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ECONOMIC AND CORPORATE GOVERNANCE CENTER

Flagship Report on the Banking sector in the Middle East and North Africa: Governance in Support of Stability and Trust

December 2017

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About the IFG

The Institute for Finance and Governance (IFG) was established at the initiative of the Banque du Liban to develop a center of expertise in finance and governance in Lebanon. Officially known as Banque du Liban, the BDL is the central bank of Lebanon. Established in 1963, it is currently one of the most important economic institutions in the country.

The IFG is managed by the ESA Business School, which in twenty years, has become a leading academic center in the region. Established in 1996, ESA is a Business School dedicated to the education of executives and managers in Lebanon and the Middle East. With its mission to form the elite of Lebanon and the region into the leaders of tomorrow, ESA has become a beacon of academic excellence within Lebanon, and a platform for interaction and meetings between Europe, the Middle East and Lebanon. Officially inaugurated in June 2015, the Institute is based at the Villa Rose, on the ESA campus.

The IFG currently provides research and training on corporate governance for banks for corporate entities at large, with a focus on Lebanon but also for other countries in the region. The project on improving corporate governance in Lebanon that this report is a fundamental pillar of is one of the flagship projects of IFG since its establishment. IFG's projects can be accessed at https://www.esa.edu.lb/en/ifg.

About GOVERN

GOVERN - the Economic and Corporate Governance Center - is a niche advisory and research institute specialising in economic and corporate governance in emerging markets. We work alongside decision-makers to create legal and regulatory policies as well as construct institutions that promote business integrity, corporate governance and support the competitiveness of the region's capital markets and firms.

The Institute provides specialist advice on capital markets development and corporate governance to stock exchanges, securities regulators, Central Banks, Ministries, sovereign actors and other regulators in the region. The team is comprised of senior practitioners with experience in leading securities regulators, stock exchanges, banks, academia and international organisations.

GOVERN's experience developing policies for regulators and implementing them for corporates is complementary and gives us the flexibility to create teams of professionals with targeted regulatory, financial and economic experience. GOVERN Senior Advisors have accumulated expertise in a range of financial markets and governance matters as well as relevant academic and private sector experience.

With a decade long advisory and research experience in the Middle East, GOVERN experts have also spent decades working on corporate governance in other emerging markets as well as in Europe and North America. GOVERN has published a range of reports and articles on governance in the MENA region which can be accessed at http://www.govern.center.

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Foreword

In the aftermath of the second largest financial crisis in the world's history, good corporate governance, especially in the financial services sector has emerged a key consideration for regulators worldwide. Though the Middle East was not directly affected by the crisis, Central banks, securities and other regulators in the region have been observing closely the unravelling of the global financial system and the implications that this may have on financial institutions in the region.

We are fortunate that through a combination of a strong regulatory framework and constant dialogue between the regulator and the organisations we oversee, the impact of the crisis on the Lebanese banking sector and on Arab banks more generally, has been contained. However, this shall not be taken to imply that regulators in the region can afford to be complacent in the coming years, which will be in a number of ways be a test to the resilience of Arab economies and banking institutions.

The banking sector remains a fundamental pillar of the Lebanese economy and indeed is the single most important source of corporate financing in the wider Middle East and North Africa region, where capital markets remain relatively less developed. While Arab banks have been able to withstand the global financial crisis, the instability in the region over the past 5 years has had an impact on local banks, requiring them to be attune to a wider range of economic and political risks.

In Lebanon, the Central Bank (Banque du Liban, BDL) has been a key actor actively promoting the importance of corporate governance in the banking sector and beyond. It for this reason that we have supported the establishment of a dedicated corporate governance center, the Institute of Finance and Governance at the ESA Business School in 2015. Since its launch, the Institute has been a pivotal force in leading the conversation and research on corporate governance in the banking and in the corporate sector more generally.

As we accumulate valuable experience on the implementation of better governance to support the resilience of the Lebanese banking sector, we are keen to share this experience with our peer regulators in the region and also to learn from the regional and global experience. While the challenges that Arab banks face are in some ways unique, I believe that we stand to gain from being active participants in the global dialogue aimed as safeguarding the stability of the international financial system.

I would like to express my gratitude to the Institute for Finance and Governance as well as the Union of Arab Banks for their contributions to the success of this project. I would like to also thank GOVERN for authoring this comprehensive, authoritative report on the state of corporate governance in the Middle East and North Africa, based on such a breadth of primary and secondary research.

I believe that the recommendations put forth by this report are equally relevant to Central Banks as policymakers, but also to bank boards and executives. At the BDL, we look forward to hosting policy conversations around this report and to working with our peers in the region and internationally to create an international supervisory architecture that can address the growing complexity of the banking sector.

Riad Salamé
Governor
Banque du Liban
Central Bank of Lebanon

Introduction

Bank competitiveness and stability is underpinned by good governance at the level of the executive, the board and by the quality of relationships with shareholders, stakeholders and regulators. Following the last global financial crisis, bank boards and executives now face a much more complex set of compliance and risk management prerogatives. Banks identified as systemically important face more rigorous oversight domestically and cross-border supervision by international and supra-national regulators.

These developments and lessons learned from the global financial crisis have been reflected in the global corporate governance standards, notably the *G20 OECD Principles of Corporate Governance* as well as in the *Corporate Governance Principles* issued by the Basel Committee, both revised in 2015. In recent years, central banks in the Middle and North Africa region have taken these guidelines into account as they have revised and continue to revisit national banking governance standards.

Considering the speed of these developments and the growing complexity of the political and economic environment facing Arab banks, it is now urgent to take stock of the governance reforms implemented in the region to date and consider how they have supported the resilience of the banking sector and what regulators can learn from the consolidated policy experience accumulated thus far in the region.

This urgency is accentuated by a number of macro-economic trends, notably the decline in the price of oil and political instability, which have resulted in further complexity affecting the business environment in which banks operate. At the same time, the sector is being impacted by major industry disruptive trends and technological challenges such as block chain technology which threaten the traditional business of banking.

With this in mind, this *Flagship Report on the Banking Sector in the Middle East and North Africa* focuses on how corporate governance can foster banking stability and trust in the broader communities. As such, the report seeks to present and compare corporate governance regulatory frameworks and approaches adopted by central banks across the Arab world in order to highlight regional best practices, and additionally suggest areas where they can be further strengthened.

In doing so, the report builds on the previous *Policy Brief on Corporate Governance of Banks in the Middle East and North Africa*, issued by the OECD[1] in collaboration with the International Finance Corporation (IFC) and the Union of Arab Banks (UAB) in 2009. Leveraging this work, the report presents an extensive legal benchmarking of laws and regulations bearing on corporate governance of banks, including central bank laws and regulations, as well as company law and capital market requirements that apply to banks.

The report also builds on a survey of a sample of Arab banks conducted by GOVERN in 2017. This 50-question survey was disseminated by the UAB to a sample of its members at the level of boards and senior executives in order to obtain their feedback on corporate governance regulations, their implementation and obtain views of board members and senior executives on challenges going forward. Respondents represented a variety of Arab jurisdictions with the exception of Algerian, Bahraini, and Moroccan banks.

The largest category of respondents, corresponding to 31 percent of the banks, had assets between $1-4.9 billion USD, while 23 percent have assets exceeding $20 billion USD, with the assets of a further 23 percent totalled less than $1 billion USD. The ownership models of the surveyed banks were diverse, including both controlled and widely-held. More than half of the banks had listed equity, less than 10 percent has listed debt, while 35 percent recorded no listed debt or equity.

Countries examined for the purpose of this report include 11 jurisdictions in the Middle East and North Africa with the largest financial and banking sectors including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Egypt, Jordan, Lebanon, Morocco and Tunisia.[2] These jurisdictions were reviewed in terms of their regulatory practices and responses were subsequently compared to the results of the aforementioned 50 question survey. Secondary research and interviews were conducted for the purposes of the report and their findings are presented herein.

[1] The Policy Brief was authored by Alissa Amico, Managing Director of GOVERN prior to her departure from the OECD.
[2] Algeria, Djibouti, Iraq, Mauritania, Palestine, Syria and Yemen have not been examined due the smaller size of the banking sector and lack of comparable data sources.

Based on this benchmarking and analysis, this report provides a number of practical recommendations to banking as well as to securities regulators for listed banks, to ensure they can continue to have a positive impact on the governance and ultimately on the stability and performance of local banks. To that aim, the report's recommendations are also addressed to the boards of directors and C-suits of Arab banks, as well as the company organs responsible for the oversight of legal, compliance and governance functions.

This flagship report is the first of a kind to comprehensively address the state of banking corporate governance in the region and provide an outlook for reform for the next decade. As such, it is hoped that this report will guide further policy dialogue among central banks in the region as well as further collaboration between banking, securities and other regulators in the individual countries.

The report was developed by Alissa Amico, Managing Director, GOVERN with research assistance by Shahira Wassef, Lars Hodel and Patrick Brindle, for which they are kindly thanked. The authors would like to thank the Banque du Liban and the Institute of Finance and Governance for sponsoring this important study. The Institute of Finance and Governance is looking forward to hosting further policy dialogue around this study in the coming year in order to further advance the bank governance agenda in the region.

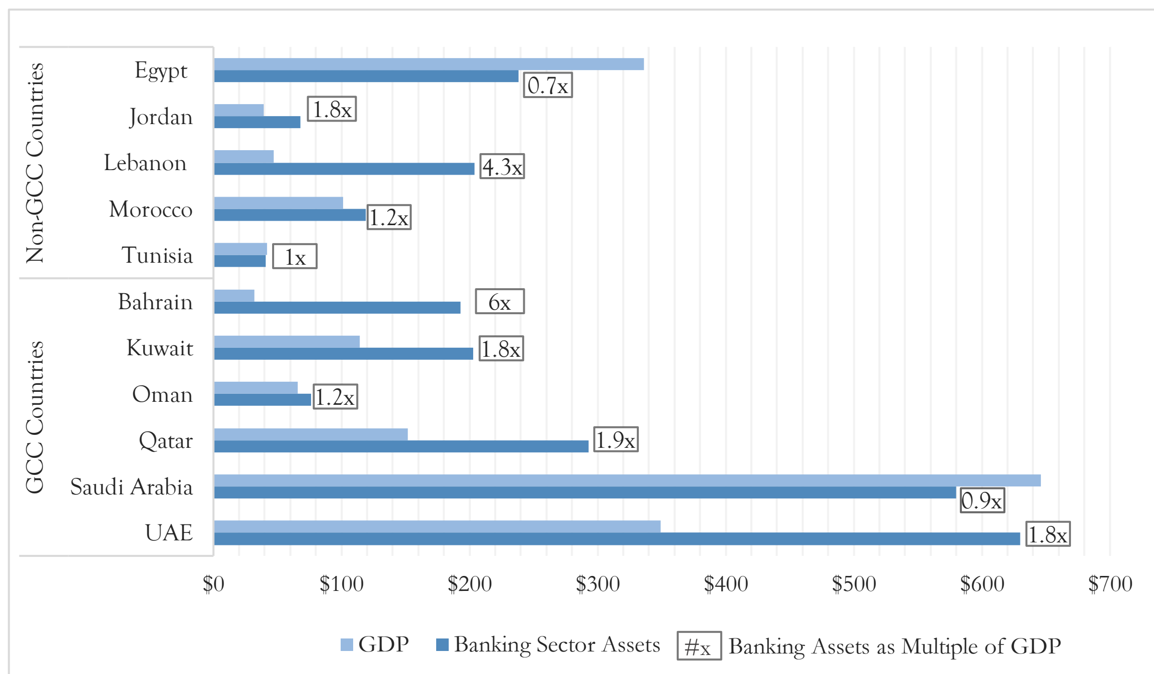
Part I. Global and Regional Context

Importance of the Arab Banking Sector

Across the Arab world, the **banking sector remains one of the largest contributor to the gross domestic product and are the foremost source of corporate financing**, considering the slower development of capital markets across the region. The banking sector is the largest component of the financial services industry sector in the region. While the banking sector accounts for more than half of the Arab financial services sector (54.2 percent), equity and bond markets contribute only to about 33 percent and 12.8 percent, respectively (IMF, 2016).

