Date: 30-8-2022

Circular no.:25/2022

To: All Banks operating in Qatar

Subject: Corporate Governance Instructions for Banks

As integral part of QCB concern to update the instructions to banks in accordance with the latest and best international standards and practices, a revised version of the **Corporate Governance Instructions for banks** is attached hereto. All banks must comply with the attached instructions, which shall replace the previous version as from the date of issuance.

All banks must update its governance policies and procedures as per paragraph (5) of Page (6) of the attached instructions. QCB shall impose penalties prescribed in Law no. (13) of the year 2012 in case of any violations thereof.

Best regards,

Bandar Bin Mohammed Bin Saoud Al-Thani

Governor

Attachments:

Corporate Governance Instructions for Banks

Corporate Governance Instructions for Banks

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Definitions

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

Term	Definition
Corporate Governance	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 attaining those objectives and monitoring performance. It helps define the way authority and responsibility are allocated and how corporate decisions are made.
QCB	Qatar Central Bank
QCB Law	Law no. (13) of Year 2012
The Bank	All banks licensed by the QCB.
Banking group	The Bank and its subsidiaries.
The board	The board of directors of the Bank.
Stakeholders	Any person or entity share interest with the bank like; depositor, debtor, staff, investors, customers, and any other relevant entity.
First kinship Relatives	Father, mother, husband, wife, children.
Executive Board Member	A board member who is a member of the board's committee(s) that is involved in any executive business of the bank including but not limited to committees of credit facilities, investment, treasury, or any other executive committee. The board may assign other executive business beyond the senior management's duties.
Non-executive Board Member	A board member who is not a member of the board's committees that is involved in any executive business of the bank as indicated in the executive board member definition.

Independent Board Member	The natural person who is fully independent from the bank and is eligible to take the suitable objective decision. The following are the minimum conditions for being an independent member: 1- Does not own directly or indirectly any of the bank/ banking group's shares, whether owned by him or any of his first kinship relatives or is a key shareholder of the bank's subsidiaries. 2- Is not a member of a group of individuals or entity collectively controlling the bank/ banking group's business, whether him or any of his first kinship relatives. 3- Does not enter into any contractual or commercial business or any direct or indirect interest with the banking group or was granted credit facilities, salary or any other compensation by the bank/group that may contradicts the bank's independent policy whether in his name or any of his first kinship relatives other than the board's remuneration and allowances. 4- Does not work or own shares in any consulting agency or professional institution that provides any services to the bank/group like external auditing and outsourcing services, in his name or any of his first kinship relatives. Does not have any direct or indirect interest in the bank/group's agreements, projects and engagements whether concluded/ participated by the bank/banking group by himself or any of his first kinship relatives. 5- Is not a relative to any other board member or senior management up to first kinship relatives? 6- Is not previously or currently engaged in any career at the bank /banking group during the last five years by the bank/banking group whether himself or any of his first kinship relatives. 7- Is a university graduates and have at least five year experience in the financial and banking business.

Introduction

Corporate governance for banks is of a great importance to both the supervisory authorities and international and regional organizations. A set of international publications have been issued on the standards and guidelines of corporate governance for the banks. Considering its importance and significance to the financial sector, corporate governance standards and guidelines are adopted by the supervisory authorities. In this context, the most relevant publications are those such as issued by the Basel Committee on Banking Supervision (BCBS) on *Corporate Governance Principles for Banks*, and issued by the Organization for Economic Co-operation and Development (OECD). 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 the regulators and all stakeholders.

In light of the amendments to the Commercial Companies Law as per Law no (8) of Year 2021, the corporate governance of companies listed in the Qatar Stock market issued by Qatar Financial Market Authority (QFMA), and the latest international and regional practices and publications, the QCB issued this revised *Corporate Governance Instructions* (hereinafter referred as "Instructions") which must be complied with by banks. In limited cases, certain instructions may not be applicable for some banks, due to legal reasons or other reasons. In such cases, banks shall be subjected to the principle of "comply or explain". This revised version of *Corporate Governance Instructions* shall replace instructions included in circular 68/2015 dated 26/4/2015.

Banks should consider that these Instructions must be complied with in line with the Commercial Companies Law and its amendments, and the corporate governance and the listed legal entities issued by QFMA and any updates thereof, unless otherwise contradicts the provisions of QCB Law or these instructions. In such case, QCB Law and regulations shall prevail and must be complied with as per provisions of Article 18 of the Commercial Companies Law no (8) of Year 2021.

Scope of Applications

These Instructions shall be applied on:

1- All banks licensed by the QCB.
2- If the bank has a subsidiary inside or outside Qatar, or have a branch outside Qatar, it should establish and apply corporate governance policy for the whole banking group consistent with these Instructions, or ensure that the applied policy for corporate governance is consistent with these Instructions provided that it is not contradicting the legal and regulatory requirements of the supervisory authority in the host country.
3- All foreign branches licensed by the QCB must comply with the regulations set herein concerning executive functions consistent with its type of business and the banking group framework.
4- Considering the banks diverse ownership structure, legal entity, and the different types and sizes of activities they provided, these Instructions shall not be applied on consolidated basis for all banks. Special conditions for some banks shall be considered such as; the bank's size, type of activities, risks, ownership and legal structures and other issues. All banks must comply with these **Instructions** in general, meanwhile in case of partial compliance or compliance with special case, the special conditions must be explained and QCB shall review such conditions.
5- All banks shall comply with these instructions as from date of issuance, make the required amendments to their Articles of Association, organizational structure, and governance practices, in case grace period is required for application of some requirements mentioned here, a written request should be submitted to the QCB including reasons, justifications and time frame for such compliance.

Principle 1: Board's Duties and Responsibilities

The board has ultimate responsibility for 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 providing oversight of senior management performance. Towards this purpose, all board of directors shall understand the board's duties and responsibilities, in particularly the following:

- The board's role is distinct from the role of the shareholders and the role of executive staff according to the principles herein;
- The professional and legal responsibility of the board towards the shareholders and stakeholders should be reflected in achieving the best interest of the bank through commitment, good faith, objectivity, due diligence and duty of care, and protection of the rights of the shareholders and stakeholders;
- Responsibilities of members of board towards the supervisory authority and others under Article (129) of QCB Law no. (13) of year 2012 regulating QCB and Financial Institutions;
- The board must develop appropriate measures to enhance the understanding of the members of their duties and responsibilities, and to enhance the awareness of the new member's duties and responsibilities in writing;
- Chairman and members of board must have the sufficient time to carry their responsibilities.

First: Roles and Responsibilities of the Board:

Role and responsibilities of the board include but not limited to the following:

1- Election of Chairman and Deputy Chairman of board
2- Establishing the objectives, policies, strategies, and the organizational structure.

    2/1 Establishing the objectives, policies and strategies, including risk policy, risk appetite, risk management policy, the corporate general performance and remuneration policies, in addition to the policies related to long-term interests, 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 up to the latest standards or establishing new policies.

2/3 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.

2/4 Approve policies and systems of risk management and internal control and review that the implementation process for such policies is done neatly by senior management.

