Date: 26-7-2015  
Circular no.: 68-2015  
To: All banks operating in Qatar  
Subject: Corporate Governance Guidelines

With reference to the Corporate Governance Guidelines for Financial Institutions issued on March 2008, Corporate Governance instructions to banks in the Instructions to Banks up to September 2013, and any other related instructions;

It is decided to updated all the above mentioned guidelines and instructions as per the attached Corporate Governance Principles for Banks which shall replace any pervious related instructions.

All Banks shall comply with the attached instructions and principles as from the date of issuance in accordance with these regulations and framework.

Abdullah Bin Saud Al-Thani

The Governor
# Corporate Governance Principles for Banks

## Table of Contents

<table>
<thead>
<tr>
<th>Subject</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitions</td>
<td>1</td>
</tr>
<tr>
<td>Principle 1: Board’s Overall Responsibilities</td>
<td>6</td>
</tr>
<tr>
<td>Principle 2: Board Member Selection and Qualifications</td>
<td>10</td>
</tr>
<tr>
<td>Principle 3: Board’s Practices and Conflicts of Interest</td>
<td>12</td>
</tr>
<tr>
<td>Principle 4: Board’s Committees</td>
<td>15</td>
</tr>
<tr>
<td>Principle 5: Senior Management</td>
<td>20</td>
</tr>
<tr>
<td>Principle 6: Risk Management</td>
<td>21</td>
</tr>
<tr>
<td>Principle 7: Internal Audit</td>
<td>26</td>
</tr>
<tr>
<td>Principle 8: Compliance Officer Function</td>
<td>27</td>
</tr>
<tr>
<td>Principle 9: Compensation System</td>
<td>29</td>
</tr>
<tr>
<td>Principle 10: Communication between the Board and the Shareholders</td>
<td>32</td>
</tr>
<tr>
<td>Principle 11: Corporate Governance Disclosure</td>
<td>34</td>
</tr>
<tr>
<td>Principle 12: Large and Complex Banks</td>
<td>35</td>
</tr>
<tr>
<td>Principle 13: Special Purpose Vehicles</td>
<td>36</td>
</tr>
<tr>
<td>Principle 14: Corporate Governance for Government owned Banks</td>
<td>37</td>
</tr>
<tr>
<td>Principle 15: Additional Requirement for Corporate Governance in Islamic Banks</td>
<td>39</td>
</tr>
<tr>
<td>Annex 1: Corporate Governance Disclosure</td>
<td>41</td>
</tr>
<tr>
<td>Annex 2: Main Reference Conditions for Sharia Supervisory Board (SSD)</td>
<td>44</td>
</tr>
</tbody>
</table>
### Definitions

The following terms and phrases shall have the meanings ascribed thereto hereunder unless the context indicates otherwise:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate Governance</strong></td>
<td>A set of relationships between a bank’s management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the bank are set, and the means of achieving those objectives and monitoring performance. Corporate governance decides authorities, powers, and decisions making.</td>
</tr>
<tr>
<td><strong>QCB</strong></td>
<td>Qatar Central Bank</td>
</tr>
<tr>
<td><strong>Banks</strong></td>
<td>All banks licensed by QCB.</td>
</tr>
<tr>
<td><strong>Stakeholders</strong></td>
<td>Any person or entity that shares interest with the bank like: depositor, debtor, staff, investors, clients, and any other relevant entity.</td>
</tr>
<tr>
<td><strong>First kinship Relatives</strong></td>
<td>Father, Mother, Husband, Wife, and Children.</td>
</tr>
</tbody>
</table>
| **Independent Board Member** | A board member who meets the following conditions:  
1- Is not one of the bank’s shareholders, or shares whether owned by him or any of his first kinship relatives directly or indirectly (companies owned or controlling shares) through group or individuals are not above (0.25%) of the bank’s shares.  
2- Is not a member of a group of individuals or entity collectively controlling the bank’s business.  
3- Is not previously or currently engaged in any career at the bank or at any subsidiary of its group during the last three years.  
4- No salary or any other compensation is received from the bank other than the board’s remuneration and/or shareholder’s dividends or any income from his deposits or investments in the bank’s regular activities. Does not enter into any contractual or commercial business or any direct or indirect interest that may contradict the bank’s independent policy whether in his name or any of his first kinship relatives.  
5- Does not work or own shares in any consulting agency or professional institution that provides any service to the bank in his name or any of his first kinship relatives.  
6- Is not a relative to any other board member or senior management up to first kinship.  
7- Does not work for any external auditor appointed by the bank and is not involved directly or indirectly in any business with this auditor or any affiliates thereof. |
<table>
<thead>
<tr>
<th><strong>Non-Executive Board Member</strong></th>
<th>A board member who is not a member of any of the board’s committees that is involved in any management responsibilities within the bank including but not limited to committees on facilities, investment, treasury, or any other executive committee.</th>
</tr>
</thead>
<tbody>
<tr>
<td>8- In addition to the above mentioned conditions for independence an independent member should have balance of skills, diversity and expertise in banking and financial fields.</td>
<td></td>
</tr>
</tbody>
</table>
Introduction

Corporate governance for banks is of a great importance to both the supervisory authorities and international and regional organizations as well. A set of international publications have been issued on the standards and guidelines on corporate governance for banks. Considering its importance and significance to the financial sector, corporate governance guidelines and standards are adopted by supervisory authorities. Most known relevant publications are those issued by Basel Committee on Corporate Governance principles for banks, and publication issued by the (OECD). It is worth mentioning that QCB has issued guidelines on corporate governance in Instructions to Banks book, and guidelines on corporate governance for financial institutions in 2008. In view of the recent regulatory and international requirements and publications following the financial crisis, more responsibilities and wider role have been assigned to banks by regulators and all stakeholders. As such QCB is issuing a revised version of corporate governance principles including recent update thereof. It includes 15 principles of corporate governance. Banks shall comply with these principles, while in limited cases certain principles may not be applicable for some banks. In such cases banks shall be subjected to the principle of “comply or explain”. This revised version of corporate governance principles shall replace the following QCB instructions:

1- QCB instructions on Corporate Governance in page 276-289 of instructions to banks up to September 2013, Vol I English Version.
2- Core Principles for Banks’ Remuneration Policy/System (pages from 288&289 Instruction to Banks September 2013), Vol I English Version
3- Compliance Function in page (394&395) of instructions to banks up to September 2013, Vol I English Version.
4- Guidelines of Corporate Governance in Banks March 2008
Scope of Application

Principles shall be applied by:

1- All banks licensed by QCB.

2- If the bank has subsidiary inside or outside Qatar, or branch outside Qatar, it should establish and apply corporate governance policy for the whole group consistent with these principles, or ensure that the corporate governance policy applied is consistent with these principles provided that it is not contradicting the legal and regulatory requirements of the supervisory authority in the host country.

3- All branches of foreign banks licensed by QCB must comply with the regulations given herein relating to the executive functions consistent with its type of business and the bank’s group framework.

4- Considering that banks have diverse legal and ownership structures and the different types and sizes of activities provided by them, these principles may not be applicable as one-size-fits all for all banks. Special nature of business in some banks shall be considered such as; bank’s size, type of activities, risks, ownership and legal structures and other issues. All banks shall generally comply with these principles and explain the specific nature of business activities where these principles are not required to be complied or require compliance. QCB shall review these specific conditions for applicability or non-applicability of these principles.