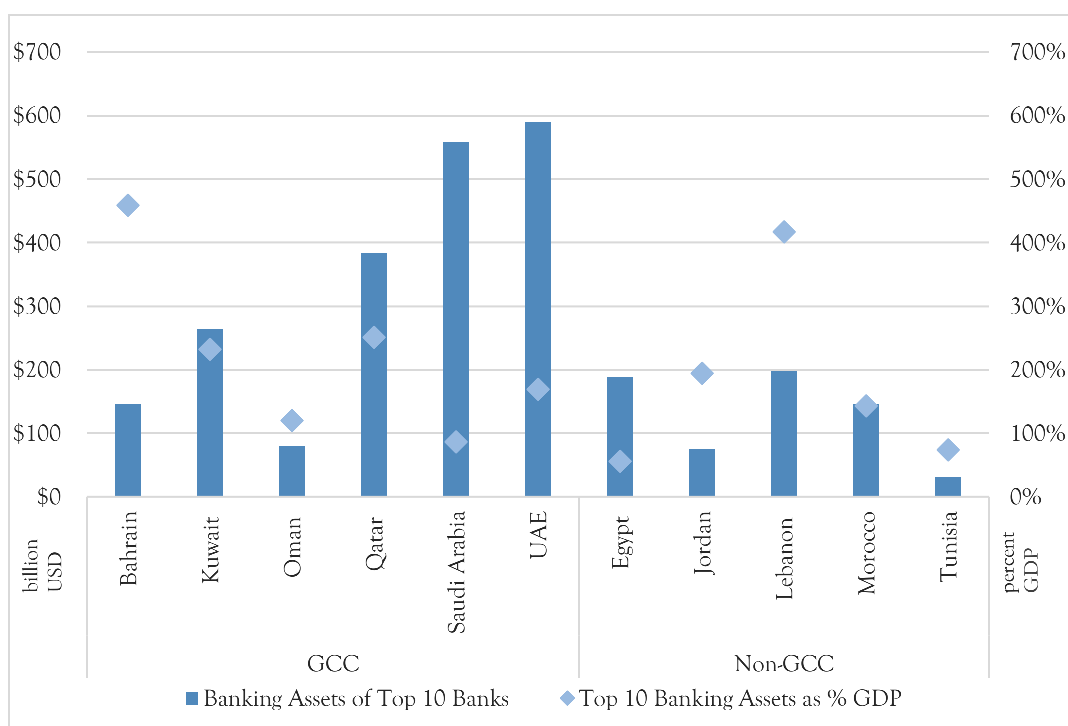
In some countries of the region, the role of the banking sector is even more critical. For instance, in Jordan and Kuwait, the banking sector accounts for approximately 80 percent of the financial sector as a whole (IMF, 2017). In a number of MENA countries, including notably Bahrain and Lebanon, banking sector assets exceed the national GDP by several multiples. This contrasts with economies such as Egypt, Saudi Arabia and Tunisia where the size of the banking sector as measured by banking sector assets to GDP is less than 100 percent (Figure 1).

Figure 1. Comparison of 2016 Banking Assets to GDP (billion USD)



Source: GOVERN calculations based on data from Oxford Business Group, MEED, World Bank and Central Bank websites, 2017.

Figure 2. Assets of Top 10 Banks as Percent of GDP (billion USD)



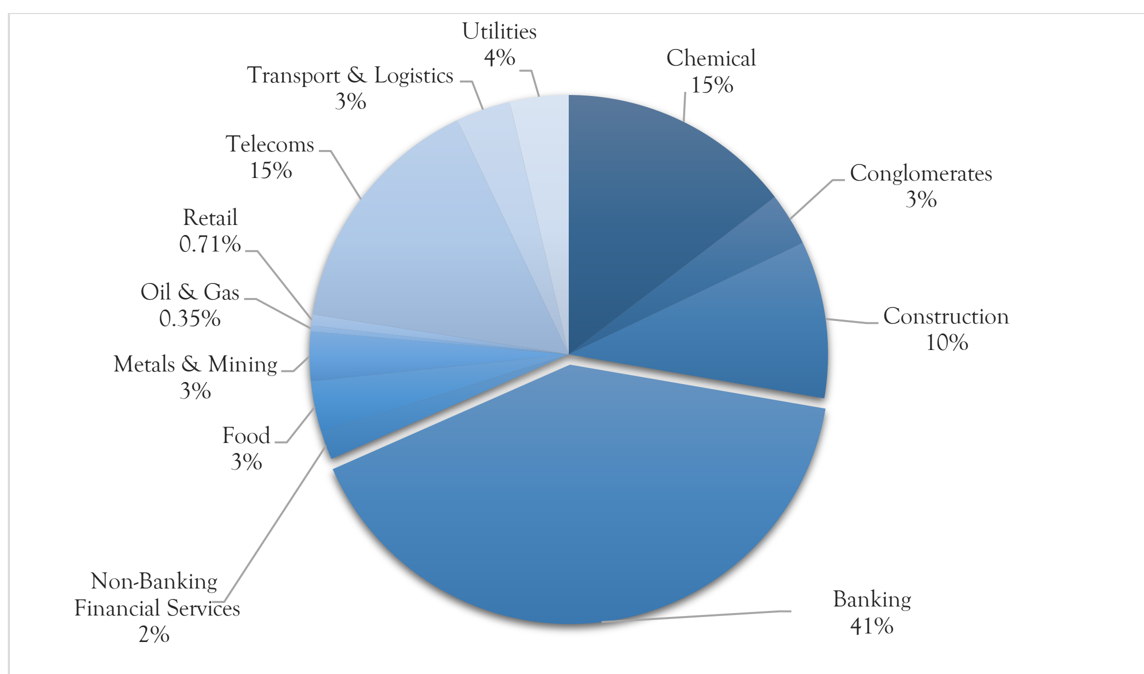
Source: GOVERN calculations based on data from Oriana Company Database, Bureau van Dijk, Oxford Business Group, MEED, World Bank and Central Bank websites, 2017.

Considering that banks are the largest contributor to the financial sector in the Arab world, it is not surprising that the sector is the largest represented in the capital markets in the region. Of the 100 largest listed companies in the region (as of 2017), 42 were banks, accounting for 41 percent of the market capitalisation of these companies (i.e. $345 billion USD out of $848 billion USD total). This is by far higher than any other sector represented among the region's largest listed firms. For instance, the construction and chemical sectors which are the second and third sectors by size only have 12 firms, which account for less than 15 percent of the market capitalisation.

Although the level of the development of capital markets in the region is variable, **the role of the banking sector is indeed quite constant, ranging from 30-50 percent of market capitalisation.** In Kuwait for instance, close to half of the market capitalisation (48 percent) is related to the banking sector (IMF, 2017). In Bahrain, the 7 listed banks also represent the largest sectoral segment of the market, same is the case in Qatar where 12 out of 43 listed companies are banks.

Figure 3 below, reflecting capitalisation of the largest 100 listed companies in the Middle East and North Africa provides further context on the role of the banking sector in the region, examining the sectoral distribution of the 100 largest listed companies with the total market capitalisation of $848 billion as of September 2017 (MEED 2017). It highlights the important role of the banking sector in the capital market, underpinned by the fact that in some countries banks require to be listed (i.e. Saudi Arabia) and also by their role as the primary source of corporate financing in other jurisdictions (i.e. Lebanon).

Figure 3. Region's 100 Largest Listed Companies by Sector
(as % of total market capitalization)



Source: GOVERN calculations based on MEED data. Market capitalization as of September 2017.

As a result, **bank shares are among the most actively traded on local exchanges and hence have considerable liquidity**, an important prerequisite for investor attractiveness in the region where liquidity is lacking. For instance, in Qatar, 5 of the largest 10 listed companies - accounting for 70 percent of market turnover - are banks (Qatar Central Bank, 2016). In Egypt for instance, one of the most actively traded and liquid stocks is the Commercial International Bank (CIB), which has a dual listing on the London Stock Exchange. As a result of banks being the largest and most actively traded stocks, many of them also have minority foreign investor stakes (e.g. National Bank of Kuwait, Al Rajhi Bank, etc.).

Structure of the Banking Sector

The structure of the banking sector in the region is characterised by a high concentration of ownership, generally low penetration of foreign banks, and in some countries, by a relatively high level of state ownership. The largest banks in the region are generally family or state-controlled. Indeed, family-owned or controlled banks are still common in the region, even in banks which are listed domestically or abroad.[3]

Beyond these generalisations, the structure of the sector highlights diversity in terms of the prevalent ownership structures, sectoral concentration, level of competition, state-ownership and foreign bank penetration. Generally speaking however, **the banking sector in the region displays relatively low levels of competition and a high degree concentration**. The largest 3-5 banks in each individual country dominate the sector both in terms of the asset size, the loan book and as measured by other parameters.

For instance, the largest bank in Jordan owns 54 percent of the total banking assets, while the assets of the largest three banks in Lebanon and Morocco constitute 50 and 66 percent of banking assets, respectively. Likewise, in GCC jurisdictions, the largest 5 banks are estimated to account from 50 to 80 percent of banking sector assets (IMF, 2010). On the other hand, foreign bank penetration tends to be generally low and levels of state-ownership relatively high, except a few jurisdictions such as Lebanon and Palestine. The following Table provides an overview of the structure of the banking sector in 11 Arab countries addressed by this report.

Table 1. Banking Sector Overview

[3] A number of Arab banks have Global Depositary Receipts (GDRs) or a secondary listing, mostly on the London Stock Exchange. Few banks have a secondary listing on another exchange in the region.

Jurisdiction	Banking Sector Structure
Bahrain	29 retail banks 14 locally incorporated 15 branches of foreign banks 73 wholesale banks 8 representative offices 1 bank society Total number of banks: 111
Egypt	6 Islamic banks 22 foreign banks 3 state owned banks 5 specialised banks 24 private sector banks 7 foreign branches Total number of banks: 39
Jordan	13 commercial banks 3 Islamic banks 8 foreign branches 1 foreign Islamic branch Total number of banks: 30
Kuwait	5 Kuwaiti traditional banks 5 Kuwaiti Islamic banks 1 Kuwaiti specialized bank 12 branches of foreign banks, of which one is an Islamic bank Total number of banks: 23
Lebanon	53 commercial banks, of which 12 foreign 16 investment banks 51 financial institutions 13 financial intermediaries Total number of banks: 120
Morocco	7 banks with largely foreign-owned capital 5 banks with largely state-owned capital 7 mostly Moroccan-owned private banks Total number of banks: 19
Oman	16 conventional commercial banks, of which 7 locally incorporated and 9 branches of foreign banks 6 out of 7 local banks are listed 2 Islamic Banks 6 out of 7 local banks offer Islamic Banking through dedicated windows Total number of banks: 20
Qatar	7 National banks 4 national Islamic banks 7 foreign banks Total number of banks: 18
Saudi Arabia	23 operating commercial banks 2 licensed (including branches of foreign banks) Total number of banks: 25 (commercial)
Tunisia	23 resident banks 7 non-resident banks 8 leasing institutions 2 factoring institutions 3 merchant banks Total number of banks: 43
UAE	23 local banks 26 foreign banks Total number of banks: 49

Source: Annual Reports of Central Banks, Financial Stability Reports of Central Banks, IMF Country Reports, data of year end 2016.

As highlighted above, the structure of the banking sector across the MENA region is quite diverse. **A key common feature is the dominant role of banks with residual state ownership.** While in countries such as the United Arab Emirates, Oman and Egypt, the largest banks are state-owned and remain the largest players in the industry, the Lebanese banking sector has for instance no state ownership and in countries such as Morocco it is also very low.

As highlighted in Tables 2 and 3 below, high state-ownership is very common especially in the largest banks in the region. As a result, **the market share of banks with state ownership generally ranges 20 to 40 percent per country** (IMF, 2016). The dominant role of state-owned banks has also to some extent impeded foreign penetration in the sector. It has also to some extent prevented the emergence of regional champions as each market is dominated by a national incumbent(s), in which the government is often a shareholder. Further ownership and structural features of the sectors are summarised in the Table 4.