2/5 Develop the environmental and social responsibility programs approved by the general assembly to support the social projects, approve the bank's policies in the area of environment protection, and climate-related financial risks, and set policies and proper measurements to assess climate-related financial risks and their expected impact on the bank's activities and business plans within the banking group.

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 staff.

3/2 The board shall approve the code of conduct or code of ethics, which define the acceptable and unacceptable behaviors. It should prevent any activity that may lead to any improper or illegal activity, such as money laundering, terrorism financing, fraud, bribery and corruption. Such codes should also prevent any excessive risk-taking activities that could lead to complex risks and behaviors other than those approved by the board.

3/3 The board shall approve a violation reporting system (Whistleblowers policy mechanism) that will enable employees to communicate their observations 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 employees. According to this system, these observations shall be referred directly to any member of the Audit Committee of the board or any other concerned committee or to any official or directly report to the supervisory authority.

3/4 All board /senior management members should be aware of the corrective disciplinary actions that shall be taken against them in case of committing violations or behaviors contradicting the codes of conduct and codes of ethics approved by the board.

4- Supervise Transactions with related parties:

Establish and regularly review rules and standards to minimize risks resulting from conducting transactions with the related parties and 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 disclosed interests. Each independent member should provide any updated information required for this purpose.

5- Approve and review the implementation of the standards and policies regulating the related Anti-Money Laundering and Combating the Financing of Terrorism (CFT) Law and its Executive regulations and QCB related instructions.

6- Approve and review the implementations of the standards and policies of Information security systems and QCB's instructions regarding the emerging technology risks and cybersecurity.

7- Approve and oversight appropriate standards for the business continuity plans.

8- Oversight of senior management

8/1 Appoint CEO, approve appointment of CEO's deputies and assistants, experts, advisors, senior employees, and internal audit manager and decides their salaries and bonuses in accordance with an approved board policy. The board may, when necessary, replace any of the said posts and select a proper successor as per a succession plan approved by the board.

8/2 Check the adequate qualifications and experience, and the distinct professional performance of the CEO, members of senior management, and members of the internal audit, risk management, and compliance officer.

8/3 Establish the necessary committees overseeing the implementation and the compliance of the senior management with the internal laws, policies and systems approved by the board. In additions, the board shall review and establish the proper standards to comply with QCB's Law and instructions and any other related laws. The board may delegate certain roles and duties to committees other than those assigned to senior management. The board, as per instructions herein, may not delegate the role to grantee an adequate, effective, comprehensive and transparent corporate governance framework.

8/4 Hold regular meetings with senior management through committees of the board and discuss the periodic reports on the management process, business outcomes, and compliance.

9- Convene and prepare the agenda for regular and irregular general assembly meetings.

10- Approve the reviewed interim financial statements and audited annual statements which present the bank's financial position in accordance with the applicable financial reporting international standards, public disclosure standards, Basel Committee's capital adequacy Pillar III (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 at Islamic Banks to be approved by the general assembly.

11- Any other responsibilities as per the law or the Bank's Articles of Association, or QCB instructions.

Second: Meetings of the Board:

1- The board shall hold meetings regularly or repeatedly when necessary, at least once every two months and 6 times annually. Excuses not to attend the board meetings should be justified, and certified. Communication between board members through other communication vehicles channels other than board meetings is significant. Only if majority members attend, board meeting is deemed valid.

2- Chairman of board or any delegated person should ensure that all board's members received meeting agenda and minutes of previous meetings, board's committees reports, adequate written background on the meeting before 10 days of regular meeting and less time in case of irregular meeting.

3- According to the board's decision, the CEO or any selected member of the senior management may be called to attend the board's meetings to discuss certain subjects on the agenda discussed by the board, except in certain meetings where the board views that the attendance of members of senior management is unnecessary.
4- Each member of the board should be independent to make decisions. No member/(s) may dominate decision-making process in the board.
5- The board may decide to run some or all its meetings remotely /virtually during the year due to any emergency circumstances that might occur. As such, the board my take the actions required to ensure the formality, confidentiality of these type of meetings, and endorse the decisions and agenda of such meetings.
6- If any key observation raised by a board member is not treated as per his perspective, this should be included into the board's minutes of meetings along with the reasons for differences and the last decision taken.

Principle 2: Board Structure and member Selection and Qualifications

Board members should have suitable experience commensurate with their clear understanding of their role in the board in view of the corporate governance concepts. In addition, they should be able to exercise sound and objective judgment about the affairs of the bank.

First: Selection Criteria for Members of the Board:

1- Members should be characterized by honesty, professional integrity, and bona fide.
2- Members should be financially solvent so as to fulfill their responsibilities honestly and objectively. Members should not be previously declared as bankrupt, defaulted, or caused any financial loss to their bank, or removed by the QCB or any other supervisory authority, or have any conflict of interests that may affect the member's independent and impartial behavior.
3- The board members or their representatives should have a university degree or the equivalent range of knowledge, variety of skills and experience in relevant areas to fulfill their responsibility effectively, professionally, and in complete manner. The board shall set the appropriate conditions, qualifications, and experience for each selected member for this purpose.
4- The board should be comprised of individuals with a balance of skills, diversity of expertise, who collectively possess the necessary qualifications commensurate with all activities of the bank, strategic planning, communications, corporate governance, risk management, internal audit. Members of the board should be aware of the economic, local, regional, international developments, and understand the legal and supervisory requirements.
5- The board, upon selecting its members and committees, should validate their eligibility for their positions and ability to exert their best efforts to fulfill their duties on time.
6- No board member whether natural person or entity or any representative thereof may become a member of the board of more than one bank or be a member of more than three public shareholding companies provided that such memberships shall not result in conflict of interests.

7- Board membership tenure for an independent member may not exceed two terms of the board.
8- If the board member is not eligible for the membership as per the conditions indicated above, or failed to fulfill his/her duties, or have any conflict of interests affected his/her independence, the board must take the suitable legal actions including removing the member from the board and nominating an alternative member.

Second: Board Composition

1- The board should be comprised of at least 12 members, and a maximum of 15 members. The 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- 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 bank's by-laws in case there is a need to change the size or composition of the board.
3- Half of the members should be non-executive members, and at least three of them should be independent to make decisions in sound and objective manner. In all cases, the chair of the board may not be an executive member or practice any executive business in the bank or contribute to any committees of the board.

Third: Training

1- The board must ensure that each new member receives a formal and tailored orientation to ensure his 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 that all members are continually trained to maintain excellent updated level in bank's business and corporate governance.

2- In consultation with the senior management, the board should assign the Senior Management to develop programs and presentations for members of board on the bank's business and industry, which may include participation at the conferences and training seminars. The Nomination and Governance Committee shall oversee the training activities for members of the board on corporate governance.

Fourth: Board Secretary

Secretary of the board must be a university graduate with a suitable experience for this post and he/she shall be assigned, at a minimum, the following tasks:

1- Write, draft, and record the board's minutes of meetings and reports submitted or received by the board. He/she and all the board members should sign the minutes of meeting.
2- Follow up the board's decisions, the members' compliance with the procedures approved by the board, and ensure that the board's members are notified with the time and date of each meeting prior to the meetings with suitable time given, considering the non-regular meetings.
3- Ensure that all members have full and easy access to all the minutes of meetings, data, documents, and records of the bank, provided that the bank's confidentiality requirements are maintained.
4- Under the board' chairman supervision, the board Secretary shall ensure information dissemination, and coordinate between the board's members and other stakeholders at the bank.