5- All banks shall comply with these instructions as from date of issuance. Any request for extension in applying these principles may be made to QCB containing the reasons and justification for extension of application and the proposed time frame for compliance.
Principle (1): Board's Overall Responsibilities
The board has overall responsibility to the bank, including approving and overseeing the implementation of the bank’s strategic objectives, policies, risk profile, governance framework and corporate culture. The board is also responsible for oversight of senior management.

1- Board’s Understanding of Its Role
All board of directors shall understand the board’s roles and responsibilities, in particular:
1/1 The board’s role is distinct from the role of the shareholders and the role of senior management according to the principles herein.
1/2 The professional and legal responsibility of the board towards shareholders and stakeholders in good faith, with due diligence and care, and in the best interest of the bank and to protect the rights of the shareholders and stakeholders.
1/3 Responsibilities of members of boards towards supervisory authority and others under Article (129) of Law no. (13) of year 2012 regulating QCB and Financial Institutions.
1/4 Develop appropriate measures to enhance the awareness of the new member relating to their duties and responsibilities in writing.

2- Roles and Responsibilities of the Board
The board’s role and responsibilities include, but not limited to the following:
2/1 Establishing the objectives, policies and strategies, including risk policy, risk appetite, risk management, performance, long-term objectives, and the ability to manage risk effectively.
2/2 Regularly reviewing strategies, policies, procedures, controls along with senior management, internal audit, risk department, and compliance so as to develop policies to meet the requirements of the latest standards or for establishing new policies.
2/3 Approve policies and systems of risk management and internal control and review that the implementation process are appropriately overseen by senior management.
2/4 Approve the organizational structure, key roles and responsibilities to avoid conflict of interests, duplication or overlapping of tasks; and provide a sound administrative hierarchy and delegation of authority.

2/5 Establish the necessary committees to oversee the bank’s business. Monitor and evaluate these committees according to the internal policies procedures and systems and delegate the required authority to these committees. The board may delegate certain roles and duties to committees other than those assigned to senior management. The board, as per principles herein, shall not delegate board’s role to guarantee an adequate, effective, comprehensive and transparent corporate governance framework.

2/6 Election of Chairman and Deputy chairman of the Board

2/7 Establish and regularly review rules and standards to minimize risks resulting from conducting transactions with related parties and to avoid conflict of interests or abusive related party transactions. Ensure the fair treatment of the shareholders (including minority shareholders), depositors, debtors and other stakeholders. The board should review independence of each member at least once per year based on their disclosure of interests. Each independent member should update the information disclosed for this purpose.

2/8 Convene and prepare the agenda for regular and extra-ordinary / Special general assembly meetings.

2/9 Approve the reviewed interim financial statements and audited annual statements which present the bank’s financial position in accordance with the applicable international financial reporting standards, public disclosure standards, Basel Committee’s Pillar III disclosure standards (and the equivalent for Islamic Banks), and recommendations of the general assembly on approving the financial statements at year end. Nominate external auditor, and members of Sharia Supervisory Boards in Islamic Banks to be approved by the general assembly.

2/10 Approval and oversight of appropriate standards for the business continuity plans.
2/11 Any other responsibilities as per the law or the articles of association, and QCB instructions.

3- Corporate Culture and Values

3/1 The board should take the lead in establishing the “tone at the top” by setting corporate values and professional standards reinforcing honesty and integrity for itself, senior management and other employees.

3/2 The board shall approve code of conduct and code of ethics and clarify the acceptable and unacceptable behavior. It should prevent any activity that may lead to any improper or illegal activity, such as money laundering, fraud, bribery and corruption. Such codes should also prevent any excessive risk taking activities that could lead to complex risks.

3/3 The board shall approve a reporting system that will enable employees to communicate their observation of any existing or expected financial or legal violations, or any observation on any member of the board or senior management in a confidential manner. The system should provide protection to the reporting employee. These observations in the system shall be referred directly to any member of the Audit Committee of the board or any other concerned Committee or directly to any official or supervisory authority.

4- Oversight over Senior Management

4/1 Appoint CEO, approve appointment of CEO’s deputies and assistants, experts, advisors, key employees, and manager of internal audit, decide their salaries and bonuses in accordance with an approved policy. If necessary the board may replace them and select an appropriate successor as per a succession plan approved by the board.

4/2 Check the appropriate qualifications and requisite experience, and distinct professional performance of the CEO, members of senior management, and members of the internal audit, risk management, and compliance officer.
4/3 Set proper standards to assess and monitor the senior management’s performance and procedures that should be in consistent with strategies, policies, and standards approved by the board.

4/4 Hold regular meetings with senior management through committees of the board and discuss reports on the management, business results, and compliance.

5- Meetings of the Board

5/1 The board shall hold regular or frequent meeting when necessary, at least once every two months and at least 6 times annually. Exemption from attending the meetings should be justified, genuine and certified. Communication between members through other communication channels other than board meetings are significant. The board meeting shall be valid only if majority members attend the meeting.

5/2 Chairman of board or the person delegated should ensure that all board members have received the agenda of the meeting, minutes of previous meetings, board’s committee reports, and brief of the agenda items within 10 days prior to the regular meetings and less than 10 days for other extraordinary meeting.

5/3 The board according to its judgment may require the CEO or any of the member of the senior management to attend the board’s meeting to discuss certain issues on the agenda before the board. The board may also in certain cases decide not to require any of the members of senior management to attend the meeting to discuss any of the issues on agenda.

5/4 Each member of board should be independent to make his decisions, and no member (s) shall control the decision making process.
Principle 2: Board Member Selection and Qualifications
Members of board should have suitable experience commensurate with their clear understanding of their role on the board as per the provisions of corporate governance concepts. Also they should have the sound and objective judgment regarding banking affairs.

1- Selection Criteria for Members of Board
1/1 Should have honesty, integrity, and good reputation.
1/2 Should be sufficiently solvent to fulfill his responsibilities honestly and objectively, not previously declared bankrupt, defaulted, or caused any financial loss to his bank, or was removed by a bank or other supervisory authority.
1/3 The Board members individually or collectively should have a range of knowledge and experience in relevant areas to fulfill their responsibility effectively and in complete manner professionally. The board shall set the appropriate conditions, qualifications, and experience for each member individually or collectively for this purpose.

2- Board Formation
2/1 The board should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications consistent with all activities of the bank, strategic planning, communications, corporate governance, risk management, internal audit, and understanding economic, local, regional, international, environmental, legal, and supervisory developments.
2/2 The board should be comprised of at least 9 members, and a maximum of 11 members. QCB’s no-objection is required for appointing board members more than the maximum. Board should select candidates according to certain criteria and set suitable succession plan as per the law and the board’s policy, and procedures.
2/3 When nominating the members to the board or committee, the board should assess their eligibility for the position and ability to exert their best efforts to fulfill their duties in time.

2/4 The board should regularly review its structure, size and composition to ensure that the number of board members are sufficient to make effective and varied decisions to promote diversity of views and area of specialization. The Board shall recommend to the shareholders to amend the by-law in case there is a need to change the size or composition of the board.

2/5 Half of the members should be non-executive members, at least three of them should be independent to make decisions in sound and objective manner.

3- Training

3/1 The board must ensure that every new member receives a formal and tailored induction to ensure his best contribution to the board from the beginning of his term. The induction must include meetings with senior management, advisors, consultants, visits to the bank’s facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance, internal and external auditors and legal counsel. Board should ensure on-going training so that all members are continually trained and updated of the bank’s business and corporate governance.