Table 2. Majority Shareholder of Largest GCC Banks

Country	State		Company or	Foreign

		Individual or Family	Corporation	Other MENA Country	International
Bahrain	5	1	3	1	0
Kuwait	5	0	5	0	0
Oman	4	0	5	0	1
Saudi Arabia	7	0	0	1	2
Qatar	5	2	3	0	0
UAE	7	1	2	0	1
TOTAL	**33**	**4**	**18**	**6 (2 MENA, 4 International)**	

Source: GOVERN calculations based on Oriana Company Database, Bureau van Dijk, Bloomberg, Bank Websites. Shareholder ownership values as of November 2017. State ownership classified as such if any of the following are true: 1) the state is the explicit owner of the majority of shares, 2) majority of shares are owned via state funds (SWFs, pension funds, etc.), 3) the bank is a subsidiary of a state-controlled firm or investment vehicle.

Table 3. Majority Shareholder of Largest Non-GCC Banks

Country	State	Individual or Family	Company or Corporation	Foreign	
				Other MENA Country	*International*
Egypt	4	0	1	3	2
Jordan	3	2	1	4	0
Lebanon	0	3	5	2	0
Morocco	2	0	6	0	2
Tunisia	3	0	2	2	3
TOTAL	**12**	**5**	**15**	**18 (11 MENA, 7 International)**	

Source: GOVERN calculations based on Oriana Company Database, Bureau van Dijk, Bloomberg, Bank Websites. Shareholder ownership values as of November 2017. State ownership classified as such if any of the following are true: 1) the state is the explicit owner of the majority of shares, 2) majority of shares are owned via state funds (SWFs, pension funds, etc.), 3) the bank is a subsidiary of a state-controlled firm or investment vehicle.

Table 4. Banking Sector: Structure and Ownership

Jurisdiction	Key Features
Bahrain	7 domestic listed banks and one foreign bank (Bank of Muscat) listed on the Bahrain Stock Exchange. Banking is one the largest contributors to the market capitalisation of the Bahraini stock exchange. Most banks in Bahrain are privately held and not listed. Few specialised banks such as the Bahrain Development Bank exist whose objective is to serve the SME sector are state-owned.

Egypt	While the sector has been consolidated and privatised, a number of state-owned banks still play an important role in the banking sector. 3 state owned commercial banks (National Bank of Egypt, Banque Misr, Banque du Caire) play an important role in the banking sector. Other banks also have state ownership (e.g. Bank of Alexandria, United Bank, Arab African International Bank, etc.)
Jordan	Most banks in Jordan are family-owned. The Arab Bank, the oldest private bank in the region with its headquarters in Amman, is one of the few banks with regional MENA presence. The bank represents over 20 percent of the capitalisation of the Amman Stock Exchange. 15 of the 25 commercial banks in Jordan are listed.
Kuwait	Conventional banks dominate the overall banking system, with 60 percent of assets in the conventional banking sector. The banking system is largely concentrated: The National Bank of Kuwait (NBK) is more than twice the size of the next largest, the Gulf Bank, in terms of assets and deposits. Together, they own around fifty percent of the assets of conventional banks and dispense around the same proportion of total banking credit. Except for NBK, which is almost entirely owned by the private sector, the government is a shareholder in the rest of the banks.
Lebanon	Lebanon has the highest banking sector penetration in the region, with close to 70 banks operating across the country. Most of the banks are controlled by domestic family shareholders and the state is not a shareholder in the banking sector unlike in other countries of the region. A few of the local banks are listed on the Beirut Stock Exchange and some are also listed on the London Stock Exchange, mostly through GDRs.
Morocco	Morocco's banking sector is highly concentrated with 8 banking groups. Among the 19 banks, the top 3 account for over two-thirds of the bank system assets and deposits. The share of public banks has declined steadily to 16 percent from 40 percent in 2002, 5 banks still have government shareholdings. Foreign banks are major shareholders in 7 banks. The share of private-owned banks with mainly Moroccan capital grew to 66 percent of assets.
Oman	All commercial banks are privately owned, with the Government having minority stakes in a few. A few banks are listed on the Muscat Securities market. Aggregate foreign ownership in locally incorporated banks is limited by law to a maximum equity share of 70 percent. There are 2 government-owned specialized banks, namely, the Oman Housing Bank and Oman Development Bank.
Qatar	The banking sector is highly concentrated with the three largest local banks (Qatar National Bank, Commercial Bank of Qatar, and Doha Bank) accounting for close to 70 percent of total assets. The entry of foreign banks under the Qatar Financial Center has increased competition, but local banks still have well-established franchises in domestic business. There are 3 specialized government-owned banks operating mainly in developmental and housing projects, in addition to 6 finance and leasing companies: these have a marginal share of financial sector assets
Saudi Arabia	The sector is only moderately concentrated with the three largest banks (National Commercial Bank, Samba Financial Group, and Al Rajhi Bank) accounting for 45 percent of total assets. Public ownership (including quasi government) is fairly extensive but diminishing following the privatisation of the National Commercial Bank. The rest of the non-bank financial institutions (NBFIs) account for a marginal share of the total financial system's assets.
Tunisia	The banking sector is fairly concentrated with 4 of the largest banks accounting for 50 percent of the sector's assets. The remainder is split among 5 medium size banks accounting for 34 percent of the banking sector assets. The other 11 banks account for 15 percent of the total banking sector assets. In terms of ownership, 37 percent of banks is owned by Tunisian private shareholders, 37 percent by foreign shareholders, and 26 percent of banks are state-owned. The Tunisian state is present as a reference shareholder in 7 banks. Most Tunisian banks are family-controlled and operate only nationally.
UAE	The banking system is the least concentrated in the region and the three largest banks (National Bank of Abu Dhabi, Emirates Bank International, and Abu Dhabi Commercial Bank) account for 32 percent of total assets. Bank ownership is still predominantly held by the government but there has been a move towards the liberalisation of entry for foreign banks. The sector is undergoing consolidation, notably with the merger of the First Gulf Bank and the National Bank of Abu Dhabi (both with government shareholdings).

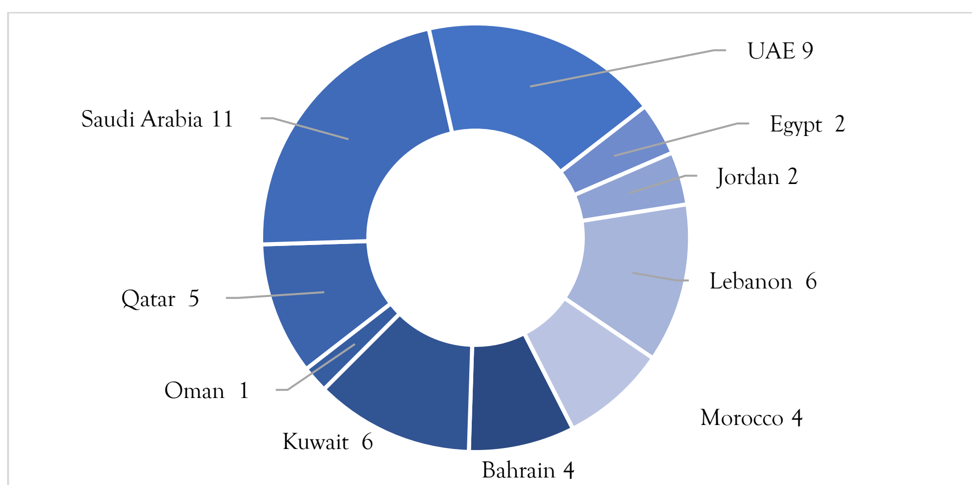
Source: Central Bank Annual Reports, Financial Stability Reports, 2017.

Given current industry dynamics and the presence of strong national leaders, the structure of the sector is not expected to significantly evolve in the short to medium term. The sector is, however, expected to be affected by the ongoing consolidation of domestic incumbents such as the merger of the First Gulf Bank and the National Bank of Abu Dhabi in 2016 which – given the state ownership in both – is implicitly going to increase the role of state owned banks in the country. On the other hand, other countries in the region such as Egypt are currently considering listing of state-owned banks (i.e. Banque du Caire) which is expected to lead to further re-balancing towards the private sector.

Considering that each country tends to have industry champions, the emergence of banks with regional leadership has been limited, although some banks such as the Jordanian Arab Bank has regional presence. The largest banks in the region – and hence in principle those best positioned to expand across the region - are domiciled in Saudi Arabia, UAE, Lebanon and Kuwait (Figure 4). However, as seen in Figure 5, when looking at the asset size of the top 10 banks by country, the highest asset concentration is in the UAE, followed by Saudi Arabia, Qatar and Kuwait (out of the total asset of the top 50 banks in the region being equivalent to approximately $638 billion USD[4]).

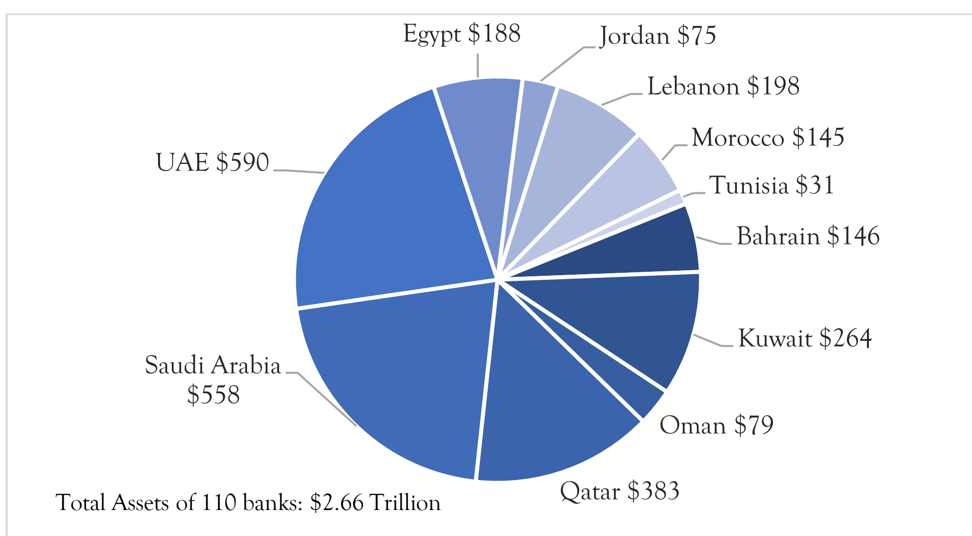
[4] Asset size as of November 2017.

Figure 4. Domiciliation of the Largest 50 Arab Banks
(by total assets)



Source: GOVERN calculations based on data from Oriana Company Database, Bureau van Dijk, 2017.

Figure 5. Asset Size of Largest 10 Banks by Country
(billion USD)



Source: GOVERN calculations based on data from Oriana Company Database, Bureau van Dijk, 2017.

Regulatory Approaches

The approaches to banking sector regulation adopted by central banks in the region have had to reckon with the fundamental structure of the sector, including the concentrated ownership structure, their low cross-border activity and the generally low presence of foreign banks in MENA jurisdictions. While these very characteristics have to some extent enabled Arab banks to weather the financial crisis, they also represent specific governance risks that need to be addressed to support continued growth and stability of local banks.

For instance, **state ownership in the banking sector is frequently associated with higher non-performing loans**. Likewise, the fact that most Arab banks are anchored in one jurisdiction makes them particularly vulnerable to ratings of domestic sovereign debt and lending concentration related risks. At the same time, **the prudent and conservative approaches to product regulation and the relatively insulated nature of the Arab banking sector in global financial flows have largely mitigated the spill-overs from the global financial crisis,** with the very positive result that none of the banks had to be recapitalised or rescued.

During and post the financial crisis, a number of banks and central banks in the region therefore did not feel that the wave of international regulation of cross-border banking activities that ensued was necessarily relevant to their operational and financial risk profile. At the same time, Arab banks were protected from the consequences of the second most devastating economic crisis in global history through limits on potentially toxic products and in their interactions with foreign banks.

Recent economic developments, notably the significant decline in the price of oil have negatively affected the economic performance of both oil exporting and oil importing countries, which benefit from the recycling of petrodollars. These developments require the ongoing vigilance of the regulators not only to macro-prudential supervisory frameworks but also to the corporate governance frameworks which are intended to create long term incentives and adequately mitigate financial and operational risks.