Principle 3: Board's Practices and Conflicts of Interest

The board should identify corporate practices suitable with its duties and ensures that such practices are regularly adhered to, reviewed, and developed on an ongoing basis. In addition, policies and controls to prevent conflict of interest has to be established by the board.

First: Board's Practices:

1- The board should carry out assessments of its performance, the performance of its committees and members at least annually. Assessment process should, at a minimum, shall have the following parameters:

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

1/2 To review on regular basis the board's organizational structure, its size and composition, in addition to the organizational structure of the board' committees, and review the coordination among the board's committees.

1/3 To assess performance of each board's committee in view of its duties and responsibilities.

1/4 To review the performance of each board member taking into account his/her, attendance to the board and committee meetings and his/her effective participation in discussions and decision making, and decide to replace any ineffective member.

1/5 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 in each stage.

1/6 Review the compliance of the bank and the board with QCB's regulations and instructions, and take the responsibility of violations and financial sanctions imposed by the QCB and ensure that those responsible are held accountable.

2- The board is collectivity responsible for the performance assessment. However, the Nomination and Governance Committee may be delegated to conduct the assessment process and in case of necessity be assisted by external advisors. The board shall notify the shareholders with the assessment during the general assembly meetings.

3- If any key observation or dissenting views raised by a board member is not sufficiently considered by the board, this should be recorded into the board's minutes of meetings along with reasons for dissenting opinion or view and the final decision taken.

4- In case of resignation, board member should submit a written resignation; reasons for leaving should be included, to the chairman and to be circulated to all board members. If the resignation reasons were related to observations and violations made by the member and not yet finalized, it should be explained in details and why these violations are not settled, so as to be recorded in the board's minutes of meeting.

5- The board should review the independence of each member at least once a year to be eligible to take the suitable impartial decision and to avoid conflict of interest. This should include a regular review for the eligible conditions for the independent members. Every independent member should provide the updated information for this purpose and present an undertaking stating that he/she shall report about any change might occur influencing his status as an independent member.

6- The board shall guarantee that members of board are entitled to seek legal or technical advice. When it is decided by the majority of the board members to seek such an advice in order to fulfill their duties, respectabilities and decision making, fees for such consultation shall be paid by the bank. The board members may seek the assistance of external experts and consultants to provide the necessary technical advice in certain issues provided that the banking confidentiality is maintained. Such assistance should be made in accordance with the board's approved policies.

Second: Conflict of Interest

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 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 the violation of these provisions. All information relating to conflict of interest should be recorded.

The "duty of care" and "duty of loyalty" include: not to use any property or funds of the bank for his private interest 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 personal interest in one or more of the following:

1/1 By himself, or any member of his family of first or second kinship,

1/2 By himself or any of his first kinship relative, where is a member or controller in another company directly or indirectly, or is a party to the transaction or has a material financial interest in the transaction.

2- The chairman or the member of board, or senior staff of the bank are prohibited from the following:

A- Practice or contribute, by himself or any of his first kinship relatives, directly or indirectly to any activity similar or competing the bank's business. Promote or conduct any private activity using the bank's business or making personal or commercial profits.

B- Has direct or indirect interest for himself or any of his first kinship relatives in contracts, projects, and agreements concluded by the bank, or to be party thereof without any exception other than the credit facilities contracts granted to him by the bank within the limits and controls set by QCB related instructions.

3- Any board member or senior employee of the bank who violate any of the articles of the above-mentioned instructions will be removed from the board membership or will be terminated.

4- The board of the bank must immediately report the QCB on any relating violations and the action taken.

5- Each member must make every practicable effort 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 of the bank.

6- The board shall establish a sound and written policy to avoid or minimize conflict of interest.

7- Every board member must disclose any conflict of interest as it 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 Companies 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 interest shall deemed valid only if all material facts are disclosed and the member involved has abstained from participation or influencing on the decision-making process.

8- The board must disclose the approved conflict of interest policy and any potential conflict or relevant violation of QCB and other relevant regulatory authorities, and must explain the reasons and disclose any conflict arises from being a part of dealing with other institutions inside the group.

9- In case of controlling shareholders influencing the election of board's members, the board should establish the suitable rules to minimize any potential conflict of interest, which may arise from the influence of the controlling shareholders.

Principle 4: Board's Committees

To increase its efficiency and allow deeper focus in specific areas and risks exposed to the bank, the board may establish certain specialized board committees from its members, other than the chairman of the board. The number and nature of such committees depend on many factors, including the size of the bank and its board, the nature of the business areas of the bank, and its risk profile.

Significant Committees of the Board:

1- Executive Committee.
2- Audit Committee
3- Risk Management and Compliance Committee
4- Nomination and Governance Committee
5- Compensation and Remuneration Committee

- The board may establish one or more executive committees according to the size and diversity of the bank's business activities such as, credit facilities, investment, and treasury or other activities. The board may also separate or merge two or more committees, provided that such committees should be consistent and avoiding conflict of interest and duties. In all cases, risk, compliance, and audit committee's functions shall not be merged with any other committee.
- The board shall determine the number of members for each committee by minimum three members and select a chair. It should also set its duties, powers, number of meetings, and other key issues as: quorum, voting, reports submitting, qualifications, and experience suitable for members.
- Each committee shall meet at least four times a year. The meetings may be scheduled in conjunction with regularly scheduled meetings of the board.
- Each committee should maintain records for its decisions, its minutes of meetings, and reports exchanged between the committee and the board, and reports received from the bank's management.

- Non-members may be invited to any committee meeting including the CEO, or senior employees or the internal auditor or the external auditor, or the compliance officer or any other employee. It may be assisted by external consultants or expertise offices for advice only.
- 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

Committee Structure and Duties:

1- The Audit Committee is one of the main committees that the board must establish and ensure its independence especially in the banks that have significant influence on the financial system.
2- 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. Any member of this committee should not be a member of the any other committee.

Duties and Responsibilities:

The committee shall fulfill, at a minimum, the following duties and responsibilities:

1- Reviewing reports of internal audit, external auditor, QCB, and other supervisory authorities. Follow-up the necessary corrective actions taken to address violations identified by the auditors, and set controls required to avoid violations in the 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 control system, 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 the approval.

4- Reviewing the scope and audit findings for activities assigned to the external auditor and be responsible for all issues regarding the external auditor and making recommendation for the board regarding the selection, appointment, remuneration, and termination of the external auditor.
5- Be responsible for all issues regarding the internal audit and making recommendations for the board regarding the selection, appointment and termination of the head of the internal audit. It is also responsible for allocating the budget and the assessment of the internal audit staff.
6- Coordinating with the risk management and compliance committee for assessment of risk management and control systems.
7- Ensure application of the best suitable frameworks and practices for achieving the highest level of compliance with laws, regulations and sound banking practices.
8- Audit committee may be assisted by any consultants or advisors in certain important matters as per its assigned responsibilities and allocated funds.

2- Risk Management and Compliance Committee

Committee Structure and Duties:

1- Risk Management and Compliance Committee, a main committee established and granted independent management by the board, is necessary for systemically important banks.
2- It should be made up entirely of independent or non-executive board members and include members who have experience in banking and legal risks.
3- The board may separate duties of the risk management and compliance into two different committees.

Duties and Responsibilities:

The committee shall fulfill, at a minimum, the following duties and responsibilities:

1- Set an overall strategy for the current and future type of 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 the bank's size, risk profile, complexity, and diversity of its activities in accordance with the board's strategy. Such policies shall include business procedures of the risk management, and risk exposure limits. A comprehensive risk monitoring system must always be applied, and such policies should be reviewed regularly.
3- Approve effective policy and procedures for monitoring compliance with regulatory policies, laws, supervisory instructions, and the precautionary measures taken to ensure compliance, particularly related those to the Anti-Money Laundering and Terrorist Financing Law and its Executive Regulations. Establish mechanism to report on any violation immediately and penalize the violators. The committee is responsible for immediate reporting to the QCB about any violations of QCB's law and instructions or any other related laws.
4- Provide the board with periodic reports on the risks that the bank is currently exposed or may be exposed to in future, or on any violation of the laws and systems. The committee should oversee the compliance of the senior management with the approved risk policies, laws and systems. It should review the reports prepared by risk management and compliance.
5- Ensure performance of qualified employees is distinct from the risk management, and are responsible for identification, measurement, control and mitigation of risks in banking activities. The committee should review the possible methods of mitigating risk levels and losses. Maintain capital adequacy ratio to mitigate such risks.
6- The board should consider the quality, accuracy, source and sufficiency of data used to identify and measure risks and its effect on capital base as per Basel Committee approach of capital adequacy assessment and the QCB's related instructions.

3- Nomination and Governance Committee

Committee Structure and Duties:

Nominations and governance committee is a key committee. It is preferable that most of its members are independent or non-executive directors.

Duties and Responsibilities:

The committee shall fulfill, at a minimum, the following duties and responsibilities:

1- The committee must ensure that the board is not controlled by a natural person or entity or a group of individuals.
2- Nominate 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. The committee sets succession plan for members of board in accordance with the law, the bank's policies, and by-laws, and the QCB's regulations. Any proposal raised by the board to the shareholders to elect or re-elect a board member must be accompanied by a report from the nomination committee. The appointment of the internal auditor shall be the responsibility of the Audit Committee and names of all members of board shall be provided to QCB along with reasons for approval or rejection.
3- Oversee human resources policies in general and ensure application of succession plan to the senior management.
4- Determine that the criteria of independent or non-executive member have been met, considering the required conditions for both as per the definitions and review these conditions annually.
5- Establish objective and impartial criteria for the assessment of the performance of the board and the senior management.
6- To oversee the preparation, updating, and follow-up implementation of the corporate governance guide in cooperation with senior management, audit committee, and Sharia supervisory board in Islamic banks.
7- 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 the best practices.

4- Compensation and Remuneration Committee

Committee Structure and Duties:

1- Compensation and Remuneration Committee should be made up of non-executive board members, and must be comprised of, wherever appropriate, majority of independent members.

2- The committee members should have sufficient knowledge, skills, and experience required for making independent and objective policies and decisions on compensation and remuneration practices.

Duties and Responsibilities:

The committee shall fulfill, at a minimum, the following duties and responsibilities:

1- Establish the remuneration policy, and present it to the board for approval, and ensure that such policy is in consistent with the relevant best international banking practices and the related QCB's instructions, and include the compensation of chairman, members of board and all senior management including the CEO. The committee should oversee the application of such policy and review it annually and comply with the rules and policies of remuneration as mentioned under Principle (7).

2- Ensure that remuneration policy considers all types of risks to which the bank is exposed when determining the remunerations, so that a balance is made between the profits gained and the degree of risk associated for all banking business and activities. Comply with the policy above mentioned in item (1).

3- Ensure whether incentives provided by the remuneration system take into consideration risk, capital, liquidity, and the likelihood and timing of earnings, particularly the likely expected income of uncertain time and amount

4- Remuneration committee should work together with Risk Management and Compliance Committee and/or the Chief Risk Officer. Comply with the requirements of assessment of incentives as per the risk-based remuneration system.

Principle 5: Senior Management

1- Structure, Duties, and Responsibilities:

1/1 Senior management consists of senior employees of the bank including the CEO which is responsible for the implementing the operations, activities and board's decisions in accordance with the approved strategies and policies, and the bank's risk appetite.

1/2 Approval of the board or the concerned committee is required to remove any of the senior management staff and reasons for such removal should be provided.

1/3 The board delegates the powers to the CEO to act generally on behalf of the bank, representing the bank in concluding transactions with third parties. The board can also specify certain restrictions on the powers of the CEO or other senior managers, such as determining a ceiling for financial transactions that they can carry out within the senior management's authority without the need for obtaining the approval of the board.

1/4 The board may select one member of executive committees to work as executive director to carry out duties and to be delegated powers exceeding the CEO's provided that he/she shall not be granted absolute power.

1/5 Member of the senior management should be known for honesty and integrity, as well as experience, competencies, and qualifications necessary to run the bank's business and operations.

1/6 Member of the senior management should contribute to the development and implementation of a sound corporate governance system, and work in that together with the board.

1/7 It is responsibility of the senior management to prepare an appropriate the bank's organizational structure and to have it approved by the board, which includes a proper distribution of tasks and responsibilities, delegation of powers, and limits of responsibility and accountability. The structure should include but not limited to the following:

- Departments, unites, and divisions in such a way that ensures independence between duties of implementation, audit and reconciliation, and prevents conflict of interests
- Job titles and professional levels
- Communication channels and mechanism of file reporting

- Dual Controls
- Assessment and accountability

It is worth mentioning that any delegation of power to employees shall not prevent the CEO to be questioned before the board.

1/8 Members of the executive committee shall present an immediate report to the Risk Management and Compliance Committee on any significant violation.

2- Risk Management Function

2/1 A bank should have an effective independent risk management function, which should be granted sufficient powers, independence, and resources (quantity and quality), incentives suitable for the staff and direct access to the board, its committees and to any other bank's departments to fulfill its duties.

2/2 The bank must have a Chief Risk Officer for risk management to be appointed and terminated upon the approval of the Risk Management and Compliance Committee (RMCC). In contribution with the senior management, the RMCC shall conduct assessment and approval of the performance and remunerations of the risk manager who must be independent from other business at the bank. CRO shall be responsible for the implementation of the comprehensive risk management framework at the bank and refer it to the CEO and the board. He/she should be capable of influencing any taken decisions, which may put the bank at potential risk other than the acceptable risk level.

2/3 Risk Management Function shall implement the following risk strategies and policies including but not limited to the following:

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

B- Develop, and implement appropriate systems and procedures proper to manage the risks to which the bank is exposed in line with the approved strategies, policies, risk types and limits.

C- Establish appropriate methodologies for identifying, measuring, monitoring, and controlling risks in accordance with the board's approved risk policy and risk tolerance level. Identify appropriate risk weights and the regulatory capital requirements on an ongoing basis for risks. Important methodologies are:

- Quantitative and qualitative measures should be included in the overall risk management and measurement process. In addition, key model standards should be adopted in the assumptions used, provided that the board is consulted and kept apprised, as and when necessary.
- Develop appropriate procedures and methodologies for assessing the climate-related financial risks at the level of the bank and its group in the different countries in which it carries out its activities, and submit periodic reports to the senior management and the board on the expected impact of the climate-related financial risks on the bank's activities and business outcomes through the short-term, medium-term, and long-term taking into account the latest related international standards.
- As part of risk quantitative and qualitative analysis process, the risk management department (or function) must conduct stress testing with appropriate risk scenarios to better identify potential risk exposures under various circumstances. It should submit the results to the CEO and RMCC.
- Risk assessment and measurement process should not be totally based on external resources such as credit ratings and risk models.
- Risk management governance 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. The senior management at the bank' Main Office (parent bank) and the RMCC shall be responsible for applying the policy to the whole group.
- The bank should keep pace with all developments that may have impact on the Risk Management Function. The developments should include growth rates of the balance sheet and income statement, or external

developments, such as geographical expansion, launching new products or business lines, mergers and acquisitions.

- The bank should use back-testing programs to compare actual performance in addition to the forward-looking stress testing programs.
- The bank should have adequate procedures for approving new activities, such as introduction of new products, material changes to existing services, launching new business lines or entering new markets, and mergers and acquisitions. These processes should include, for example, the ability to assess associative risks arising from these activities, to identify potential deficiencies in internal controls and risk management environment and to adapt adequate measures to manage such risks.
- The role of other departments of the bank in managing risks, such as Treasury and Finance, should not only be restricted to supporting internal controls and procedures, but also should be extended to implementing an adequate internal pricing policy for uses of fund that reflects the actual internal cost of funds to limit entering into high risk activities.
- Review and discuss the risk exposure limits across the bank, vertically – to-and-from the board and senior management as well as horizontally – between departments and divisions. This practice includes delivering relevant information to the board and senior management on timely manner through reports which are concise, contextualized, accurate and comprehensive

D- Monitoring bank's risk appetite and risk limits and reporting about any violations with corrective measures to the CEO and the board's RMCC, which in turn question the senior management about such violations.

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

F- The Risk Management Department shall present its reports directly to the RMCC in addition to its reports presented to the CEO.

G- Ensuring that risk management staff have the required experience and qualifications to deal with various types of risks, which the bank is exposed or likely to be exposed to.

3- Compliance Officer Function:

3/1 A bank should have an independent compliance function, which should be granted sufficient powers, independence resources in (quantity and quality), incentives suitable for the staff, and direct access to the board, its committees and to any other bank's departments to fulfill its duties.

3/2 The bank must have a Chief Compliance Officer appointed and terminated upon the approval of the Risk Management and Compliance Committee (RMCC). The assessment and approval of performance and remunerations of the compliance officer shall be done by the RMCC in contribution with the senior management. The Compliance officer must be independent from other business at the bank. He/she shall be responsible for the implementation of the compliance framework at the bank and refer it to the CEO and the board. The Compliance officer shall be capable of influencing any decisions, which may result in violating the applicable laws, instructions and standards.

3/3 The bank's board (or the management of foreign branches) should consider establishing this function with proper definition of its main roles and responsibilities, including its organizational structure and coordination with other units and functions. Compliance function should be totally independent, effective, and should be provided with sufficient resources and have easy and direct communication channels so as to report directly to the board and senior management. Compliance officer should be able to have access directly to all types of information within a clear policy and procedures guidelines. This policy should be reviewed and updated annually.

Senior management should cooperate and coordinate with the Compliance officer for necessary corrective and disciplinary actions in case of violations. Policies and procedures reports should be submitted to the board on regular basis for update purposes.

3/4 Compliance Officer's Duties and Responsibilities:

Compliance duties should at least include the following:

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

B- Provide advice to RMCC on the applicable laws, regulations, and standards and update the senior management and the RMCC on the relevant latest updates of the applied laws, regulations, and standards.

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

D- Evaluate how the internal procedures and instructions are consistent with the laws and regulations. Detect shortcomings of policies and procedure and suggest proper solutions.

E- Perform duties and responsibilities related to the Anti-Money Laundering and Terrorist Financing as per the concerned Law and its Executive Regulations and QCB's instructions.

F- Conduct regular and comprehensive examination and report to senior management on violations and take necessary corrective actions.

G- Report instantly to the board or its RMCC on the detected violations and shortcomings, and the corrective actions taken, and provide information on compliance training program for the staff.

H- Act as information center for employees to reply to any inquiries relating to compliance.

I- Enhance relation with the concerned authorities, particularly QCB's Supervision and Control Department and the regulatory authorities of the banking group on reporting of violations and responding to compliance inquires and regulatory requirements of external formal authorities as per QCB' instructions and guidelines.

3/5 It is necessary to ensure separation of duties and powers between Compliance officer and the Legal Affairs Department, which give advice on laws and regulations to the bank senior management including the compliance officer. Branches and subsidiaries abroad should ensure implementing compliance requirements under the bank's comprehensive compliance policy.

3/6 Qualifications of the Compliance Officer:

Compliance officer and employees should demonstrate professional skills that would enable them to understand applicable laws, regulations and standards and their impact on the bank's activities. Compliance officer must have analytic skills, familiarity with the applicable laws, regulations and standards and supervisory requirements. He should have adequate knowledge of financial institutions' products and services. Compliance officer should have personal characteristics of integrity, impartiality, and good communication skills.

Principle 6: Internal Audit

1- The board should ensure establishing and maintaining properly controlled operating systems for effective and reliable auditing, financial reporting and internal control in accordance with applicable laws and regulations. In order to achieve this, the board and senior management should ensure effective role of the internal and external audit functions in assessing the adequacy and effectiveness of internal control systems.

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

3- The board should continuously enhance internal audit function by ensuring that the internal audit staff is independent from the senior management relating to its appointment, performance assessment, salary and remunerations, and its direct affiliation to the board's internal audit committee. It should check that the audit staff is professional and technically qualified with adequate experience and is aware of regulatory instructions, laws and the latest related international audit standards. Internal auditor staff should be well trained on an ongoing basis to promote and enhance the auditing abilities in all the activities of the bank and detect any deficiency or violation and take the corrective actions in the right time.

4- Internal audit manager must regularly, and upon request, report to the senior management about any detected observation or violation or deficiency, and should ask for taking proper corrective actions, and upon request make a follow up with the application of these actions.

5- The internal audit manager shall present at least a quarterly report to the audit committee including the audit scope, observations, violations detected, the actions taken and accountability.

6- The internal audit manager is assigned to directly report to the QCB about any sever violations or exceeding of limits and rules which have a significant material impact on the performance of the bank, its operations, validity of its financial statements, and compliance with applicable laws and regulations.

7- The CEO, the internal audit manager, and the external auditor should review, verify and sign the quarterly and end of year financial statements appropriately reflect the essential elements of the financial position of the bank in accordance with the applicable accounting standards, and QCB's instructions, and effective policies and controls are set for the financial statements.

8- Senior management should establish and develop internal controls systems that increases the effectiveness of the internal control function; such as segregation of duties to avoid any potential conflicts in duties, especially in cases where accountability is required from the results of activities in which returns and revenues are achieved in a manner inconsistent with the risk appetite levels, and therefore, the internal audit shall be assigned the assessment process.

Principle 7: Compensation System

The board shall assume full responsibility for promoting effective corporate governance and sound remuneration practices for granting financial rewards and incentives for the entire banking group including subsidiaries outside Qatar, in a manner that does not conflict with legal and the regulatory requirements of the host supervisors, and the board of directors are fully responsible to comply with the following, which may not be delegated to senior management:

1- The board shall approve and follow up on the proper implementation of remuneration policies, as recommended by the Compensation and Remuneration Committee (CRC). It should also oversee any update or modification of the compensation policies, and related recommendation by the compensation committee.
2- The board, through the CRC, shall set, monitor and update the remuneration policy annually, which must be reviewed by the bank's Internal Audit Department and/or by an external consulting party, to ensure the accuracy of and bank's compliance with the international practices and publications such as from the Financial Stability Board (FSB), Basel Committee (BCBS) and QCB's instructions and guidelines based on objectivity and impartiality , and without any interference by the senior management. The board should consider reviewing the results based on the remuneration policy.
3- Remuneration policy should be designed to attract and retain employees with sufficient knowledge, experience, skills and expertise required by the bank. In addition to encourage them to carry out their duties professionally as per the board's policy within the framework of QCB's law and instructions. The employment contracts should include the legal basis to link the compensation with the system and procedures of granting remunerations and performance assessment.
4- The board should review the adequacy of the systems and procedures and efficient oversight mechanism to ensure compliance with the remuneration policy. The board must ensure that there is no discrimination among employees for personal interests inconsistent with the remuneration policy and procedures. The board should establish a communication channel for the staff, senior management, and the board to resolve any relevant complaint.
5- The approved remuneration policy by the board should at least 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, within the QCB risk framework. Employees' compensations must be consistent with their performance and efforts done to fulfill their assignment and the bank's overall performance.

5/2 Remuneration system should include all the bank's administrative levels, starting from 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 when deciding compensation for the entire banking group as a whole so that total income or profit should not be the only parameter of performance. There should be a balance between profits realized and the degree of risk 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 in compensation system. This may affect financial performance during the coming financial periods. All types of risk should be taken into account including liquidity, reputation risk and related capital charge, capital charge Complexity of risks, the complexity of risk of related activities, whether they are difficult or easy to quantify.

5/4 To evaluate and measure the performance of the members of board and senior management, remuneration policy should be based on objective performance assessment system as per the financial and non-financial criteria such as the criteria of the operational controls including internal controls, compliance with the laws and regulatory requirements, environmental, social and governance (ESG), financial inclusion, digital transformation, and risk management in all aspects.

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

5/6 Compensation payout schedule shall be sensitive to risk outcome over a multi-year horizon. 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. Appropriate standards should be established for the possibility of reducing or deferring the remunerations to a later period in view of business risks and outcome.

5/7 Compensation outcomes (cash, equity shares and other forms of remuneration) must be consistent with the associated risk and rules should be established to regulate remuneration payments as per employees' condition and the concluded contracts.

5/8 Staff of the financial control and internal audit should be remunerated and risks monitoring and compliance should be assessed independently from any activities or departments under their supervision, in such a way that maintain their independence and authorities to exercise their supervisory function.

5/9 Banks shall disclose all information about their compensation practices in a clear and comprehensive way in the bank's financial statements as per Basel Pillar III disclosure requirements for the remuneration system. Members of board's compensation payments must be disclosed in accordance with the Commercial Companies Law and its amendments.

5/10 Large payouts should be described in details if they are part of compensation.

5/11 Develop arrangement for (Claw back) procedure under which paid or deferred compensation could be reduced /reversed based on the realized risks, which are beyond the bank's risk appetite or exceeding the QCB's regulatory framework. The legal ground for this action should be provided in the contracts concluded with the stakeholders or undertaking signed by the relevant individuals.

6- Relation with QCB

6/1 The QCB must be informed annually of all bonuses, allowances and incentives for bank's members of the board and the rewards and incentives for officials in the senior management, with an explanation of the most important foundations and criteria and the performance indicators that the board relied on to determine them as per QCB instructions and in the event that the QCB did not object. Within a month of its date, the board can finally adopt it and submit it to the General Assembly.

6/2 The QCB, if necessary, may limit or limit the total bonuses and incentives as a percentage of net profits or in any other way, whether for all members of the board and officials of the senior management, or some of them, in the event of a failure to maintain the strength of the capital base (i.e. solvency) in accordance with supervisory requirements or in the event of improper banking practices or irregularities pertaining to QCB's Law, regulations, instructions and any related applicable laws.

Principle 8: Communication between the Board and Shareholders

1- The board should abide by the provisions of Commercial Companies Law and amendments thereof and Qatar Financial Market Authority (QFMA) Law for the listed banks regarding shareholders rights and General Assembly meetings considering the following, as an example, but not limited to:

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

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

1/3 Shareholders should be encouraged to attend the meetings in person, otherwise, a delegated person should be there. Delegation of representatives by shareholder(s) and the voting mechanism should be conducted as per the declared procedures in accordance with Law.

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

1/5 In every meeting, the board shall propose separate decisions for each item on the agenda, and the decisions also should not be recorded collectively or overlapped with irrelevant issues.

1/6 The 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 and within maximum thirty days from date of the meeting.

1/9 The chair of the meeting should disclose all essential 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 inquires.

2- The bank should publish on its website the shareholder rights related procedures; such as participating in meetings, voting rights, financial statements and general disclosures. In this section also, all important documents related to the proposed agenda, including the full version of the meeting invitation and minutes, should be published in according with the Law and the bank's Articles of Association.
3- Invitation for meetings of selection of members of board should include the necessary information, as per the Commercial Companies Law and QCB Instructions. In case candidates are more than the required vacancies, the voting, selection process and number of votes should be included in the invitation.
4- The chair of the board and each of the board member should always maintain communication with the major shareholders to understand and discuss their views on the 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 shareholder's rights.

Principle 9: Corporate Governance Disclosure

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

1- The bank should establish disclosure and transparency policy approved by the board and according to the international standards of Basel Committee on Banking Supervision (BCBS) and the OECD on Corporate *Governance Principles* to achieve the objectives of the bank, shareholder and stakeholders for improving the applied corporate governance standards.
2- The disclosure and transparency policies should include all information required to be disclosed on time.
3- The bank should disclose the focal 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 and related 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 deemed appropriate by the board. The bank should ensure posting these guidelines on the bank's website and updated them regularly.
5- The board should provide a report on compliance with the principles mentioned herein during the annual General Assembly meeting explaining reasons for non-compliance, if any.
6- The board should submit report on corporate governance as per Annex (1) attached hereto in every annual General Assembly meeting. Disclosure should be accurate, clear and presented such that shareholders, depositors, other relevant stakeholders and market participants can consult the information easily. Public disclosure should be timely in the annual and periodic financial reports or any other appropriate means such as the bank's website. The board and the senior management are responsible for any case of noncompliance with transparency standards or insufficient disclosure as per this principle.

Principle 10: Large and Complex Banks

The board and senior management should know and understand the bank's operational structure and risks exposure, within the principal 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, supervise and manage the overall bank's risks.

2- The board and senior management should understand the structure of the organization as a whole group, the goals of the different units/legal entities and formal and informal relations between these units and the main office. The board should understand the legal and operational risks, restrictions inside the group and transactions and its impact on finance, capital, risks of the group within regular or irregular conditions. The board should establish effective systems and controls to facilitate the exchange of information among the various legal entities to manage the risks of the whole group and to ensure effective supervision in coordination with the host supervisory authorities.

3- When banks establish structures to manage new business lines and products, which is inconsistent with its article of incorporation, the board or senior management should ensure adequate assessment of potential risks of each service or product at the 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, its expanding stages, and its limitation. In addition, the board and senior management should apply the following, if necessary:

   4/1 Avoiding creating unnecessary complex structures.

   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 information process in preparation for establishing new structure including type, complexity, ownership structure, and business activities in each legal entity.

4/4 Identifying all material risks arising from complexity of these structures, including absence of transparency in management, operational risks exposed by the correlated and complexed 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 ability to manage its risk profile, finance, and capital within normal circumstances and in extraordinary times.

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

6- The bank should discuss and/or refer to QCB and host supervisor, when deemed necessary, any issue relating to policies and strategies of new structure and complexity of the group. As such, procedures would maintain sound governance practices and appropriate management of the operational structure for the bank.

Principle 11: Special Purpose Vehicles

In case any bank is operating through any special purpose vehicles (SPVs) or similar structures or is operating in countries which do not apply transparency and international standards, the board and senior management should identify the purpose, structure, and the unique risks of such operations 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 challenges and risks resulting from application of such complex or nom-transparent structures as those of SPVs and should try to avoid or mitigate them 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 contradict the activities stated in the article of incorporation. Such should be closed once they have achieved their goals without any justification.
- Establishing adequate procedures and processes to identify and manage all material risks resulted from these structures and entities.

Principle 12: Corporate Governance for Government owned Banks

1- The principles of sound corporate governance should be applied to the government owned banks or banks where government is a major shareholder while selecting representatives of the government in 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(s) should have powers, efficiency and objectivity necessary to carry out their responsibilities with integrity and accountability.
5- Government owned bank(s) should have adequate business flexibility and independence to develop the financial resources that could attract qualified human resources.

Principle 13: Additional Requirements for Corporate Governance of Islamic Banks

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

1/1 With reference to Annex (2) on "Terms of Reference for 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 Sharia rules and principles. Members of the SSB shall not be less than three Sharia scholars.

1 /2 The bank, upon seeking SSB opinion, should be very transparent in disclosing all details related to the nature of product or financial services on which Sharia opinion is sought. This transparency will prevent any potential confusion or misunderstanding. Ambiguous, misleading information relating to the product, may hinder the SSB from reaching sound opinion and the suitable SSB judgement regulating the said product. The board of the Islamic bank should establish mechanism to ensure the application of Sharia rules and principles.

1/3 The Islamic bank should establish reporting channels among the SSB, the Sharia Auditor and the Audit Committee. All observations made by SSB should be directly reported to Audit Committee for immediate corrective procedures.

2- An Islamic bank should acknowledge the right of investment accounts holders (IAHs) to follow up the performance of their investments and associated risks and it should ensure that adequate measures to maintain their rights are taken by the Islamic bank in accordance with the following practices:

2/1 As an initial step and as per terms of *Mudarabah* contract, whether restricted or unrestricted, entered into with IAHs investment account holders, the Islamic bank holds fiduciary responsibility to safeguard the interests of IAHs investment account holders. Islamic bank should pay special attention to the unrestricted *Mudarabah* contracts, where the investments of such account holders is comingled with those of the shareholders and it is being managed by the Islamic bank as (*Mudarab*) without any intervention or conditions set out by IAHs investment account holders.

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

2/3 The board of Islamic banks should ensure that the financial statements clearly disclose the rights of unrestricted and restricted IAHs investment accounts holders in accordance with accounting & disclosure standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) and QCB's disclosure standards as required by Basel Committee on Banking Supervision (BCBS) Pillar III and the Islamic Financial Services Board (IFSB).

Annex 1

Corporate Governance Disclosure

In addition to the disclosure required by QCB under Basel III – Pillar (3), the bank shall disclose the following items annually as a minimum:

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 5%).
- Disclosing 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 Senior Management**

- The board's functions must be disclosed not only in general description but in full accurate details as part of the board's legal commitments as per the Law.
- Types of essential transactions required to obtain approval from the board.
- Board members names, authority, powers represented, detailed information, membership in other boards of other financial institutions, qualifications, previous positions and experience (indicate whether executive or non-executive member).
- Numbers and names of independent members of the board.
- Membership term and start date for each term.
- Board's efforts in guiding, directing and training new members.
- Board members shares in the bank.
- Member's election and termination arrangements.
- Bank's shares traded in by the board members during the year.
- Dates of board's meetings (number of board meetings -per year)
- Board members meeting attendance lists.

- 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.
- Senior executives name list and resume (CV) of each.
- Shares owned by key senior executives.
- If the board has approved a written business ethics internal by-law, and how compliance is being monitored.

3- Committees

- Names of board's 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 raised during the concerned period.

4- Environmental, Social and Governance (ESG) and Corporate Governance for Banks

Banks should disclose their performance related to Environmental, Social and Governance (ESG) in the annual report as per the international standards and indicators on the ESG that should at least include the following indicators:

- Environmental: Environmental policy, environmental and climate change, energy consumption, energy intensity, carbon emissions, water managements, waste management, capital increase and management, and food security;
- Social and Governance: Full-time employees, staff benefits, employees' turnover, employees training hours, human rights policies, human rights violations, child labor, forced labor, women in the labor force, bribery, Qatarization, and social work.
- Corporate Governance for Banks: Compliance of the bank with the related instructions and legislation.

5- External Auditors

- Audit Fees
- Non-auditing services provided by external auditor and relevant fees.
- Reasons to change or renewal for auditors.

6- Other Issues

- Related parties' transactions
- Approval of related parties' transactions
- Communication channels with shareholders and investors.
- Separate report on discussion and analysis of management included in the annual report. It should include a clarification of key risk management and the uncertainty cases encountered by the bank.
- Review of internal audit operation and procedures.
- Publishing of the audited approved financial statements in the newspapers including the balance sheet, income statement, cash flows statement, shareholders' equity changes list and external auditor report.
- Statement on the board members responsibilities of preparing the financial statements.
- Identify procedures adopted by the board to ensure independence when members are to review translations and agreements in which the board members or seniors are stakeholders.
- Regular evaluation procedure for the board, the committees, and each member regarding their effective role and contribution.

Annex 2

Terms of Reference for Sharia Supervisory Board

1- Sharia Supervisory Board

An independent Sharia Supervisory Board (SSB) should be appointed in each Islamic bank including at least three scholars specialized in Islamic jurisprudence (Fiqh) and Sharia with adequate experience in financial operations, activities and services of Islamic financial institutions (IFIs). The SSB may be assisted by any external experts in IFIs' activities. The SSB's decisions for Islamic banks are binding for all bank's business activities at all stages. The SSB assumes the responsibility of ensuring compliance of bank's business activities with Islamic rules and principles through sharia internal auditor.

2- Qualifications for Sharia Supervisory Board Membership

2/1 A SSB member should be a specialized scholar in Islamic jurisprudence and Sharia principles of Islamic finance, and have sufficient experience and competency in the Islamic Banking.

2/2 A member of the SSB is not permitted to hold any position in the Islamic bank or carry out any business or own any shares or has any interest in the bank by himself or any of his relatives up to 4th kinship as per article (107) of QCB law.

2/3 A SSB member should not be a relative, up to second kinship, of any of the bank's board members or key executive in the senior management.

2/4 A SSB member has good reputation and does not have any conviction record of any crime.

3- Appointment and Remuneration of Sharia Supervisory Board

3/1 The SSB appointment should be approved by the bank's General Assembly following a proposal made by the board of directors. The board should obtain QCB's non-objection for the said appointment.

3/2 The SSB shall be appointed for three years and may be renewed by decision from the General Assembly and approval of the QCB.

3/3 The SSB member(s) may not be removed or fired during their term unless through a General Assembly decision based on QCB's non-objection.

3/4 If an Islamic bank did not appoint SSB within three months of the General Assembly meeting, the QCB may appoint SSB and all related expenses shall be incurred by the bank along with any consequences resulting from such delay.

3/5 QCB has the right to require replacement of any of the SSB or appoint another SSB at the banks in the following cases: -

3/5/1 a member of SSB is deemed incompetent.

3/5/2 was convicted of a crime involving a breach of honor or fidelity.

3/5/3 Non-compliance of the SSB member or SSB 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 Islamic bank and SSB should agree on the employment terms, and include such terms in addition to remunerations and benefits in the appointment contract signed by the two parties.

3/7 The General Assembly shall decide remuneration for the SSB members and may delegate this issue to the board of directors.

3/8 Remuneration for the SSB members should be defined and disclosed in the appointment letter whether a flat amount or monthly bonus 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 to the Sharia rules and principles as per the SSB Fatwa and views.

4- Mechanism of Sharia Supervisory Board

4/1 The SSB should meet at least four times a year or upon the request of SSB's Chair, board of directors or senior management.

4/2 The SSB has the right, with no restrictions, to have full access to all records, transactions, and information in all types of resources including referring to all employees and consultants of the bank.

4/3 The 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 the board of directors, senior management, and the other departments and sections in the bank, and its reporting mechanism. The SSB's executive rules should at least include the following:

4/3/1 SSB methodology and authority.

4/3/2 Sessions and minutes of meeting.

4/3/3 Coordination with all departments and sections within the bank.

4/3/4 Sharia audit and review system that ensures that all transactions, investments, activities, and contracts are in compliance with Sharia rules and principles, Fatwa, and sharia advices issued by the SSB.

4/3/5 Methods of preparing periodical reports submitted to the management, and reports submitted to shareholders, and contents of such reports.

5- Sharia Supervisory Board' Duties

5/1 Ensure compliance of an Islamic bank's business and activities with Sharia rules and principles, review and follow up transactions to check any Sharia non-compliance issue.

5/2 Provide opinions on the Sharia compliance of the Islamic banks and submit periodical sharia supervisory reports to the board; and also provide quarterly and annual Sharia supervisory report to the General Assembly. Moreover, publish these reports, which must include the Sharia non-compliant cases, if any.

5/3 Prepare sharia guidelines; a procedural guide that includes Sharia regulations and rules for the different operations in the bank and 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 as planned.

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 inquires raised by the staff, customers or shareholders when discussing the end of year financial statements.

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

5/ 8 Provide guidance and training to all bank's staff regarding the relative Sharia rules and principles and views and promote awareness of Sharia matters among Islamic financial sector customers.

5/9 Ensure that profit distribution and loss charge to investment accounts are complied with Sharia principles.

5/10 Determine the proper action for disposal of Sharia non-compliant earnings.

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 finance culture.

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

5/13 Provide supervision over Zakat Fund management and regulates payment of bank's business zakat in compliance with Sharia principles.

5/14 In case of a significant Sharia non-compliant incidents reported to the bank's management by Sharia committee and remained unsolved, SSB should directly report such incidents to the QCB.

6- Sharia Supervisory Board Report

6/1 The SSB should issue its "Sharia Supervisory Report" as per the applicable standards to the shareholders, QCB and any other concerned parties including its opinion regarding the bank's compliance with Sharia rules and principles. The report should comprise the following items:

6/1/1 Report subject.

6/1/2 Entity to which the report is submitted.

6/1/3 Introduction or preamble part.

6/1/4 SSB scope of business part including description of nature of work during the report's time.

6/1/5 Views part including opinion on compliance of the bank with Sharia rules and 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 distribution and loss incurred by investment account holders should be in compliance with the board's approved policy and to Sharia and regulatory instructions.

6/2/3 All earnings gained by sources or means prohibited by the Sharia rules and principles or have been approved by the SSB provided that it is for charity and statement of expenditure as per the SSB rules should be disclosed.

6/2/4 The calculation of Zakat is in compliance with Sharia rules and principles and the statement of expenditure.

6/2/5 Ensure that disbursement procedures from the “Good Loans” fund are correct and as per the SSB controls.

6/2/6 Disclose any violation of Sharia rules and principles or any Fatwa issued by competent authority or SSB's.

6/3 Include the SSB written advice in the annual and quarterly reports.

6/4 SSB shall approve its reviews and submit its reports to shareholders and QCB, concerning their reviews and discussions.

6/5 SSB's report shall be presented during the annual meeting of the General Assembly.

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

7- Internal Sharia Audit

Each Islamic financial institution should appoint internal Sharia auditor (s) (or establish Sharia Audit Unit), to be linked to SSB provided that it should comply with the following:

7/1 QCB prior approval should be obtained for the appointment of internal sharia auditor or the Head of Sharia Internal Audit.

7/2 The Sharia auditor must be professional and have proper academic background, training suitable to internal Sharia audit duties, and have a suitable university degree.

7/3 He should be in contact with SSB at the bank. The SSB in coordination with the Audit Committee of the board shall assess his performance, and determine his remuneration.

7/4 He must be independent form any other departments and shall not be assigned any other duties contradicting his auditing duties.

8- Duties of the Internal Sharia Auditor:

1- Examine and evaluate the adequacy and efficiency of the internal Sharia audit system.

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

3- Attend SSB's meetings

4- Implement SSB's regulatory program

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

6- Provide guidance, directions, and training on the relevant Sharia rules, principles, and Fatwa for all bank staff.

7- Make, at least, quarterly report to the SSB and send copy to the internal Audit Committee.

8- Issue guidelines for the internal Sharia audit on the purposes, authorities and responsibilities. This report shall be approved by the SSB.