3/2 The board shall assign the senior management to develop programs and presentations for the members on the bank’s business and industry, which may include periodic participation in conferences and management meetings. The Nomination Committee shall oversee the training requirements for the members of board on corporate governance.
**Principle 3: Board’s Practices and Conflicts of Interest**

The board should identify corporate governance practices suitable to duties and ensure that such practices are regularly adhered to, reviewed, and developed on an ongoing basis. Policies and controls to prevent conflict of interests have to be established by the board.

1- **Board’s Practices**

1/1 To support its own performance, the board should carry out assessments of the board as a whole, its committees and individual board members at least once annually. Assessment process should at a minimum shall have the following:

1/1/1 To assess the board’s performance in view of its duties and responsibilities as given under Principle (1).

1/1/2 To assess performance of each committee in view of its duties and responsibilities.

1/1/3 To review suitability of each board member taking into account his or her performance on the board, attendance to the board and committee meetings and his/her effective participation in discussions and decision making.

1/1/4 To review the current composition of the board in light of developments and to maintain appropriate skills and expertise of the members consistent with the planned development and structure of the bank.

1/2 The board is collectivity responsible for assessment. However, the nomination committee and the governance committee may conduct the assessment process and in case of necessity be assisted by external advisors. The board shall notify the shareholders of the results of the assessment made in the general assembly meetings.

1/3 Members of board are entitled to seek legal or technical advice. When it is decided to seek such advice in order to fulfill their duties on the board, the fees for such consultation shall be paid by the bank. Such
payment should be made in accordance with the board’s approved policies.

1/4 Whenever any important issue(s) are raised by a member of the board and the same is not discussed in the meeting of the board to the expectation of the concerned member, the expectation of the board member, together with the divergent views expressed by other members and the final decision taken in this regard should be minuted.

1/5 In case of resignation, the board member should make a written submission with reasons for resignation to the Chairman, who will forward copies of the letter of the member to all other board members. In case the reason for resignation relate to adverse observations or violations on the member which are yet to be decided, the same should be minuted in detail along with the divergent views.

1/6 The board shall review the independent status of each member once at least annually in light of the interests disclosed. Every independent member should provide the updated information for this purpose.

2- Conflict of Interests

2/1 Each member of the board or the senior management has responsibility under the provisions of Commercial Law and QCB Law, and that he/she is also responsible to QCB and shareholders if he/she violates the “duty of care” and “duty of loyalty” to the bank under the provisions of applicable laws and supervisory standards. QCB or the shareholders shall take suitable legal action against such member for violation of these provisions. All information relating to conflict of interests should be recorded.

The “duty of care” and “duty of loyalty” includes responsibility not to use any property or funds of the bank for his personal needs as though it was his own property, not to disclose confidential information of the bank or use it for his personal benefit, not to take business opportunities of the bank for himself, not to compete in business against the bank, and to serve the bank’s interest in any transactions
with a company in which he has a personal interest in one or more of the following:
2/1/1 By himself; or any member of his family of first or second kinship,
2/1/2 By himself or any of his first kinship relative is a director or controller in another company, or is a party to the transaction or has a material financial interest in the transaction.

2/2 Each member must make every practicable effort to arrange his personal and business affairs to avoid conflict of interest with the bank and does not take advantage of business opportunities for himself or his associates, more than those given to customers.

2/3 The board shall establish a sound and written policy to avoid or minimize conflict of interests.

2/4 Every board member must disclose of any conflict of interests as they may arise. Board members must abstain from voting on the issues likely to have conflict of interest in accordance with the relevant provisions of the Commercial Law. This disclosure must include all material facts in the case of a contract or transaction involving the board member as mentioned above. The board member must note that any approval of the transaction involving conflict of interests shall be effective only if all material facts are disclosed and the member involved has abstained from participation in the meeting nor influenced in the decision making process.

2/5 The board should disclose the approved policy on conflict of interest. Any material deviation not consistent with the policy shall be reported to QCB and other relevant regularity authorities, together with the reasons for such divergence. The bank shall also disclose the conflict of interests that may arise due to bank’s affiliations or transactions with other entities within the group.

In order to avoid the influence of the controlling shareholders in the election of board’s members, the board should establish suitable policy to minimize the potential conflict of interests that may arise from the influence of the controlling shareholders.
Principle 4: Board’s Committees
To increase its supervisory efficiency and allow deeper focus in specific areas and risks exposed, a board may establish certain specialized board committees. The number and nature of such committees depends on many factors, including the size of the bank and its board, the nature and structure of the business areas of the bank, and its risk profile.

Main Committees of the Board:
1- Audit Committee
2- Risk Committee.
3- Nominations and Governance Committee.
4- Compensation and Remuneration Committee.

- A board may establish other committees relating to the bank’s business such as, facilities, investment, and compliance. The number of board committees may be reduced either by separation or merging two or more committees, provided that such committees should cooperate and avoid conflict of interests. In any case, risk, compliance, and audit committee’s functions shall not be merged with any other committee.
- The Board shall determine the number of each committee members with a minimum of three members and select a chairman. It should also set duties, powers, number of meetings, and other key issues such as: quorum, voting, submission of reports, qualifications, and experience suitable for members. etc.,
- Each committee should maintain appropriate records of its decisions, its minutes of meetings, and reports submitted by committee to the board and reports received from management.
- The board should consider the occasional rotation of members and of the chair of such committees, as this can help avoid undue concentration of power and promote fresh perspectives, provided that this will not negatively influence the collective skills, experience and effectiveness of these committees.
1- Audit Committee

Audit committee, a main committee established and granted independent management by the board, is required for systemically important banks. It should be constituted entirely of independent or non-executive board members and include members who have experience in audit practices and have financial literacy at banks. The chairman of the board should not be a member of the audit committee or any other committee. The committee shall meet at least four times a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the board. Non-members may be invited to any committee meeting, including the CEO, or head of internal audit or external auditor or any other employee. The committee shall fulfill at the minimum the following duties:

1- Reviewing reports of the internal audit, external auditor, QCB, and other supervisory authorities. Follow-up the necessary corrective actions taken to address violations identified by auditors, and set controls required to avoid violations in future. Audit committee should regularly submit its reports to the board, after reviewing and approving the audit plan annually.

2- Reviewing the effectiveness and adequacy of internal controls, overall risk management and control, financial reporting systems, and best accounting and financial practices.

3- Reviewing and approving the bank’s quarterly and annual financial statements. Discussing these statements with senior management and external auditor before submitting them to the board for approval.

4- Responsible for all issues relating to the external auditor and making recommendation to the board regarding the selection, appointment, remuneration, and termination of the external auditor. Review with the external auditor the scope and results of its audit.

5- Responsible for all issues regarding the internal audit and making recommendation to the board regarding the selection,
appointment and termination of the head of the internal audit. It is responsible also for allocating the budget and the assessment of the internal audit staff.

6- Coordinate with the risk management committee for assessment of risk management and control systems.

7- Ensure application of the best framework suitable for achieving the highest level of compliance with laws, regulations and robust and sound banking practices.

Audit committee may be assisted by any consultant or advisors in certain important matters as per its assigned responsibilities and allocated funds.

2- Risk Management Committee

Risk management committee, a main committee established and granted independent management by the board, is necessary for systemically important banks. Non-members may be invited to any committee meeting including the CEO, or director of risk management. It may be assisted by external consultants for advice only. The committee’s duties shall at a minimum include:

1- Set an overall strategy for the current and potential risks, risk profile, and risk appetite for all activities of the bank to be approved by the board. This strategy should be reviewed and updated regularly.