In recent years, regulators have had to take into account the concentrated profile of bank lending in the region in terms of sectoral exposures (notably real estate), exposures to specific high-net worth individual/corporations as well as sovereign risk. This has led a number of central banks in the region to introduce strict prudential requirements which facilitated the adoption of consecutive Basel requirements.

The risks linked to concentrated lending have in fact been exacerbated by the relatively volatile economic climate in the region over the past decade. The economic context also requires regulators to monitor in particular mid-size corporate borrowers who may not have the resilience of the larger corporate clients to withstand economic downturns. According to the stress testing conducted by the regulators and IMF country reports, banks in the region have remained resilient to global and regional economic downturns.

> *"Since 2000, reforms mainly focused on enhancing banking supervision, increasing the level of compliance with international banking regulatory requirements, ensuring the soundness of banking sectors and moving towards the adoption of international standards in transparency and corporate governance."*
> IMF, 2016.

Corporate Governance Regulations

Despite their ability to withstand the economic downturn, a number of other factors highlight the critical importance of good corporate governance for Arab banks. **Good governance of banks in the Middle East is essential considering that the banking sector is still the largest piece of the financial sector**, unlike in Europe or North America where capital markets have outgrown the banking sector. Banks continue to dominate financial sectors in the region despite recent efforts to develop long term institutional investment industry, including notably pension funds.

As mentioned, **banks are a key source of corporate financing in the region where other non-bank funding options remains relatively limited**. Banks are also a key source of sovereign lending in some countries of the region such as Lebanon where the costs of servicing of public debt is now over 140 percent of the GDP. Considering that a number of countries have or are positioning themselves as financial or banking centers, banks have emerged as the largest corporate sector and can be considered in some cases as being "too big to fail", leading some central banks to consider banks' impact on broader economic stability.

A number of recent trends further reinforce the importance of good governance in Arab Banks. On the one hand, **the current macro-economic environment in the region, in the oil exporting and the oil importing countries alike, requires banks and their supervisors to adopt strict prudential rules and to monitor risk exposures**. On the other hand, given the low level of equity market development and the stagnation of listings in the region, banks remain the primary source of corporate financing both of the private sector and also of sovereign borrowing.

The nature of corporate governance requirements placed on Arab banks have increased significantly over the past decade. While governance requirements were initially primarily addressed in corporate and banking laws, today regulators in the region impose specific additional corporate governance requirements.[5] The scope

[5] Refer to Annex 1 for a complete summary of laws, regulations and codes that bear on corporate governance of Arab banks.

of banking laws has generally been limited to regulating the composition boards and addressing disclosure requirements. The corporate law generally bears on specifically on shareholder rights and disclosure that must be provided to shareholders.

Over the past years, central banks in the region have imposed additional regulations concerning the exact composition of the board, including board committees, the number of non-executive and independent directors and other parameters. While central banks were the first regulators in the Arab world to formally address corporate governance in their regulatory approaches, securities regulators started to formally address corporate governance starting in mid 2000. **In most cases, the governance requirements imposed by securities regulators for listed companies apply to banks over and above banking sector governance requirements for organisations with traded equity.**

While central bank regulations generally predate the governance rules for listed companies introduced by the securities regulators (i.e. Lebanon), they have evolved in tandem in some countries (i.e. Saudi Arabia). In Oman, the first circular on corporate governance to banks was introduced in the same year that the securities regulator introduced its own rules on corporate governance. **The regulatory approaches taken by central banks towards governance of banks have generally moved in the same direction as the requirements for listed companies: from voluntary to comply-or-explain or mandatory regimes.**[6]

As highlighted in Table 5, **all countries of the region except Bahrain have a corporate governance code or regulations specifically addressing banks.**[7] In most jurisdictions in the region, governance codes have been successively revised and have gradually moved to mandatory, despite the fact that regulators continue to refer to them as "codes". **3 jurisdictions in the region, including Jordan, Bahrain and Qatar operate on a "comply-or-explain" approach, reflecting their interest in maintaining regulatory proportionality and scalability.**

However, compared to other jurisdictions, **banking regulators in the region do not take advantage of approaches that would demonstrate proportionality and flexibility in corporate governance** depending on the size of the institution, apart from imposing additional requirements on systemically important financial institutions, as will be discussed below. In leading jurisdictions **globally, regulators are increasingly introducing flexibility in their approaches to companies of different size, sector and complexity**, reflected in a variety of ways including board composition, frequency of disclosure and other parameters.

Table 5. Bank Corporate Governance Codes

Jurisdiction	Corporate Governance Code	Approach CoE: Comply or explain B: Binding V: voluntary	Disclosure in annual company report	Basis for framework L: Law or regulation C: corporate governance code
Bahrain	Corporate Governance Code	CoE	Yes	C
Egypt	Corporate Governance Code for Banks	B	No	L
Jordan	Corporate Governance Code for Banks Guidelines for Islamic banks	CoE	Yes	L
Kuwait	Rules and systems of governance in Kuwaiti banks Regulations of legitimate governance oversight in Islamic Kuwaiti Banks	B[8]	Yes	C
Lebanon	Various BDL Circulars Guidelines Corporate Governance in Islamic Banks	B	Yes	L
Morocco	Central Bank Directive on Corporate Governance of Credit Organisations	B	Yes	C

[6] Currently, none of the corporate governance regulations for banks are voluntary, although in some countries additional voluntary guidelines have been developed by the industry (e.g. the code developed by the Lebanese Banking Association).
[7] By virtue of Bahrain having a single regulator model for securities and banking activities, its 2011 Corporate Governance Code, applies equally to banks and to listed companies.
[8] The code is intended to be issued as a binding regulation but its implementation timing and modalities has not yet been decided by the regulator.

	National Corporate Governance Commission recommendations			
Oman	Corporate Governance Guidelines for Banking and Financial Institutions Recommendations for Islamic banks	B	No	C
Qatar	Corporate Governance Guidelines	CoE	Yes	C
Saudi Arabia	Principles of Corporate Governance for Banks	B	Yes	C
Tunisia	Guidelines for Banks and Credit Institutions	B	No	No
UAE	Corporate Governance Guidelines for bank directors (draft currently under revision) Required Administrative Structure in UAE Banks	B	Yes	C

Source: GOVERN Research, 2017.

The vast majority of regulators have opted for a single set of banking corporate governance regulations, typically in the form of a single corporate governance code. The Saudi Arabian Monetary Agency and the Central Bank of Morocco, Banque Al-Maghrib, have issued, in addition to the main code, several additional regulations on compensation and risk management. Lebanon's Banque du Liban (BDL), has taken a unique approach in the region, issuing variety of binding circulars bearing on governance in the past ten years, without issuing a single governance code.

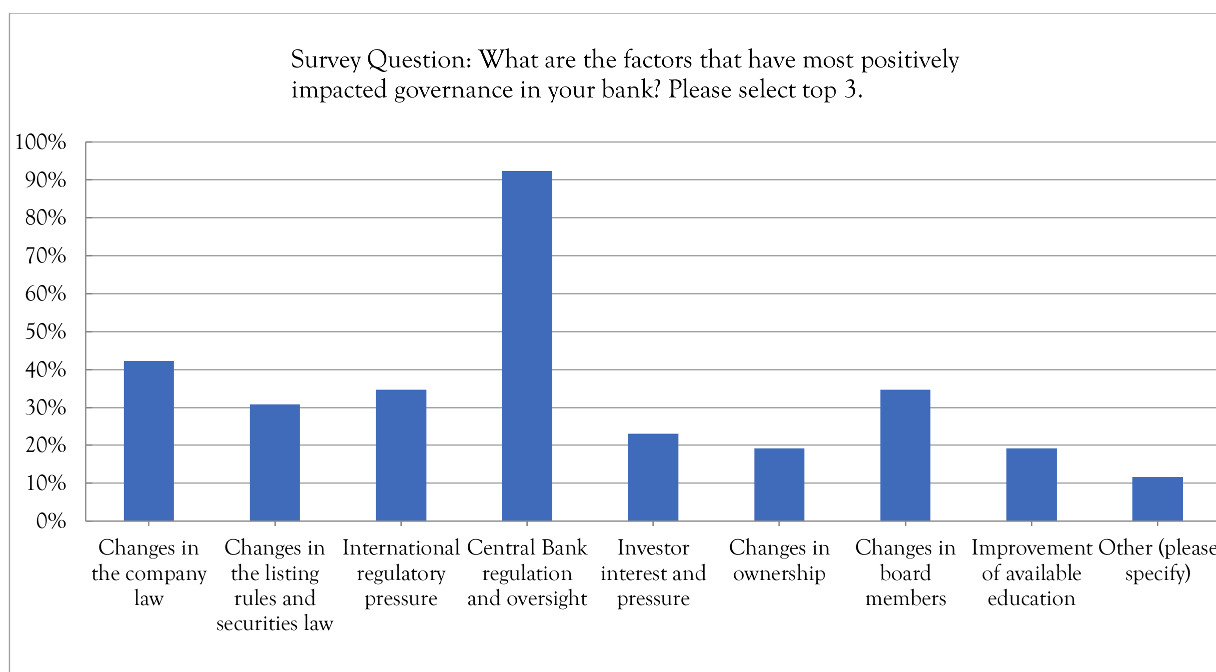
In most cases, listed banks are also subject to the corporate governance regulations that apply to listed firms although in some cases the banking regulations apply alone. The latter is the case for instance in Lebanon since the BDL has the sole regulatory authority over bank governance, and in the UAE and Kuwait where banks are exempted from the application of the corporate governance regulations for listed firms.[9] On the other hand, in Qatar, guidelines on corporate governance of banks explicitly stipulate that the principles of corporate governance shall apply in equal measure to state-owned banks.

The regulatory approach to corporate governance of banks has been rather dynamic, with a number of bank corporate governance codes having been revised very recently: Morocco and Saudi Arabia in 2014, Qatar in 2015, Kuwait and Jordan in 2016, and the UAE in 2017.[10] Bahrain has possibly the most dated corporate governance regulations in the region considering that they were introduced in 2011, however considering their comprehensiveness, they are still among the most comprehensive in the region.

Further evolution of corporate governance in the banking sector in the region has been driven by lessons learned from the last international financial crisis and the revision of the *G20 OECD Principles* and the *Basel Committee Guidelines* which provided an impetus for central banks to review the standards for banks. This process was also prompted by the need to align bank regulatory expectations with the corporate law and the requirements for listed companies which have in the past few years been revised in almost all MENA countries. Indeed, as seen in Figure 6 below, **responses to the survey conducted for this report point to the fact that central bank regulation and oversight are the key factors behind governance progress in the region.**

Figure 6. Factors Positively Affecting Corporate Governance

[9] This is despite the fact that almost half of the UAE's banking system is controlled by sovereign investors (IMF, 2010).
[10] At the time of the publication of this report, the revised guidelines bearing on corporate governance of banks in the UAE have not yet been issued.



Source: GOVERN Survey, 2017.

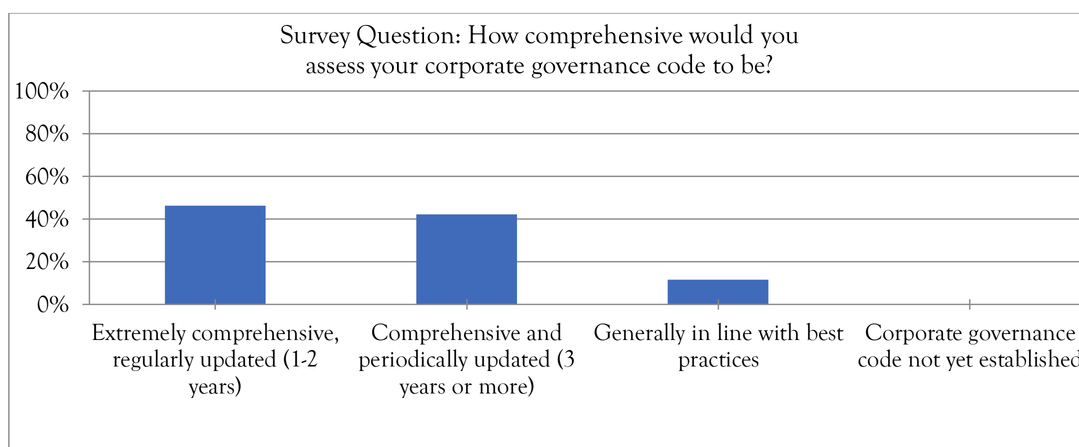
The extent of the specificity of the recommendations varies significantly from jurisdictions. For example, in Lebanon and Morocco the regulator leaves more flexibility to boards. In other jurisdictions, such as Saudi Arabia and Oman, regulators are more prescriptive. For instance, in Morocco, the Bank Al-Maghrib**,** devolves considerable responsibilities to the board to decide its structure and operations, while the Saudi Arabian Monetary Authority (SAMA) outlines in detail the requirements regarding the same.

The fundamental philosophical difference between the prevailing approaches is reflected across this report. While some regulators outline the general principles inspired by the international standards such as Basel and the OECD, others leave to individual banks to determine their own governance frameworks, others specify specific outcomes or behaviours that they expect banks to adopt, either on a mandatory or comply-or-explain (CoE) basis.

In the first category of jurisdictions, including Lebanon, Bahrain and the UAE, the regulators require banks to develop their own governance codes based on local corporate governance requirements. In these countries, the regulators allow the board, as a key governance organ, to determine the bank's governance structure. Saudi Arabia, Kuwait and Oman adopt more prescriptive approaches, dictating specific governance requirements in terms of board composition and its remit of responsibility.

This has a bearing on how industry participants view their own corporate governance codes, whereby the majority of survey respondents developed for the purposes of this report consider their code to be comprehensive and regularly updated. Figure 7 below, reflecting our survey results, provides further details on the comprehensiveness of bank corporate governance codes.

Figure 7. Comprehensiveness of Corporate Governance Codes



Source: GOVERN Survey, 2017.

In addition to the laws and regulations issued by central banks, **a number of banking associations have issued additional governance recommendations and guidelines**. This is the case in Jordan, Lebanon and the UAE; in addition, the Moroccan Corporate Governance Commission has issued guidelines specifically for credit and financial institutions even before the Bank Al-Maghrib had issued its own guidelines. As self-regulatory standards, these guidelines are voluntary and are intended primarily to foster a culture change in the banking community.

Table 6. Corporate Governance Self-Regulatory Standards

Country	Banking Association	Corporate Governance Recommendations	Year
Bahrain	Bahrain Association of Banks	No	-
Egypt	Federation of Egyptian Banks	No[11]	-
Jordan	The Association of Banks in Jordan	Yes, Code of Ethics	2010
Kuwait	The Kuwait Banking Association	No	-
Lebanon	Association of Banks in Lebanon	Yes	2011
Morocco	Moroccan Bankers Association	No[12]	-
Oman	Omani Banks Association	No	-
Qatar	No association	No	-
Saudi Arabia	No association	No	-
Tunisia	Association of Banks and Financial Institutions	No	-
UAE	UAE Banks Federation	Yes, Code of Conduct	2012

Source: GOVERN Research, 2017.

Governance of Listed Banks

In many jurisdictions in the region, the majority of banks are publicly listed, and hence, corporate governance requirements that apply to listed firms apply to them as well. In the UAE and Kuwait, banks are explicitly excluded from the application of standards for listed companies. Likewise, in Lebanon, the BDL retains the sole authority over corporate governance of banks, while the recently developed requirements for listed firms do not apply to listed banks. This is also the case in Morocco and Tunisia where corporate governance standards for listed companies are generally less rigorous.[13]

[11] In Egypt, the Egyptian Banking Institute and operating under the guidance of the Central Bank conducts training on corporate governance. Likewise, in Lebanon, the Institute for Finance and Governance also provides training on governance for banks.

[12] No guidelines by the Moroccan Bankers Association but it participated in the credit institution guidelines issued for the Moroccan CG Commission.

[13] For instance, although the Moroccan corporate governance code is aimed to apply to listed companies on a comply-or-explain basis, it is in practice voluntary and its implementation not enforced.

Key differences between corporate governance codes for banks and for listed companies generally relate to specific risks prevalent in the banking sector, with for example, a greater emphasis on the formation of risk or credit committees, which are generally not required by the securities regulators for listed companies. Furthermore, banking regulators place a greater emphasis on "fit and proper" requirements for board members, in many instances requiring their explicit approval by the central bank.

The application of codes for listed companies has grown in importance in recent years with the development of local capital markets and the significant improvements in corporate governance frameworks for listed companies and their enforcement, especially in a few leading jurisdictions (e.g. Saudi Arabia and the UAE's Dubai International Financial Center (DIFC). On the other hand, the fact that both securities regulator and banking governance requirements apply necessitates them be consistent.

In some jurisdictions such as Saudi Arabia, the Capital Market Authority is also an important regulator as its corporate governance guidelines are in most respects more detailed than the Saudi Arabian Monetary Authority (SAMA) recommendations. Working with the complementarity approach in mind, SAMA sees its role as providing additional recommendations to the CMA and its rules indeed more specific aspects of bank governance. As highlighted in Table 7, in other jurisdictions where banks are subject to dual standards of the CMA and the central bank, the need for regulatory coordination and consistence among standards is paramount.

Table 7. Regulatory Authority of Central Banks and Securities Regulators

Jurisdiction	Supervision of Listed Banks (Central Bank, Securities Regulator, etc.)	Source of the Regulation
Bahrain	The corporate governance code is applicable for both listed companies and banks as it is mandatory for all JSCs	Corporate Governance Code
Egypt	Banks regulated by the central bank and the securities regulator (EFSA) and to a lesser extent the exchange (EGX)	Corporate Governance Code and the securities regulations
Jordan	Banks regulated by the central bank and the securities regulator	Corporate Governance Code and the securities regulations
Kuwait	The Central Bank guidelines apply to all banks on a mandatory basis	Central Bank Guidelines
Lebanon	Banks are regulated exclusively by the central bank	BDL Guidelines (regulatory powers not documented)
Morocco	Banks are regulated exclusively by the central bank	Central Bank regulations
Oman	Banks and listed companies are regulated by separated corporate governance approaches, however some circulars of the CMA also apply to banks	Circular BM 989
Qatar	Listed banks are also subject to the corporate governance regulations of the Qatar Financial Market Authority(QFMA)	QFMA Corporate Governance Code
Saudi Arabia	Banks subject to CMA and SAMA corporate governance regulations	CMA Corporate Governance Code
Tunisia	Banks regulated exclusively by the central bank	Central Bank Regulations
UAE Federal	Banks regulated exclusively by the central bank. CG Code released by the ESCA explicitly excludes banks from securities regulator supervision	CG Code for listed companies

Source: GOVERN Research, 2017.

Governance of Islamic Banks

Islamic banks are estimated to hold around $1.3 trillion USD in assets globally and the region's banks now represent more than 50 percent of Islamic banking total assets globally. **Islamic banking has been on the rise as a consequence of a number of countries seeking to position themselves as centers of Islamic finance.** The sector is now considered systemically important in several countries including Saudi Arabia, Qatar, and the United Arab Emirates.

For instance, in Saudi Arabia and Kuwait, the market share of Islamic banking has reached almost half of all the sector's assets at 49 and 45 percent, respectively (Ernst and Young, 2014). Other jurisdictions such as Oman and Morocco have only recently formally allowed the establishment of Islamic banks, resulting in an establishment of new banks and recent growth in the sector. **Going forward, the importance of Islamic banking in the region is poised to increase.**

Given the legal particularities of Islamic banking, a growing number regulators decided to regulate them separately, through specific regulations/circulars aimed at the sector, while others consider Islamic bank's compliance with general corporate governance standards for conventional banks sector sufficient. Jordan, Oman, Kuwait and Lebanon have in recent years introduced additional guidelines on corporate governance of Islamic banks, with a particular emphasis on the board, notably on the composition of the Shari'a board.

In most cases, Islamic banking regulations apply in addition to the corporate governance code for conventional banks. In Jordan, Bahrain and Qatar, additional governance requirements for Shari'a banks are established directly in the corporate governance code. The Central Bank of Jordan has taken a more focused approach, exempting foreign banks from the application of domestic Islamic banking requirements, though the same is not the case for conventional banks.

Oman, where Islamic banking still accounts for a small percentage of the total banking sector, is the only jurisdiction where corporate governance requirements for Islamic banks are more comprehensive than those for conventional banks and they apply to not only to domestic Islamic banks but also to branches of foreign banks and Islamic windows of domestic conventional banks. In Oman, the corporate governance rules for Shari'a banks which were established following the rules for conventional banks and are significantly more detailed. The scope and key differences between requirements for conventional and Islamic banks are summarised in Table 8 below.

Table 8. Governance Standards for Islamic Banks

Jurisdiction	Separate Governance Guidelines for Islamic Banks	Scope of Guidelines	Key Differences with Framework for Conventional Banks
Bahrain	Yes	Applicable for all Islamic bank licensees	Establishment of an independent Shari'a Supervisory Board
Egypt	No	-	-
Jordan	Yes	Applicable for all Islamic banks except for foreign banks	Establishment of an independent Shari'a Supervisory Board
Kuwait	Yes	Imposing additional requirements in those that apply to conventional banks	Establishment of a management level unit for Shari'a Supervision. Board level supervision for Shari'a compliance. Board is required to develop knowledge about Islamic banking. Periodical Sharia internal and external auditioning
Lebanon	Yes	Imposing the additional requirements than those that apply to conventional banks	Establishment of a Shari'a Auditing Unit and publishing a summary of the Consultative Body Implementation of a Sharia Auditing Unit
Morocco	No	-	-
Oman	Yes	Applies to full-fledged domestic Islamic banks, Islamic banking branches of foreign banks and Islamic windows of domestic conventional banks.	Formation of Shari'a Supervisory Board. Licensees have to maintain systems and controls which ensure Shari'a compliance of their operations and business activities.
Qatar	Yes	All Islamic banks	Establishment of an independent Shari'a Supervisory Board. Reporting channels between the Sharia Supervisory Board, the Sharia Auditor and the Audit Committee
Saudi Arabia	No	-	-
Tunisia		-	-

	No		
UAE	No	Islamic banks	Establishment of Sharia' Supervisory Board with minimum 3 members

Source: GOVERN Research, 2017.

As highlighted in Table 8, **key aspects that regulators address in the governance structures of Shari'a banks include the formation of a Shari'a supervisory board and compliance with Shari'a accounting and auditing standards**. A review of governance regulations by central banks in the region conducted for this report highlight that all central banks except the Central Bank of Kuwait require the establishment of a separate Shari'a board.[14] In Qatar, the board must appoint no less than 3 members of the Shari'a board to be approved by the Annual General Meeting (AGM).

In Oman, the regulator requires the establishment of a Shari'a supervisory board[15], although it allows institutions of smaller size and complexity to outsource this function, subject to central bank approval. Shari'a boards in Oman are to be comprised of at least 3 scholars, subject to detailed "fit and proper" criteria and all board decisions are required to be supported by the majority of its members. The Internal Sharia reviewer (i.e. executive responsible for compliance with Islamic legal requirements) shall be the secretary of the Shari'a board.

> *"The Licencees shall appoint a Shari'a Supervisory Board which shall oversee the operations of the Bank from a Shari'a compliance perspective and prepare and present a Shari'a compliance report to the Board of Directors."* Central Bank of Oman, 2012.

In addressing Shari'a governance, a number of regulators also incorporate risk management as well as external and internal audit requirements. For instance, in Lebanon, a BDL circular stipulates that in addition to standards imposed on conventional banks, each Islamic bank shall set up a Corporate Governance Unit and a Shari'a Auditing Unit independent from management.[16] In Bahrain, the new corporate governance rules for Shari'a banks issued in 2017 mandate Shari'a external audits for Islamic banks.

> *"The Audit Committee shall communicate and coordinate with the company's Corporate Governance Committee and the Shari'a Supervisory Board to ensure that information on compliance with Shari'a rules is reported in a timely manner."* Central Bank of Bahrain, 2011.

As highlighted in Table 9, **specific requirements imposed by the regulators on Shari'a banks vary considerably among jurisdictions.** According to a recent survey of Islamic banks in 22 jurisdictions conducted by the World Bank and the General Council for Islamic Banks and Financial Institutions, implementation appears also rather variable notably at the level of the board, where the quality of deliberations and frequency of decision making is uneven.[17]

Table 9. Key Governance Requirements for Shari'a Banks by Country

Jurisdiction	Establishment of Shari'a Board	Shari'a Board Member Qualifications	Additional Disclosure Requirements	Shari'a Accounting Provisions	Shari'a Auditing Provisions	Shari'a Board Compensation
Lebanon	Yes	No	Yes	No	Yes	No

[14] Instead, the Central Bank of Kuwait requires the presence of board expertise (equivalent to a board committee) with capacity to oversee Islamic banking activities.
[15] The overall board is required to approve a charter of the Shari'a board.
[16] The head of Shari'a Internal Audit Unit can participate in meetings of the Audit Committee in issues related to Shari'a auditing without having the right to vote.
[17] Around two thirds of banks sampled had a Shari'a review unit, but most banks' Shari'a boards appear to meet less than six times a year, and they often lack members with diverse technical backgrounds.

Qatar	Yes	No	No	Yes	Yes	No
Kuwait	No	No	No	No	Yes	Yes
Jordan	Yes	Yes	Yes	No	Yes	Yes
Oman	Yes	No	Yes	Yes	Yes	Yes

Source: GOVERN Research, 2017.

Part II. Board Structure and Effectiveness

Board Size and Appointment

Board-level governance has been at the heart of the corporate governance regulatory standards established by the central banks in the region. **A review of the bank board composition requirements set by central banks highlights a significant diversity in regulatory approaches adopted**, greater than in standards set by the securities regulators which have tended to coalesce in recent years. For instance, while securities regulators in the region have tended to require that a third of the board be independent and that the majority be non-executive, the standards for the banking sector tend to vary more widely.

Some central bank regulators such as Lebanon's BDL and Morocco's Bank Al-Maghrib have referred to international guidelines (notably the *Basel Committee Guidelines*) and have embraced an approach allowing banks to select an appropriate number of non-executive and independent directors based on the needs of the bank and its board. In Egypt, Tunisia, and Morocco the central banks have remained less prescriptive in their approach to bank governance generally and to board composition specifically, referring to the scalability of governance frameworks.

For instance, Bank Al-Maghrib does not stipulate an optimal board size, leaving it up to the board to determine its optimal size given the organisation's size and complexity. The regulator does, however, suggest the board size and should be subject to a regulator review in light of the structure and evolution of the bank. **On the other hand, regulators in the Gulf have been significantly more prescriptive in their approach.**

Similarly to the OECD countries, the common legally permitted board size is characterised by a minimum of 3 and a maximum of 11 members, with a maximum of 15 allowed in Bahrain and the UAE. In Saudi Arabia and Qatar, the minimum board size for listed companies is 3 whereas for banks it is 9. In Jordan, bank boards must be comprised of at least 11 members unless the bank is owned by one shareholder, of which all non-executive and no less than 4 independent directors.

Reflecting industry complexity, bank boards tend to be larger, with half of survey respondents noting that their board is comprised of 10-12 members, whereas only 4 percent noted that the board was 3-6 members (this tranche corresponded more to privately-held family banks). At the same time, bank boards in the region rarely exceed 13 members (corresponding to less than 4 percent of survey respondents), reflecting both the regulatory limits summarised in Table 10, but also the concern that larger boards may be ineffective.

The duration of board mandates in most jurisdictions is 3-year renewable, except in Jordan where 4 and 6-year terms are in place, respectively. Only in Egypt, Tunisia and Saudi Arabia regulators have limited the number of terms a board member may serve. In Egypt, this includes executive board members (i.e. when CEO and Chair roles are not separate). While limits on terms for independent directors are common (i.e. for them to continue to qualify as independent), such limits do not typically apply to the entire board.

Table 10. Board Size and Tenure

Jurisdiction	Board Size		Appointment	Source of Regulation
	Minimum	*Maximum*	*Term*	
Bahrain	5	15	3 years renewable	Commercial Companies Law and Central Bank Rulebook
Egypt	3	-	3 years renewable once	Corporate Law
Jordan	5	13	4 years renewable	Corporate Law
Kuwait	5	-	3 years renewable	Corporate Governance Code
Lebanon	3	12	3 years renewable (except first term)	Code of Commerce (Company law)
Morocco	3	15	6 years renewable	Corporate Law

Oman	5	12	3 years renewable	Commercial Companies Law and Corporate Governance Codes for Banks and for Listed Companies
Qatar	3(9)	11	3 years renewable 5 for the first board of directors	Corporate Governance Code for Banks and Commercial Companies Law
Saudi Arabia	3 (9)	11	3 years mandate, limited to 4 consecutive mandates	Bank Corporate Governance Code, further specifications in the Companies Law
Tunisia	3	12	3 years renewable once	Corporate Governance Code
UAE	3	15	3 years renewable	Commercial Companies Law

Source: GOVERN Research, 2017.

Commonly, the nomination of board members in banks is subject to "fit and proper" standards. Also, a number of central banks such as Saudi Arabia's SAMA, require to be notified immediately of any dismissal or resignation of board members.[18] The "fit and proper" requirements are defined quite loosely in most countries of the region and are generally limited to board members having good reputation. For instance, in Lebanon, board appointments are approved by the BDL, subject to the proposed candidates having good reputation and not having any criminal record.

This reflects a situation in the region whereby **for family or state-controlled banks, banking regulators find it challenging to oppose board appointments of or by main bank shareholders**. Instead, the regulatory preference has veered towards allowing central banks to veto the appointment and the removal of board members. For instance, in Saudi Arabia, SAMA requires banks to obtain a written 'non-objection' before nomination. The Central Bank of Oman also retain the prerogative of approving both board members and senior executives. The BDL in Lebanon also requires information about the profile of board members and senior executives.

At the same time, **central banks as well as other regulators have focused on increasing the legal responsibility of board members by clarifying their fiduciary duties and holding directors accountable**. To do so, a number of regulators (e.g. Saudi Arabia, the UAE) have also developed guidelines specifically addressed to board members or even more specifically to independent board members (e.g. Morocco). While the BDL in Lebanon has not defined specific "fit and proper" requirements, board members (and other JSCs) are personally liable for fraud or other acts of gravity by virtue of the Companies Law.

> *"Each director and officer should understand that under the Company Law he is personally accountable to the company and the shareholders if he violates his legal duty of loyalty to the company, and that he can be personally sued by the company or the shareholders for such violations."* Central Bank of Bahrain, 2011.

In addition, **a number of central banks retain the authority to intervene directly in the operations of the board if they see any failings**, an important power that few regulators globally avail themselves. For instance, the Banking Control Law in Saudi Arabia empowers SAMA to suspend or remove any director or officer of the bank. SAMA also maintains specific requirements for appointments for senior executive positions and boards, notably including the preference to Saudi nationals.[19]

Board Independence

While most banks in the region have controlled ownership structures - which to some extent explains the reluctance of central banks to define director criteria rigidly - **the approach taken by most regulators has been**

[18] In Saudi Arabia, SAMA also requires notification of dismissal or resignation of members of the C-suite.
[19] In cases where a non-Saudi national is being appointed to a Senior Position, the financial institution should demonstrate the lack of availability of qualified Saudis for the position and provide a timeframe for appointing a qualified Saudi national to that position.

to address potential shareholder rights abuses by focusing on board and committee independence and by limiting the potential conflicts of interest of board members.

By and large, **banking regulators in the region require the majority of the board to be non-executive which is broadly consistent with standards for listed companies as well as with global regulatory standards**. Some regulators have taken the stance that board independence should be proportional to the risk and size of the institution. While Oman and Jordan require the entire board to be non-executive, regulators in Lebanon, Kuwait and Morocco leave this decision to the board.

To some extent, **policy choices reflect the diversity in the size and the complexity of supervised entities as well as policy trade-offs** in terms of the regulation of composition of the board as a whole as opposed to its specific committees. For instance, in Lebanon, requirements concerning independence actually emanate from the regulations concerning minimum independence requirements of board committees. Likewise, Morocco's Bank Al-Maghrib requires that board committees be a third independent, while it does not pronounce itself on independence at the level of the board as a whole.

While Bahrain, Qatar and Jordan have taken the approach of requiring a specific minimum number of independent directors (generally 2-4), other jurisdictions have set limits in relationship to board size (i.e. generally with a requirement that 33 percent be independent). Finally, some regulators have used a mixed approach (at least 2 independent directors on a minimum of 33 percent of directors), which is indeed a common approach for listed companies in the region. Egypt has adopted a fairly unique approach whereby it requires the majority of non-executives (which are to be the majority of the board) to be independent.

Regardless of the form of these recommendations, **most regulators in the region ultimately expect that at least 2-3 directors should be independent.** While majority board independence is becoming the prevalent standard globally, it has not yet been introduced as the regulatory standard for banks in the region, nor for listed companies, where the requirement that a third of the board should be independent has become prevalent. Further details on board independent requirements are available below.

Table 11. Board Independence Requirements

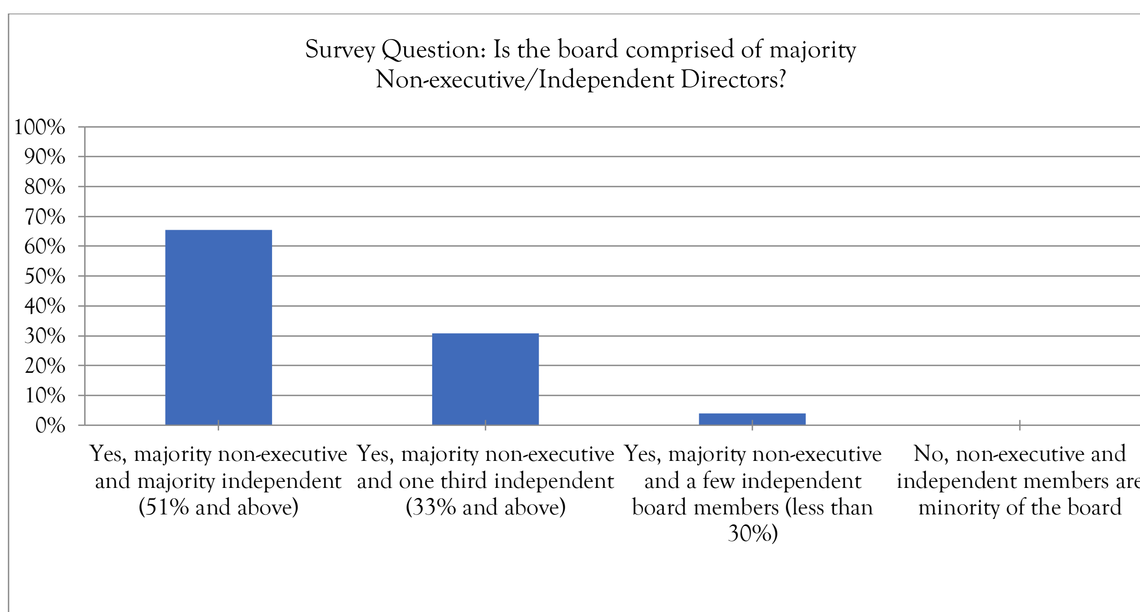
Country	Separation of the CEO/Chair	Independent or Non-Executive Chair	Minimum Number or Ratio of Non-Executive Directors	Minimum Number or Ratio of Independent Directors	Source of Recommendation
	Mandatory, Voluntary, Comply or Explain (CoE), Not Required				*Law, Code, Bank Corporate Governance Code, Other*
Bahrain	CoE	CoE	CoE, Half of the board members	Mandatory At least 3	CBB Rulebook
Egypt	Voluntary	Voluntary	Mandatory that the majority is non-executive (executive at least 2)	Of non-executive members it is recommended most be independent	Code of Governance for Banks. For listed banks, listing rules and Corporate Governance code apply
Jordan	CoE	Mandatory	All must be non-executive	Not less than 4 unless the bank is owned by one shareholder	Corporate Governance Code
Kuwait	CoE	Not required	Proportional to risk and size, 3 non-executives	Proportional to risk and size	Corporate Governance regulations
Lebanon	Not required	Not required	Proportional to risk and size	Proportional to risk and size, minimum 3	Central Bank Circulars Code of Commerce
Morocco	Not required	Required	Not required	Minimum 1, maximum 1/3 of the board	Corporate Governance Code for Credit Establishments, Central Bank Directive on Corporate Governance

Oman	Required	Required	All members shall be non-executive	Not less than 1/3, at least 2 members	Corporate Governance Code for Listed Companies, Corporate Governance Code for Banks
Qatar	Not required for banks (required for listed companies)	Not required (required for listed companies)	1/2 of the board	At least 3 independent members	Corporate Governance Principles for Banks
Saudi Arabia	Required	Required	Maximum 2 executives allowed	At least 2 (1/3 or at least 2 for listed companies)	Principles of Corporate Governance of Banks
Tunisia	Not required	Not required	Proportionate to size and risk	At least 2	Corporate governance code for banks
UAE	Required	Required	Mandatory (at least 51%)	Not less than 1/3	Commercial Company Law and Corporate Governance Federal Resolution

Source: GOVERN Research, 2017.

In practice, bank boards in the region declare to be majority independent, with 65 percent of survey respondents confirming this, while almost one-third noted that the majority of the board is non-executive and a third independent. 4 percent of respondents note that less than one third of the board is comprised of independent directors. Refer to Figure 8 below for a detailed breakdown of survey responses.

Figure 8. Presence of Independent and Non-Executive Directors



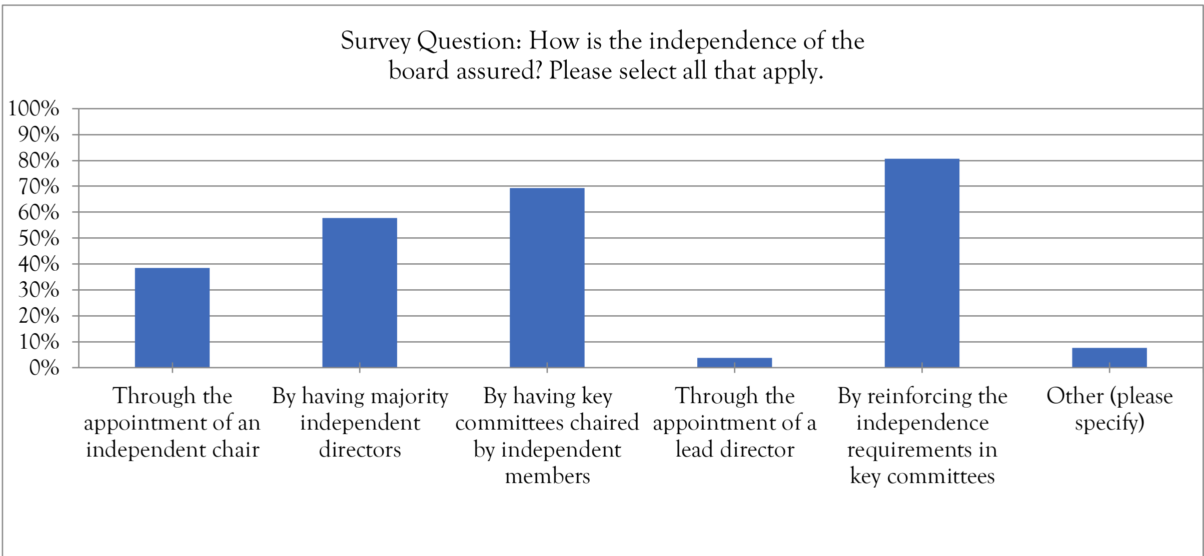
Source: GOVERN Survey, 2017.

The separation of CEO and Chair roles is increasingly required and implemented in the region. Almost 70 percent of our survey respondents confirm to have done this, while close to 30 percent confirm that the posts are joined and that this is seen as being effective. In a few jurisdictions, this is still not a legal requirement. For instance, in Lebanon the roles of Chair and CEO are consolidated in the hands of one individual by virtue of the corporate law. However, in practice, large Lebanese banks have sought to separate the two functions.

While most banks in the region are controlled by a single or several shareholders/families, only the Central Bank of Jordan has taken the ownership structure in its regulatory approach to corporate governance, requiring not less than 4 independent directors unless the bank is owned by a single shareholder. This follows the approach of several international jurisdictions which have adjusted corporate governance requirements for

controlled companies.[20] Interestingly, in Bahrain, the regulator has taken the opposite approach requiring companies with a controlling shareholder to have at least one third of the board independent.

Figure 9. Board Independence Mechanisms



Source: GOVERN Survey, 2017.

Considering the focus of the responses on committee independence, the survey also inquired about board committees which are majority independent. Unsurprisingly, **the Audit Committee was majority independent in 92 percent of the companies, followed by Risk Management committee which was independent in 58 percent of banks surveyed.** Other board committees were less prevalent and independence requirements less explicitly defined in most countries.

Definition of Independence

While requirements concerning the participation of non-executive/independent directors are relatively straightforward to establish and oversee, the real influence of these directors is contingent on their true independence of mind vis-à-vis shareholders and management. **The definition of independence encapsulated in the regulatory requirements in critical in ensuring real independence of spirit.**

While most regulators in the region have established a set of specific negative criteria which would prevent a director from being considered independent, the comprehensiveness of these criteria differs as can be seen in the Table 12 below. Apart from being non-executive, criteria for independent directors commonly include limits on/prohibitions of share ownership, borrowing from the bank, limits on remuneration, as well as limits on the number of years an independent director may serve on a board.

> *"The board should consider that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the company, ownership structure of the company, or for any other reason."* Central Bank of Bahrain, 2011.

While limitations on ownership (limited to 5 percent except in the UAE) for independent directors are common in most countries, **few regulators have introduced limits on remuneration of independent directors or limits on the number of years an independent director can serve on the board.**[21] Likewise, **the equity ownership of independent directors remains unaddressed** (though board members in most jurisdictions are

[20] For instance, in the United States, listed companies where 50 percent of the voting power is held by an individual are not required to comply with the majority independent board requirements.

[21] As discussed earlier, there are general legal limitations on the number of consecutive mandates for all board members.

by law required to hold a nominal number of shares). Table 12 outlines specific criteria for director independence in select jurisdictions.

Table 12. Independent Director Requirements in Select Jurisdictions

Jurisdiction	Executive Role with the Company	Limits on Ownership	Limits on Remuneration	Limits on Years on the Board	Limits on Borrowing	Other Criteria
Bahrain	None	Yes 10 percent (5 percent for relatives)	Yes, payments of 30K BD in addition to remuneration	No	No	No relationship with other directors Not engaged as auditor or advisor
Lebanon	None	5 percent	No	No	No	Independent from shareholders (up to fourth degree of kinship) and senior management
Saudi Arabia	None	5 percent	No	No	Yes, no borrowing more than 300,000 SAR (with family members)	No first degree relationship with other directors or executives Not a board member of a company who received credit Not engaged as auditor
UAE	None	Yes, not a controlling shareholder	No	No	No	Not been employed by bank or related parties for 5 years Does not act as advisor or consultant Not affiliated with NGO which receives funding Has not been affiliated to customer or suppliers Has not been employed as an auditor

Source: GOVERN Research, 2017.

An important new trend that has emerged in recent years is the limitation on the number of board mandates after which a director is no longer considered independent. For instance, the Central Bank of Egypt has in 2016 moved to limit the mandates of all board members (including executives acting as Chairs) to 9 years. A similar provision exists in the Saudi regulations for listed companies whereby a director is not considered independent if he/she has sat on the board for more than 9 years, consecutive or not. In Morocco, board members are considered as not being independent after 6 years.

On the other hand, in Bahrain, the regulator explicitly states that there is no limit on board mandates and has left the responsibility to boards to define which of its members are considered independent. This responsibility has been countered by the requirement that boards continuously assess their independence. For instance, in Morocco, independence of board members should be reviewed on an annual basis by the Board or its Nomination Committee and shared with Morocco's Bank Al-Maghrib.[22]

> *"The board shall review the independent status of each member once at least annually in light of the interests disclosed. Every independent member shall provide information for this purpose."* Qatar Central Bank, 2015.

A number of central banks include in the definition of board member independence the absence of conflicts of interest otherwise not addressed by the regulatory framework, such as with respect to borrowing by board

[22] On the other hand, independence requirements in Morocco appear to have been curtailed. While the 2014 circular on bank governance recommends a third of the board to be comprised of independent directors, the 2016 version speaks of a minimum of 1 director and maximum of a third.

members.[23] Borrowing by board members is limited in Saudi Arabia[24] and prohibited in Lebanon and Bahrain, whereas it is – for the moment - permitted in the UAE. Indeed, prohibiting board member borrowing has proven a delicate matter considering board members are often shareholders or representatives of important business families.

In Jordan, the Central Bank of Jordan specifies that the board cannot be given "executive powers", including powers to grant credit to a member of the board. An opposite approach has been taken in Morocco, where it is the duty of the board to address potential conflicts of interest situations that might be damaging to the bank's reputation, including loans to members of the board, shareholders or executives extended on terms better than market terms or those that are available to the employees of the bank (Central Bank of Morocco, Bank Al-Maghrib, 2014).

Having placed this responsibility on boards, **some regulators also request that individual board members certify that they have no conflicts of interest upon assuming their functions**. In Oman for instance, an independent director in a listed bank (6 out of 7 Omani banks are listed) is required to notify the board within maximum of one month of any changes to his status as an independent director; however, it is not required that the regulator is alerted to this.

> *"The board should establish formal procedures for periodic disclosure and updating of information by each director and officer on his actual and potential conflicts of interest."* Central Bank of Bahrain, 2011.

Although the role of a lead independent director remains extremely rare in MENA banks and is not required by any regulator, some have bestowed greater authority (though not legal responsibility) on independent board members. For instance, the Central Bank of Bahrain recommends that independent board members should meet separately an SAMA similarly suggests that non-executive directors should meet separately. However, legally speaking, all directors carry equivalent responsibility towards shareholders and stakeholders.

> *"To facilitate free and open communication among independent directors, each board meeting should be preceded or followed with a session at which only independent directors are present, except as may otherwise be determined by the independent directors themselves."* Central Bank of Bahrain, 2011.

Board Diversity

Bank boards in the region are in principle free to nominate, and shareholders to appoint, members to fill candidacies for board posts. At the same time, **the rates of turnover in MENA bank boards are low**. Most ban boards remain dominated by family and state members or their representatives. As a result, boards of MENA banks, and indeed other non-financial corporates, remain rather homogenous from the perspectives of age and gender diversity.

Women participation on bank and non-bank boards in the Arab world lags compared to other regions, including those in other emerging markets, especially in the GCC countries where it is estimated at less than 2 percent.[25] In a recent survey of Gulf board members and executives, over 60 percent of the respondents noted that their board has no female representation and 28 percent said they have 1 female director, while only 4 percent said they have 3 or more female board members (GOVERN for GCC BDI, 2017).

Female participation on boards is better in other MENA jurisdictions, although still behind other markets at an equivalent stage of development. For instance, a recent study of Jordanian companies estimated that 78 percent of boards of listed and privately held firms had no women, who represent less than 4 percent of all

[23] For instance, in Saudi Arabia, a director is no longer independent if he/she has borrowing from the bank exceeding 300,000 SAR either in his name or in the name of a family member.

[24] In Saudi Arabia, joint stock companies are not allowed to grant cash loans to directors or to guarantee the loans they conclude with third parties. Furthermore, the Banking Control law forbids banks to give loans to board member.

[25] At the same time, the situation in the GCC is variable. In Bahrain, the share of companies with female board members increased from 12 percent in 2010 to 14 percent in 2014.

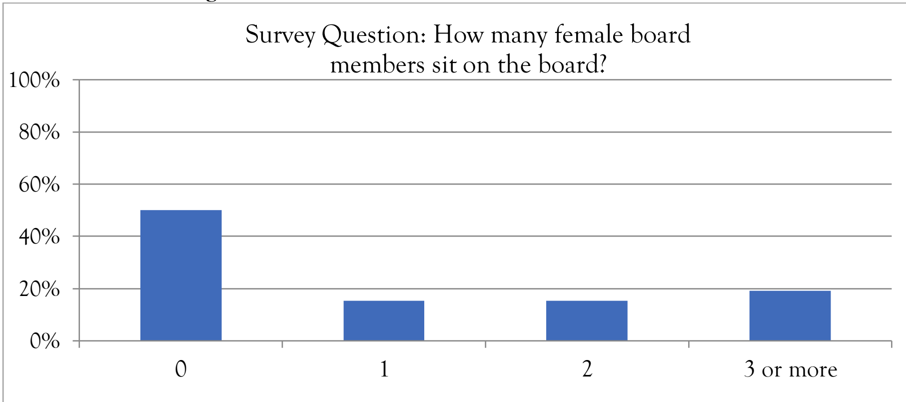
directors (IFC, 2015). In Morocco, it was estimated that in 2016 that 40 percent of Moroccan issuers have at least one female director (IMA, 2016).

For the most part, the diversity of bank boards in the region lags the EU where women now comprise 19 percent of non-executive directors, two years after the Capital Requirements Directive required banks and investment firms to increase women participation on boards (EU, 2017). Most regulators in the region have yet to address the question of board diversity either from the perspective of gender, age or nationality, in part because nationality requirements are set out in the general corporate law.

In the UAE, the Emirates Securities and Commodities Authority (ESCA) has since 2015 required that all listed companies nominate at least one woman to their board and for every company to disclose the actual number of women serving on their board.[26] In Morocco, the regulator has in 2016 introduced a regulation that requires boards to respect parity in the nomination of women to independent director posts. However, this provision applies only to independent director posts, fixed by law to a maximum of one third of the board.

Indeed, the results of our survey of a sample of Arab banks demonstrate that half of the banks surveyed have no women on their board, while less than 20 percent have 3 or more women (GOVERN, 2017). While the presence of women on bank boards tends to be higher than in other companies, as confirmed by GOVERN's earlier work in Lebanon and other jurisdictions in the region, the figures corresponding to women representation on boards are still lower than global best practice jurisdictions, highlighting the scope for potential policy intervention.

Figure 10. Presence of Women on Bank Boards



Source: GOVERN Survey, 2017.

Board Committees

Most central banks in the region have adopted relatively prescriptive approaches to board committees, including in terms of their composition and leadership.[27] **Unsurprisingly, the most frequently mandated**

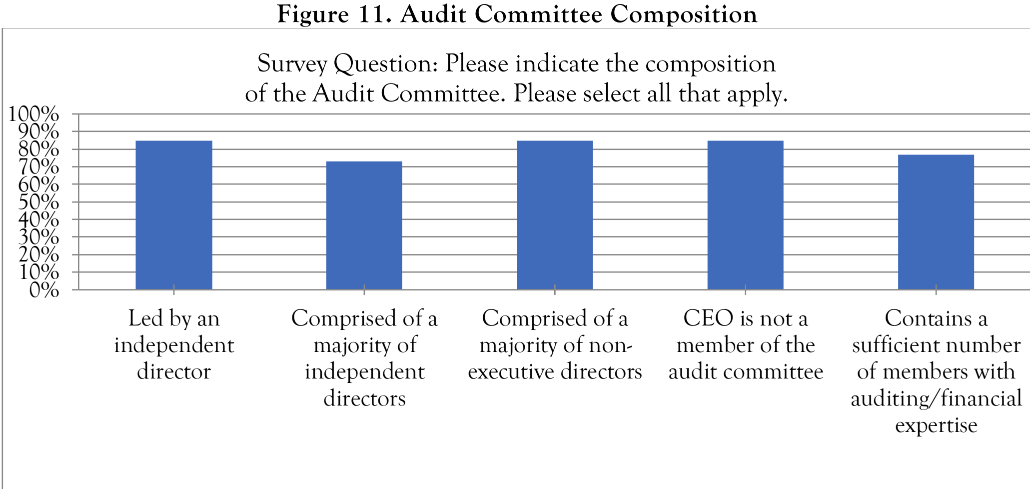
[26] This requirement does not however extend to banks as they are exempt from the application of the corporate governance code for listed companies.

[27] The Central Bank of Oman is an exception in that regard since it allows banks to establish the committees they deem necessary, unless the bank is listed. For listed banks, additional CMA guidance applies which requires the establishment

committee in Arab banks is the Audit Committee (required in all jurisdictions) as well the Nomination, Remuneration and Risk Committees. The establishment of a Nomination Committee is required in all MENA jurisdictions except for Lebanon and Tunisia and the Remuneration Committee is required in all jurisdictions except Tunisia.[28]

As highlighted in Annex 2, the role, composition and responsibilities of board committees vary by jurisdiction. There appear to be differences and trade-offs in the regulatory approaches towards independence requirement for committees and for their Chairs. **Approximately half of the jurisdictions require Audit Committee Chairs to be independent,** whereas the independence of the overall Committee ranges from requiring 3 non-executive directors to majority independence. This is reflected in our survey which highlights that Audit Committees are generally comprised of majority non-executive directors and exclude the CEO.

Figure 11. Audit Committee Composition



Source: GOVERN Survey, 2017.

For instance, Qatar requires the entire committee to be comprised of either non-executive or independent members, however the Chair of the Committee need not be independent. Other jurisdictions such as Egypt appear to have placed less emphasis on the independence of the Audit Committee, with no requirements on the independence of the Audit Committee Chair and no requirements of presence of independent directors (only 3 non-executives are required). **In best practice jurisdictions, full or majority independence of the Audit Committee is a common standard.**

A number of regulators have also introduced provisions to prevent the overlap in membership between the Audit and other committees of the board. In Saudi Arabia, the Chairman of the board cannot serve as the Chair of the Audit Committee or the Nomination/Compensation Committee, and he/she is also forbidden to have relations to other members of the board or executive. In Lebanon, the Chair of the Audit Committee cannot chair other board committees. In the UAE, the Audit Committee Chair must not be the Board Chair and must be rotated at least once every 4 years.

> "*The Chairperson of the Audit Committee cannot be a member of any other committees.*" Oman Capital Market Authority, 2016.

Other regulators such as the Central Bank of Jordan have taken an even tougher approach, restricting board members to no more than 2 committees simultaneously. In Tunisia, the composition of board committees is not addressed from the perspective of independence, but each committee must be comprised of at least 3 members who cannot overlap with other committees. In Qatar, members of Risk, Compliance and Audit

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of specific board committees. In practice, since most banks in Oman are listed, the CMA corporate governance guidelines apply.

[28] Instead, two members of the board are responsible for the nomination of the board and the executive as well as for setting their remuneration. Also, instead of the Audit Committee, the Tunisian authorities require the formation of an Internal Audit Committee at the level of the Board which has a combination of functions typically performed by internal audit department and some performed by the board audit committee. It is to be presided by an independent board member.

committees cannot be combined with any other committee. On the other hand, the Central Bank of Bahrain allows the combination of committee roles provided that there is no conflict of interest that arises from this.

> *"Banks are recommended not to have overlap in board members serving on multiple committees at the same time, notably on the audit and risk management Committee."* Central Bank of Morocco, Bank Al-Maghrib, 2014.

With the exception of Bahrain[29], all MENA regulators require the establishment of a Risk Committee at the board level and about half of the surveyed jurisdictions require the Chair of this committee to be independent. At the same time, regulatory approaches to the independence of the Risk Committee are variable, ranging from Lebanon which requires 3 independent directors, to Egypt where the majority must be non-executive, to Morocco where all must be non-executive and a third independent.

Other jurisdictions such as Bahrain, Jordan and Kuwait require the presence or the majority of non-executive directors, although no country except for Bahrain requires the Risk Committee to be majority independent. **Regulators appear divided concerning the role of the Risk Committee Chair** who must be non-executive in Egypt and Saudi Arabia or independent in Lebanon and Bahrain, while the majority of countries do not have requirements in this regard.

Nomination committees are required to be established in all countries except Lebanon and Tunisia, although in some countries such as Kuwait[30] and Lebanon, Remuneration and Nomination responsibilities are combined in the remit of one single committee. Regulatory approaches concerning composition of the Nomination Committees of banks appear to vary from Bahrain and Jordan where it is to be composed of majority independent members, to Egypt which requires it to contain at least 3 non-executive directors, to the UAE where composition is not specified.

All regulators in the region except for Tunisia require the establishment of a Remuneration Committee or equivalent. In terms of independence of the committee, approaches are once again variable, ranging from Bahrain which requires the majority of the committee to be independent and the rest non-executive to Egypt where it must feature at least 3 non-executive members of the board, to Tunisia which has no relevant requirements. About half of the countries require the Remuneration Committee Chair to be independent. To some extent, this reflect the varied responsibilities placed on this committee.[31]

The establishment of the Governance Committee is required or recommended in a minority of jurisdictions such as Bahrain, Egypt and Jordan. In Bahrain, banks are recommended to establish a Corporate Governance committee comprised of at least 3 members and chaired by an independent director. In Jordan, a majority independent Corporate Governance committee is required and must include the Board Chair. In Saudi Arabia, the establishment of the Committee is optional, however if established, it must be responsible for monitoring compliance with national governance requirements (CMA, 2017).

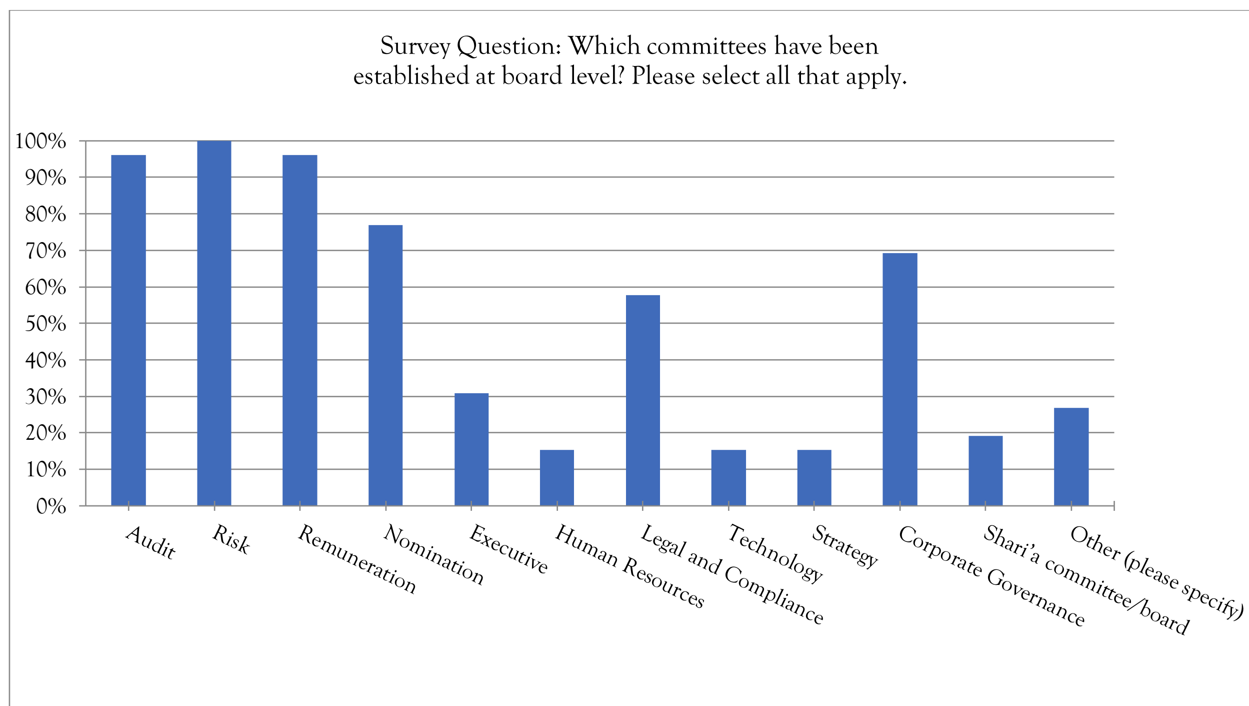
Few regulators in the region require or recommend the establishment of other committees of the board, though banks can, if they wish so, establish other committees (investment, credit, compliance, etc.). Examples of policymakers which require other committees of the board to be established include Egypt (i.e. Executive Committee[32]), