank to interfere by taking the necessary measures to fulfil its legal and regulatory commitments. The contract should also outline the nature of the legal relationship between the parties involved, be it the contractor or the bank. The following includes some of the main terms of the contract:

- The contract should clearly define the activities that will be performed including the appropriate service and performance standards, the definition of roles and responsibilities, service level agreements (SLAs), escalation metrics, and non-compliance penalties. The contract should also clearly define the responsibilities for providing and receiving information to/from the service provider.
- The service provider shall be held accountable for conducting business in an economically, socially, and environmentally sound manner to ensure that the name and reputation of Banque Misr are preserved, and that the long-term success is guaranteed for both the bank and its business partners.
- The contract must ensure that the bank has the right for continuous monitoring and evaluation of the service provider to be able to immediately take any needed corrective actions. The contract must also preserve the bank's right to conduct audits on the service provider whether by the bank's internal or external auditors, or by any other auditors contracted to work on behalf of the bank. It must also preserve the bank's right to get copies of any audit reports and reports on the results achieved by the service provider in relation to the services performed by the provider on behalf of the bank.
- The contract must also include measures and controls to guarantee the confidentiality of customer data, and the extent of the responsibility of service providers in case of a security breach and the leakage of confidential information.
- Signed contacts with all service providers, inside and outside of Egypt, must ensure the bank's right to deduct any additional taxes, as well as any other costs related to taxation that were not added to the contract at the time of the agreement signature.
- Ensure that the outsourcing contract includes a Non-Disclosure Agreement for information to external parties. The service provider must not disclose the agreement terms with the bank, or any information acquired during the provider's

- tenure with the bank without a prior signed permission or an official authorization from the bank.
- The contract must ensure the service provider is fully committed to getting the approval of the bank before hiring any subcontractor to perform any services in relation to the bank. The contract must also state that the subcontractor will be bound by the same terms and conditions set by the bank and under the full and sole responsibility of the service provider.
 - The contract terms must ensure the service provider does not make any changes to the description of the outsourced services without obtaining the necessary approvals from the bank first. The service provider must undertake not to change or develop the service delivery or performance agreed-upon with the bank without getting the necessary approvals from the bank first.
 - The contract must ensure that all decisions by the customer rights protection unit at the bank are binding to the service provider.¹
 - The contract terms must include that the service provider, through the signed agreement, is committed to disclosing to the bank, the regulator, and the audit committee at the bank, if/when requested, information related to the outsourced services assigned to the provider.
 - The contract terms must include the approval of the service providers to the bank's right to publish information about the contract agreement, the scope of the service provided to the bank, the name of the company providing the service, its owners, its board members, and its key executives on the bank website and in the bank reports in relation to transparency and disclosure. The bank shall also reserve the right to mention this information in its press statements, seminars, or media interviews with the bank representatives.
 - The contract must bind the service provider to the codes of ethics and conduct adopted by the bank.
 - The contact must cover the procedures for ending/terminating the agreement in a manner that ensures efficiency, business continuity, data integrity including data transfer or disposal.

¹ Central Bank of Egypt's decision in its session on 13 February 2019 concerning protection of the rights of bank customers

9. Roles of Relevant Departments (roles and responsibilities)

9.1. Department which Requests Outsource (DRO)

- DRO should have the appropriate and sufficient human and financial resources to manage and supervise the outsourced service at all times.
- DRO shall comprehensively define the needed activity that will be outsourced. The department should make sure that such activity is permitted by the regulatory rules and whether it is among the services that the bank allows to be outsourced.
- DRO should assess the associated risks and identify the other related internal departments – according to the operational risk policy – to study and evaluate the products, systems, procedures, and new activities or activities that have witnessed a substantial upgrade (ORAP).
- DRO should prepare a business case to study the feasibility of outsourcing such service to an external party with a comparative study between outsourcing and performing the service internally at the bank in terms of profitability, efficiency and risk management.
- DRO is responsible for ensuring the financial and technical ability of the service provider prior to any outsourcing agreement.
- DRO should be well acquainted with the service provider, the same as the bank does with a customer. It must make sure that neither the owner(s), partners, nor managers of the service provider company are blacklisted by the bank.
- DRO should shortlist service providers after careful consideration.
- DRO shall prepare the drafts for the outsourcing agreement and present them to the legal affairs unit at the bank.
- DRO shall follow up and prepare periodical reports on the performance of the service provider.
- DRO should notify the Finance Unit with the start and end of the outsourcing contact and should also notify the Finance Unit as well as the compliance officer in case of contract termination detailing the reasons behind the termination decision.
- DRO should perform an internal assessment for the existing and proposed outsourcing service providers within a defined preset plan.

9.2. Central Compliance and Governance Department

- An annual revision of this policy (or when necessary) by the Governance department to be presented to the board of directors of the bank.
- Internally announce this policy on the bank's intranet and include it in the annual governance report of the bank.
- Provide assistance and consultancy to the departments that are in need of outsourcing service in relation to the details of this policy.
- When terminating an outsourcing agreement, the Compliance and Governance department shall – if needed – notify the regulatory and supervisory authorities while listing the reasons behind the decision.
- Ensure the disclosure of the outsourcing agreements, names of the outsourcing contractors and the range of services offered to the bank.

9.3. Risk Unit

The Risk Unit is to cooperate with the department requesting the service and any other related departments on the following:

- Set the selection criteria for the outsourced contractor.
- Assess the risks associated with dealing with the outsourced contractor before signing an agreement contract; as well as set key performance indicators (KPIs) in cooperation with the department requesting the service to monitor the performance and delivery of the contracted outsourcing service providers after the contractual agreement comes into effect.
- Present the risks associated with outsourcing to the bank's senior management in due time.
- Ensure readiness and validity of the contingency plans of the outsourcing contractors.

9.4. Legal Affairs

- Legal revision of all outsourcing contracts before signature / execution by the bank with the service provider. Offer legal advice in case of any disputes with the service provider.
- Work on standardizing the outsourcing contracts with companies working in the same field.

9.5. Administrative and Engineering Affairs Unit

- The administrative unit is responsible for all related permits and contracts with the outsourcing service providers according to the rules and applicable procedures, and in coordination with The DRO

9.6. Finance Unit

- The Finance Unit is responsible for the consolidation of all costs associated with the outsourcing services under specific account (Administrative and Engineering Affairs Unit is consultate with the Finance Unit to open a sub-account for each outsourcing project).
- The costs associated with the outsourcing service is to be charged to the department requesting the service as independent cost units.
- The Finance Unit is to keep all outsourcing documentations, and follow-up on renewals according to the following:
 - A. Prior to contract signature:
 - Avail the necessary information on the service provider (including previous business with the bank and performance evaluations) to the concerned departments prior to agreement signature.
 - Review procedures preceding signature of the agreement to ensure integrity of the numbers, data, and information provided by the concerted parties; financial ability; signature rights; and ensure revision of the agreement contracts from the technical, legal, financial aspects, etc.
 - B. Post contract signature:
 - Preserve and keep the original copies of the contracts signed with the external parties.
 - Record contract details into the contract management system at the bank.
 - Follow-up on the performance evaluation of the contractors and service providers, and present periodic performance reports to the bank's senior management.
 - Provide the necessary data to senior management, internal and external supervisory authorities, as well as the concerned departments.

9.7. Internal Audit

Internal audit scope covers all the bank activities including the relationship with service providers and outsourcing third parties.²

- Revise the necessary requirements outlined in the outsourcing policy for hiring third-party service providers.
- Ensure all terms outlined in the policy are included in the contracts with the outsourcing contractors.

²Internal Control Regulation (Issued by the Central Bank of Egypt in 2014 – Page 9)