2- Set risk management policies commensurate with its position in the market share, size of the bank, diversity of its activities, nature of risk in accordance with the board’s strategy. Such policies shall include procedures for risk management, and risk exposure limits. A comprehensive risk monitoring system must always be applied, and these policies should be reviewed regularly.

3- Approve effective policy and procedures for monitoring compliance with policies, laws, supervisory instructions, and the precautionary measures taken to ensure compliance. Establish mechanism to report on any violation immediately and penalize the violators.
4- Provide the board with periodic reports on risks exposed to currently or in future, or on any violation of the laws and systems. Oversee the compliance by the senior management of the approved risk policies, laws and systems. Review the reports prepared by Risk Management and Compliance Departments.

5- Ensure the performance of qualified staff who function independently for the risk management system which is responsible for identification, measurement, control and mitigation of risks in banking activities. Review the possible methods of mitigating risk levels and losses. Maintain capital adequacy ratio to mitigate such risks.

6- The board should consider the accuracy and sufficiency of data used to identify and measure risks.

3- Nominations and Governance Committee

Nominations and governance committee is a key committee under the board. It is preferable that all or most of its members are alternatively independent or non-executive directors. At a minimum the committee shall be responsible for the following:

1- Identify persons qualified to become members of the board of directors or of senior management of the bank as per conditions and qualifications set by the committee and make recommendation to the board. Set succession plan for members of board in accordance with the law, by-law, and QCB regulations. Any proposal raised by the board to the shareholders for election or reelection of a board member must be accompanied by the recommendation from the board and advice from the nomination committee. The appointment of the internal auditor shall be the responsibility of the Audit committee. Names of all members of board shall be provided to QCB along with reasons for approval or rejection.

2- Oversee human resources policies in general and ensure application of succession plan to the senior management.
3- Determine that the criteria for independent or non-executive member have been met, in accordance with the criteria set and reviewed annually.

4- Establish objective and impartial criteria for assessment of the performance of the board and senior management.

5- To oversee the preparation, update, and implementation follow-up of the corporate governance guidance in cooperation with senior management, audit committee, and Sharia supervisory authority in Islamic banks.

6- Provide the board with reports and recommendations on banks compliance with the corporate governance guidance for banks. Make proposals to amend the guidance, including the structure of the board, its members and committees according to best practices.

4- **Compensation and Remuneration Committee**

   Compensation and remuneration committee must be established by the board and comprised of, wherever appropriate, majority of independent members. It may also include external advisors for consultation. Its members should have sufficient knowledge, skills, and experience required for making independent and objective policies and decisions on compensation and remuneration practices. The committee shall at a minimum support overseeing the following:

   1- Ensure that the remuneration policies, which must be approved by the board, is consistent with the relevant best international banking practices, for the chairman and members of board and all senior management including the CEO. Oversee the application of such policy and review it annually. Comply with the rules and policies of remuneration as mentioned under Principle (9).

   2- Ensure that remuneration policy considers all types of risks exposed while allocating remunerations, in such a way that there should be alignments between profits gained and degree of risk for all banking business and activities. Comply with the policy above mentioned in item (1).
3- Ensure that the period of remuneration should be aligned with the actual income, particularly from the long-term performance.

4- Remuneration committee should work together with Risk Management Committee or Chief Risk Officer, regarding assessment of incentives under risk assessment based remuneration system.
Principle 5: Senior Management

1- Includes senior employees of the bank, including the CEO, whose authority shall include management and operation of bank and implementation of board’s decisions in accordance with the approved strategies and policies, and the bank’s risk profile.

2- Approval of the board or the concerned committee will be required for the removal of any of the staff under senior management. Reasons for the removal shall be given.

3- Board may delegate the CEO to act in the name of the bank generally and represent the bank’s interest while concluding transactions with third parties. The board shall also specify the restrictions of powers delegated to the CEO or other senior management, such as ceiling for financial transactions that may exceed the approval set for the board.

4- Senior managers should possess personal characteristics of honesty and integrity, and acquire sufficient qualifications and experience to fulfill their roles in the bank.

5- Senior managers along with the board should participate in implementation and development of a sound corporate governance system.

6- Senior management should prepare the bank’s organizational structure to be approved by the board which should include appropriate distribution of responsibilities, delegation of authority, and limits to responsibility and accountability. The organizational structure should include, but not limited to the following:
   - Departments, units, and divisions in such a way that ensures independent implementation, audit and reconciliation, and prevents conflict of interests.
   - Designations and professional levels.
   - Communication channels and mechanism of reporting.
   - Dual Control
   - Assessment and accountability
It is to be noted that any delegation of authority to employees shall not prevent the CEO to be accountable to the board.
**Principle 6: Risk Management**

1- Banks should have an effective, independent risk management function, with sufficient authority and resources (quantity and quality), incentives to risk-taking staff and access to the board, its committees and any other department of bank to fulfill its responsibilities.

2- Banks, particularly Domestic Systemically Important Banks (DSIBs), should appoint a senior staff equivalent of a Chief Risk Officer (CRO) whose duties and responsibilities are independent from other business lines. CRO shall be responsible to implement the comprehensive risk management framework and is capable of influencing any decisions related to potential risks that the bank may encounter, even beyond the scope of risk appetite of the bank. The CRO’s removal should be approved by the board or the risk management committee.

3- Risk management governance shall apply to the following risk strategies and policies, including but not limited to the following:

   A- Prepare risk structure as suitable for the bank’s activities, and set the proposed ceilings for approval by the senior management and the board.

   B- Develop, and apply systems and procedures appropriate to control exposed risks consistent with the approved strategies, policies and type of risks and limits.

   C- Establish methodologies suitable for identifying, measuring, and monitoring, mitigating risks in accordance with the policy and risk resilience level approved by the board. Identify regulatory capital requirements on an ongoing basis. Important methodologies are:

      1- Quantitative and qualitative elements should be considered while measuring the risks. As risk assessment is important, efficiency of risk management should not be affected. Logical assumptions should be used and the board may be consulted if necessary.
2- As part of quantitative and qualitative risk analysis, banks shall conduct stress testing and scenario analyses to better identify any potential risk exposures under a variety of adverse circumstances.

3- Risk assessment and measurement process should not be totally based on external resources such as credit rating and readily available risk models.

4- Risk management policy should be applied on a consolidated basis for the whole banking group, taking into account the potential risks arising from the bank’s external activities and the bank’s head office shall be responsible for applying the policy to the whole group.

5- Bank should be up-to-date with all developments that may have an impact on the risk management function. These developments may be internal such as, balance sheet and income statement, or external developments, such as geographical expansion, introduction of new products or business lines, mergers and acquisitions.

6- Bank should use back testing to compare actual performance against risk estimates in addition to the forward-looking stress testing.

7- Bank should have adequate procedures to address new activities, such as introduction of new products, material changes to existing services, introduction of new business lines or markets, mergers and acquisitions. These processes should include, for example, the ability to assess relative risks arising from these activities, to identify potential shortcomings in internal controls projections and to adapt adequate measures to manage such risks.

8- Departments and other business units, such as Treasury and other financial units should not limit their responsibilities to support internal controls. These departments or units shall also apply an appropriate internal pricing mechanism to reflect appropriate usage of funds and reflect internal cost of funds in a way that shall control undue investment in high risk activities.

9- Establishing risk awareness through communicating the risk exposures and risk-taking across the bank, vertically, to and from the board and
senior managements as well as horizontally for peer to peer units. This practice shall include delivering relevant information to the board and senior management in timely manner through concise, contextualized, accurate and comprehensive reports.

D- Should have oversight of bank’s risk appetite and reporting of any violations with corrective measures to the Risk Committee, which may in turn question the senior management on such violations.

E- Identifying and assessing new risks resulting from introduction of new products, or change in business line, complexity, economic or operating environment, type of portfolio, mergers and acquisitions. These variables should be taken into consideration while measuring risk with the use of qualitative and quantitative methods.

F- A major function of Risk Management is to submit reports to the board and attach copy to Chief Executive Officer.

G- Ensuring that risk management staff have the required experience and qualifications to deal with various types of risks which the bank may be exposed to.
**Principle 7: Internal Audit**

1- Board should ensure establishing and maintaining an appropriately controlled operating environment for effective and reliable auditing, financial reporting and internal control in accordance with prevailing laws and regulations. In order to achieve this goal, the board and senior management should ensure proper governance and oversight of the internal and external audit functions in assessing the adequacy and efficiency of internal control systems.

2- Internal Control objective is to ensure that each material risk has adequate governance and specific mechanism to measure and control, which would eventually ensure the integrity, compliance and effectiveness of risk management processes. This would reinforce self-monitoring and enable the bank to prevent, early detect and report failures for remedy and accountability.

3- The Board and senior management should continuously enhance internal audit function by encouraging auditors to comply with the related international audit standards. It should also check that the audit staff is independent and acquire adequate experience and qualifications to carry out their duties and responsibilities and timely and effective corrective measures are taken on the reported internal audit issues.

4- The CEO and the Financial Controller should review, verify and sign the quarterly and end of year financial statements to appropriately reflect the essential elements of the financial position of the bank in accordance with the applicable accounting standards and other related policies and controls. Head of Internal Audit should review and check the quarterly and annual financial statements.

5- Senior management should establish and develop an effective overall system to efficiently enhance an independent internal control function; such as segregation of duties to avoid any potential conflicts in duties, especially in cases where accountability of uncertain revenues are inconsistent with risk appetite levels.
**Principle 8: Compliance Officer Function**

Each bank should establish a function for compliance officer as per the following guidelines:

1- **Who is the Compliance Officer**

   A permanent function that could be occupied by an individual and/or a unit to independently identify, evaluate, advise, monitor and report on actual and potential compliance risks under applicable rules, regulations and standards.

2- **Responsibilities of the Board and Senior Management**

   The bank’s board (senior management for foreign branches) should consider establishing this function with adequate definition of its main roles and responsibilities, including its organizational structure and coordination with other units and functions. Compliance function should be totally independent from the management so as to report directly to the board and executive management. Compliance officer should have direct access to all types of information incorporated in a clear policy and procedures guideline. This policy should be reviewed and updated annually. The internal audit should review compliance officer’s activities.

   Senior management should cooperate and coordinate with the compliance officer for necessary corrective and disciplinary actions in case of violations. A policies and procedures reports should be submitted to the board.

3- **Compliance Officer’s Duties and Responsibilities**

   Compliance duties should at a minimum include the following:

   **A**- Detect and evaluate violations related to banking activities and any new product.

   **B**- Provide advice to senior management on the applicable laws, regulations, and standards and the relevant latest updates.

   **C**- Issue written instructions to employees on the appropriate application of laws, regulations, and standards.

   **D**- Evaluate how the internal procedures and instructions comply with the laws and regulations. Detect shortcomings of policies and procedure and suggest appropriate solutions.
E- Conduct regular and comprehensive examination and report to senior management on violations and take necessary corrective actions.

F- Report instantly to the board or its committees on the violations detected and shortcomings, and if required, the corrective actions, and provide information on the compliance training program for employees.

G- Act as an information center for employees to reply to any enquiries relating to compliance.

H- Enhance relation with the concerned authorities, particularly QCB’s Supervision and Control Department on reporting of violations and responding to compliance enquiries and regulatory requirements.

Roles and responsibilities between the Compliance Officer and Legal Affairs Departments need to be separate. The Legal Affairs Department will give advice on laws and regulations to the bank management. Branches and subsidiaries abroad should ensure implementing compliance requirement under the bank’s comprehensive compliance policy.

4- Qualifications of the Compliance Officer

Compliance officer should have suitable professional skills that would enable him to understand applicable laws, regulations and standards and their impact on the bank's activities. Compliance officer must have analytical skills, awareness of applicable laws, regulations and standards and supervisory requirements. He should have adequate knowledge of financial institutions products. Compliance officer should have personal characteristics of integrity, impartiality, and good communication.
Principle 9: Compensation System

To enhance corporate governance and sound compensation practices, the board of directors is fully responsible to comply with the following principles and controls that may not be delegated to the senior management:

1- The board shall approve and follow up implementation of remuneration policies, as recommended by the compensation committee. It should also oversee any update or modification of the compensation policies, and the related recommendation by the compensation committee.

2- The Board of directors should, set, update and annually review the compensation policy (internally by the Internal Audit or externally be an approved consultant) through the compensation committee to ensure the accuracy of and bank’s compliance with the designed remuneration policies and procedures without any interference by the senior management. The board should consider reviewing the results based on the compensation rules.

3- Remuneration policy should be designed to attract and retain employees with sufficient knowledge, experience, skills and expertise required by the bank.

4- Board should review the adequacy of systems and procedures and efficient oversight policy to ensure compliance with the remuneration policy.

5- Approved remuneration policy should at a minimum include the following:
   5/1 Remuneration system should be consistent with risk profile and the bank’s overall performance, including indicators of profitability, liquidity, capital adequacy and operational performance. Employees’ compensations must be consistent with their performance and efforts to fulfill their responsibilities and the bank’s overall performance.

   5/2 Remuneration system should include entire bank’s administrative levels, starting with the board members, senior managers, up to employees to enhance the efficiency of risk management and compensation policy.

   5/3 All types of risks should be considered while deciding compensation for the bank’s group as a whole so that total income or profit should not be the only performance parameter. There should be balance between
profits and risk levels in the business activities. To illustrate this, if two different departments realized same amount of profit in short term while they have different risk level for the related business activity, the two departments should not be treated equally within the compensation system. All types of risk should be taken into account including risks, such as liquidity risk, reputation risk, cost of capital risk and complexity of risks of related activities, even if they are difficult or easy to quantify.

5/4 The compensation policy should be based on objective performance assessment system linked to the risk management framework and the application of the internal controls and regulatory requirements to evaluate and measure staff performance at all levels.

5/5 The remuneration of members of board and executive management should be based on their performance and in consistency with the bank long-term performance not only the over current year period.

5/6 Compensation payout schedule shall be sensitive to risk’s time frame. As profits and losses of different activities of a bank are realized over different periods of time, the variable compensation payments should be deferred accordingly and not to be finalized over short periods where risks are realized over long periods.

5/7 Compensation outcomes (cash, equity and other forms) must be consistent with the related risk and rules that should regulate remuneration payments as per employees professional level.

5/8 Financial control, internal audit risk assessment, risk monitor and compliance should be remunerated independently and separate from any activities or departments under their supervision, in such-a-way that they maintain their independence and authority to exercise their oversight functions.

5/9 Banks shall disclose all information about their compensation practices in a clear and comprehensive way in the bank’s financial statements. Members of board compensation payments must be disclosed in accordance with the Commercial Companies Law and QCB Instructions To Banks up to September 2013 page (246).
5/10 Any large payouts should be described in details if they are part of compensation.

5/11 Set procedures to reverse the relative amount paid and deferred compensations, if the compensation was based on high and unacceptable risk levels beyond the bank’s risk appetite.

6- Qatar Central Bank maintains the right, when necessary, to restrain or limit the aggregate variable remuneration to a percentage of the net profits, or as it may deem appropriate, if the bank does not comply with the related supervisory requirement of capital adequacy or proven to carry out incorrect banking practices.
Principle 10: Communication between the Board and the Shareholders

The Bank should always communicate with different categories of shareholders to ensure their participation and respect their rights as per law.

1- Board should abide by the provisions of Commercial Companies Law regarding shareholders rights and General Assembly meetings considering the following, as an example, but not limited to:

1/1 Invitations to the ordinary and extraordinary General Assembly meetings should be clear and not misleading and clearly explain the purpose and subjects on the agenda.

1/2 Meetings should be held in a proper place and suitable time attended by majority of the shareholders.

1/3 Shareholders should be encouraged to attend the meetings in person, otherwise, through a proxy. Procedures to delegate a person to represent a shareholder and voting mechanism should be clear and in accordance with Law.

1/4 Invitations should include all information and documents related to the meeting agenda, for example, any recommendations and objections raised by the board members.

1/5 In every meeting of the board it should discuss each item on the agenda separately and decisions recorded separately. The agenda should not be discussed collectively or with any overlapping and the decisions also should not be recorded collectively or with any overlapping.

1/6 Board should guarantee separate voting rights to each of the members while electing or removing any member so that shareholders may evaluate each candidate separately.

1/7 Shareholders should be encouraged by the chair during the meeting to raise questions, including those related to corporate governance guidelines.
1/8 Minutes of meetings should be submitted to shareholders, upon request, as soon as possible, however, within a maximum of thirty days from date of the meeting.

1/9 The chair of the meeting should disclose all related issues to shareholders prior to voting.

1/10 The bank may request all members of the board, and heads of audit, nomination and remuneration committees to attend meetings and respond to shareholders’ enquires.

2- The bank should publish on its website the issues related to shareholder rights, such as participation in meetings, voting rights, financial statements and general disclosures. In this section, all important documents related to the proposed agenda, including the full version of the meeting invitation and minutes of the previous meeting, should be published in accordance with the provisions of the Law and the bank’s Articles of Association.

3- Invitation to meeting of the newly elected board members should include necessary information as per the provisions of the Commercial Companies Law and QCB Instructions. In case the number of proposed members are more than the required vacancy, the selection process, voting, and eligible number of votes should be included as part of the invitation.

4- The Chairman of the board and each of the board members should always maintain communication with the major shareholders to understand and discuss their views on issues of interest. Corporate governance and strategies of the banks should also be discussed and conveyed to other board members. As part of market discipline and control, the board should encourage stakeholders, particularly institutions and joint stock companies to give their views on the bank’s governance policy.

5- If a bank has one or more major shareholders, chairman and other board members at said bank shall encourage major shareholders to avoid misuse of their powers and protect the minority shareholders rights.
**Principle 11: Corporate Governance Disclosure**

The bank should transparently disclose the adopted governance policy to shareholders, depositors, debtors other stakeholders and market participants.

1- The Bank should establish disclosure and transparency policy approved by the board in accordance with the international standards issued by Basel Committee on Banking Supervision and the OECD on corporate governance principles to achieve the objectives of the bank, shareholder and stakeholders for improving the implementation of corporate governance standards.

2- The disclosure and transparency policies should indicate all information that is required to be disclosed on time.

3- The Bank should disclose the key points regarding risk exposures and risk management in confidential way consistent with the instructions of the board. Based on the complexity of the banking organization structure, the bank should disclose adequate information on goals, strategies, risks and controls related to such activities.

4- The Board should approve governance guidelines covering principles stated herein and any other related corporate governance issues which is deemed appropriate by the board. The Bank should ensure posting these guidelines on the bank’s website and update them regularly.

5- The Board should provide a report on compliance with the principles mentioned herein during the Annual General Assembly meeting and explain reasons for any non-compliance.

6- The Board should submit a report on corporate governance as per Annex (1) attached hereto in every Annual General Assembly meeting. Disclosure should be accurate and clear to the shareholders, depositors, other relevant stakeholders and market participants. Public disclosure should be at appropriate timeline as in the annual and periodic financial reports or by any other appropriate method such as the bank’s website. The Board and the senior management are responsible for any non-compliance with transparency standards or insufficient disclosure as per this principle.
**Principle 12: Large and Complex Banks**

The Board and senior management should know and understand the bank’s operational structure and risks exposure, within the rule of (understand the bank’s structure and its group).

1- Some Banks create structures for different legal, regulatory or financial purposes, and for providing product via units, branches, subsidiaries or other legal entities that can considerably increase the complexity of the bank’s activities. The large number of legal entities, and in particular relations and transactions between such entities, may form a challenge to identify and manage the overall risks in the bank.

2- The board and senior management should understand the structure and the organization of the whole group, the goals of the different units/entities and formal and informal relations between these units and the main branch. The board should understand the legal and operational risks, restrictions within the group and transactions, and its impact on finance, capital, and risks for the group under normal or stress conditions. The Board should establish effective systems and controls to facilitate the exchange of information amongst the various entities to manage the risks of the whole group and to ensure effective oversight in coordination with the host supervisory authorities.

3- Whenever banks establish management structures to manage new business lines and products which are not compatible with the legal structure of the bank, the board or senior management should ensure adequate assessment of potential risks of each service or product at a single entity level and the group level.

4- The board should approve clear policies and strategies governing the new structures and should be aware of the bank’s structure, stages of expansion and limitation. In addition, the board and senior management should apply the following, if necessary:

   4/1 Avoid creating unnecessary complex structures.

G36
4/2 Establishing a centralized process for approving the creation of new legal entities based on applicable criteria, including the ability to monitor and continuously fulfill the requirements for each entity such as regulatory and taxes requirements, financial reporting, and corporate governance.

4/3 Understanding the information collection processes required for establishing new structure including, type, complexity, ownership structure, and business activities of each legal entity.

4/4 Identifying all material risks arising from complexity of these structures, including absence of transparency in management, operational risks exposed due to correlated and complex funding structures, internal exposures within the group, hidden risks and counter party risk.

4/5 Assessing risk exposure mentioned above related to structure and legal entity requirements and its influence on the group’s ability to manage its risk profile, finance, and capital during normal and stressed conditions.

5- In order to enhance sound governance policy within the banking group, internal audit program may be applied on individual entities to periodically assess their risk exposure in relation to the structure of the Group. The periodic reports should assess the bank’s structure, activities of each entity, ensure its consistency of these structures with the approved strategy. Identifying any probable mismatch shall assist audit and risk management committees, executive management and the board of the parent company.

6- The bank should refer to QCB and / or the host supervisor whenever necessary, on any issues relating to policies and strategies for the new management structure and complexity within the group. Such procedures should enhance sound governance practices and appropriate management of the complete operational structure.
Principle 13: Special Purpose Vehicles

In case any bank undertakes transactions through special purpose vehicles or similar structures or in countries where international standards are not implemented or transparency is insufficient, the board and senior management should identify the purpose, structure, and the unique risks of such transactions and try to mitigate such risks or apply the rule of (know your bank and its group). The board and senior management should be aware of the resulting challenges and risks through complex structures such as Special Purpose Vehicles and should try to avoid or mitigate risks through the following:

- Establishing appropriate policies and procedures approved by the board on regular basis. Approve and review such structures or activities regularly.
- Regularly monitoring these structures and their activities to ensure that they do not contravene with the activities stated in the article of incorporation. Such special purpose vehicles should be closed immediately after its objectives are achieved.
- Establishing adequate procedures and processes to identify and manage all material risks resulting from these structures and entities.
Principle 14: Corporate Governance for Government owned Banks

1- The principles of sound corporate governance should be applied to government owned banks or banks where government is a major shareholder while selecting representatives of the government on the board of directors. It is essential for these representatives to actively attend and participate in the board meetings.

2- Government owned banks should acknowledge and respect stakeholders rights in accordance with the sound corporate governance principles for financial institutions mentioned herein.

3- Government owned banks should apply high levels of transparency in accordance with the sound corporate governance principles for financial institutions mentioned herein.

4- The board of directors of the government owned bank should possess authority, efficiency and objectivity necessary to carry out their responsibilities with integrity and accountability.

5- Government owned bank should have adequate business flexibility and independence, and financial resources that could attract qualified human resources.
Principle 15: Add Additional Requirement for Corporate Governance in Islamic Banks

1- All Islamic banks should comply with the Islamic Sharia rules and principles as determined by the Sharia Supervisory Board of the bank:

1/1 With reference to Annex (2) herein “Main Referential Terms of Sharia Supervisory Board”, an independent advisory board under the name of “Sharia Supervisory Board” should be formed in each Islamic bank to supervise and ensure compliance of its activities with Islamic principles. Members of the Sharia Board shall not be less than three Islamic Sharia scholars.

1/2 The Bank, while seeking Sharia Board opinion, should be very transparent in disclosing all details related to the nature of product or financial services for which Sharia opinion is sought. Such transparency will prevent any potential confusion or misunderstanding. Ambiguous or misleading information relating to the product, may hinder the Sharia Board from reaching a sound opinion and the suitable Sharia regulations controlling this product. The Board of the bank should establish a mechanism to ensure the application of Sharia principles.

1/3 The Bank should establish reporting channels between the Sharia Supervisory Board, the Sharia Auditor and the Audit Committee. All observations made by Sharia board should be reported to audit committee for immediate corrective procedures.

2- Islamic bank should acknowledge the right of Investment Accounts Holders to follow up the performance of their investments, associated risks and adequate measures to maintain their rights are taken by the Islamic bank in accordance with the following practice:

2/1 As initial step and as per terms of Mudarabah contract, whether restricted or unrestricted, entered into with Investment Account Holders, the Islamic bank holds fiduciary responsibility to safeguard the interests of investment account holders. Islamic bank should pay special attention to the unrestricted Mudarabah contracts, wherein the investments of such account holders are merged with those of the
Shareholders with the assets of the Islamic bank, managed by the bank as (Mudarib) without any intervention or conditions from the Investment Account Holders.

2/2 In compliance with QCB requirements and instructions, Islamic bank should clearly explain its full accountability, as per terms and conditions of Unrestricted Mudarabah contracts, for any losses resulting from negligence or misconduct or mismanagement. The board should ensure that this concept is clearly understood by unrestricted Mudarabah account holders, and disclosed in Bank’s reports, financial statements, publications and advertisements.

2/3 Board of directors of Islamic banks should ensure that the financial statements clearly disclose the rights of unrestricted and restricted Investment Accounts Holders in accordance with accounting & disclosure standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) and QCB disclosure standards as required under Pillar III of Basel Committee on Banking Supervision and the Islamic Financial Services Board (IFSB).
Annex (1)

Corporate Governance Disclosure

In addition to disclosure required by QCB and Basel Pillar (3), the bank shall disclose the following items annually:

1- Shares Ownership

- Ownership distribution as per nationality.
- Ownership distribution as per shareholders number.
- Government ownership.
- Major Shareholders (shareholder with ownership or voting rights above 10%).
- Disclose names of shareholders owning 5% or more, or acting in concert as per shareholder agreement, the total percentage, total acquired collective voting rights, any other direct or indirect relation among each other or with the bank or other shareholders.

2- The Board and The Executive Management

- The board’s functions must be disclosed not only in general description but in full accurate details, as per the provisions of Law
- Types of key transactions that are required to obtain approval from the board.
- Names of Board members, authority, powers represented, detailed information, membership on boards of other financial institutions, qualifications, previous positions held and experience (indicate whether executive or non-executive member).
- Numbers and names of independent members of board.
- Board’s membership tenure and starting date for each term.
- Board’s contribution in guiding, directing and training new members.
- Members share in the bank.
- Members election and termination arrangements.
- Bank’s shares traded by members during the year.
- Dates of Board Meetings (number of board meetings - per year)
- Board meeting attendance record.
• Total remunerations paid to members of board.
• Total remunerations paid to members of senior management.
• Policy of remuneration for members of board and senior management.
• List of names of senior executives and resume.
• Shares owned by key senior executives.
• In case there is a board approved by-law on the business ethics which is available to the board, the board should indicate the mechanism to oversee compliance of the same.

3- Committees
• Names of board committees
• Functions and Duties of each Committee
• Members of each committee independent/non-independent.
• Minimum number of meetings per year.
• Actual number of meetings.
• Committee members attendance
• Total of remunerations granted to members.
• Committees work and any other significant issues during the concerned period.

4- Bank’s Corporate Governance
• A separate part in the annual report
• Indication of the corporate governance guidelines

5- External Auditors
• Audit Fees
• Non auditing services provided by external auditor and relevant fees.
• Reasons for change or renew appointment of auditors

6- Other Issues
• Related-parties transactions.
• Approval process of related transactions.
• Communication channels with shareholders and investors.
• Separate report on discussion and analysis of management included in the annual report. It should include clarification of the key risk management and uncertain cases encountered by the bank.

• Review of internal audit and the relevant procedures.

• Publishing of the audited approved financial statements in the newspapers which includes balance sheet, income statement, cash flows statement, shareholders’ equity changes list and external auditor report.

• Statement on the board members responsibilities for preparing the financial statements.

• Identify procedures adopted by the board to ensure independence when members are to review transactions and agreements where board members or senior management are stakeholders.

• Regular evaluation procedure for the board the committees and each member regarding their effective role and contribution.
Annex (2)
Main Reference Conditions for Sharia Supervisory Board (SSB)

1- Sharia Supervisory Board (SSB)
An independent Sharia Supervisory Board should be appointed in each Islamic bank with at least three scholars specialized in Islamic jurisprudence (Fiqh) and Sharia with adequate experience in financial operations, activities and services of Islamic financial institutions (IFI). Sharia Supervisory Board undertakes the responsibility of ensuring compliance of bank’s business activities with Islamic rules and principles through Sharia Internal Auditor. SSB may be assisted by any external experts in Islamic financial institutions activities. SSB’s decisions are binding for all bank's business activities at all stages.

2- Qualifications for Sharia Supervisory Board Membership
2/1 Should be a specialized scholar in Islamic Jurisprudence and Sharia principles of Islamic finance, and has sufficient experience and competency in the Islamic banking.
2/2 Should not engage in any administrative, executive, consultative work inside the bank or as member of its board.
2/3 Should not have a significant shareholding in the bank’s stocks, 0.25% or more which may influence his independence and impartial behavior.
2/4 Should not be a relative up to second kinship of any of the bank's board members or senior management.
2/5 Has good reputation and was not convicted of a crime involving a breach of honor.

3- Appointment of Sharia Supervisory Board and Remuneration
3/1 Sharia Supervisory Board appointment should be approved by the bank’s General Assembly on the proposal by the board of directors. The Board should obtain QCB’s no-objection for the said appointment.
3/2 Sharia board shall be appointed for three years and may be renewed by decision of the General Assembly and approval of QCB.
3/3 Sharia Board member(s) may not be removed or terminated during their term unless through a General Assembly decision based upon recommendation of the board. The Board of directors should obtain QCB’s no-objection on such decision and reasons thereof.

3/4 In case a bank did not appoint Sharia Supervisory Board within three months of the General Assembly meeting, QCB may appoint Sharia Board, wherein all relevant expenses shall be incurred by the bank together with any other issues arising from such delay in appointment.

3/5 QCB has the right to require replacement of any of the Sharia Board members or appoint another supervisory board at banks in the following circumstances:

3/5/1 A member of Sharia Board is incompetent.
3/5/2 Was convicted of a crime involving a breach of honor or trust.
3/5/3 Non-compliance of the member or the board to perform the duties and responsibilities stated in the appointment letter or instructions herein.
3/5/4 Any other reasons related to competency or independence.

3/6 The bank and SSB should agree on the terms of employment. The appointment contract should include the terms of compensation and benefits and should be signed by both the parties.

3/7 The General assembly shall decides remuneration for SSB members and it may delegate the board of directors on this issue.

3/8 Remuneration for SSB members should be defined and disclosed in the appointment letter whether a flat amount or monthly remuneration as per number of meetings. The said remuneration rules may be replaced only upon contract renewal.

3/9 Appointment letter should include that the board of directors and senior management are responsible for compliance of Islamic Sharia provisions as per the SSD requirements.
4- **Mechanism of Sharia Supervisory Board (SSB)**

4/1 The Sharia Supervisory Board meetings should be convened at least four times per year or upon the request of SSB’s head, board of directors or senior management.

4/2 The SSB has the right of full access to all records, transactions, and all information with no restrictions arising from the employees and the consultants of the bank.

4/3 SSB sets executive rules approved by the board of directors. The executive rules are considered as one of the bank’s key business rules, and shall include SSB’s work system, duties and responsibilities, independence, its relation with board of directors, senior management, other departments and sections in the bank, and its reporting mechanism. The SSB’s executive rules should at a minimum include the following:

4/3/1 SSB framework and authority.
4/3/2 Meetings and minutes of meetings.
4/3/3 Coordination with all departments and sections in the bank.
4/3/4 Sharia audit and review system that ensures that all transactions, investments, activities, and contracts are in compliance with Islamic sharia rules and provisions, Fatwa, and Sharia advices issued by SSB.
4/3/5 Methods of preparing periodical reports submitted to the management, and reports submitted to shareholders, and contents of such reports.

5- **SSB’s Duties**

5/1 Oversight of Islamic banking business and activities to ensure compliance with Islamic Sharia principles and provisions, review and follow up transactions to check any issues of Sharia non-compliance.

5/2 Form opinion and advice on sharia compliance. Submit periodical sharia supervisory reports to the board. Provide quarterly and annual sharia supervisory report to the general assembly. Issues relating to
Sharia non-compliance should be included in the Report to be published.

5/3 Prepare sharia guidelines; a procedural guide including all the bank’s different operations. Set necessary rules to regulate business with conventional banks and financial products.

5/4 Ensure a sound and effective internal control system for Sharia compliance and establish Sharia compliance guidelines to monitor all bank’s activities.

5/5 Validate and approve forms and content of contracts and activities of the banks; such as business contracts, agreements, policies, products, transactions and financial statements issued by the bank.

5/6 Answer questions and enquires raised by the staff, customers or shareholders when discussing financial statements at the end of year.

5/7 Study Sharia audit reports and audit views made by Sharia auditor on any violations of Sharia principles in the bank’s daily activities and take necessary action.

5/8 Provide guidance and training to all bank’s staff regarding the Sharia provisions and views and promote awareness of Sharia issues amongst Islamic financial sector customers.

5/9 Ensure that profit sharing and loss bearing charge to investment accounts are compiled as per Sharia principles.

5/10 Determine the appropriate action with regard to disbursement of the funds earned from Sharia non-compliant products.

5/11 Developing a set of fit and proper criteria for the appointment of any Sharia Supervisory staff. It should be ensured that Sharia staff are competent, in terms of ethics, behavior and Islamic financing culture.

5/12 Approve appointment of internal Sharia auditors and oversee their performance.

5/13 Provide oversight over Zakat Fund management and regulate payment in compliance with Sharia principles.
Whenever a key Sharia non-compliance is reported to the bank’s management by the Sharia Committee and remain unresolved, the Sharia Supervisory Board should report such incidents directly to QCB.

6- Sharia Supervisory Board Report

6/1 Sharia supervisory board should issue its “Sharia Supervisory Report” as per the applicable standards to the Shareholders, QCB and any other concerned parties including its opinion on the bank’s compliance with Sharia. The report should comprise of the following items:

6/1/1 Report subject.
6/1/2 Entity to which the report is submitted.
6/1/3 Introduction or preamble
6/1/4 SSB scope of business including description of the nature of work during the report period.
6/1/5 Opinion on compliance of the bank with Islamic Sharia principles.
6/1/6 Report Date
6/1/7 SSB’s members signature

6/2 The report should include the following:

6/2/1 Level of compliance to Sharia rules and principles in transactions, contracts and products of the bank.
6/2/2 Profit sharing and loss bearing by Investment Account Holders that is in compliance with the board’s approved policy.
6/2/3 All earnings from sources or means that are prohibited by Sharia principles or have approval of SSB for the purpose of charity and are dealt as per SSB rules.
6/2/4 The calculation of Zakat is in compliance with Sharia principles.
6/2/5 Ensure that disbursement procedures from the “Qard Hassan” fund are correct.
6/2/6 Disclose any violation of Sharia provisions or any fatwa issued by competent authority or SSB’s.

6/3 Include the Sharia Board’s written opinion in the annual and quarterly reports.
6/4 Sharia supervisory board shall approve its reviews and submit its reports to shareholders and QCB concerning their reviews and discussions.

6/5 SSB’s report shall be read out during the annual meeting of the General Assembly.

6/6 The report shall be published as part of the bank's financial statements.

7- Internal Sharia Audit

Each Islamic bank should appoint Internal Sharia Auditor(s) or Sharia Audit section to be attached to SSB and comply with the following:

7/1 Obtain QCB prior approval for appointment of Sharia Supervisory Auditor or the Head of Sharia Internal Audit.

7/2 The Sharia Auditor must be professional and have the suitable academic background, sufficient training in internal sharia audit duties, and has suitable university degree.

7/3 He should be in contact with SSB Head and receive full and continuous support from the management and audit committee of the board of directors.

7/4 He should work independently and shall not be assigned any other duties in contradiction to his audit duties.

8- Duties of the Internal Sharia Auditor

1- Examine and evaluate adequacy and efficiency of the internal sharia audit system in the bank.

2- Work on a daily basis to ensure compliance of the management with Sharia principles and directions of the SSB.

3- Attend SSB's meetings.

4- Implement SSB's regulatory program.

5- Answer the daily questions and enquiries on compliance of activities with Sharia.

6- Provide guidance, directions, and training to all staff on the relevant sharia laws and Fatwa.
7- Make at least quarterly report to SSB and send a copy to the internal audit committee.

8- Issue guidelines for the internal Sharia audit on the objectives, authority and responsibilities. These guidelines shall be approved by SSB.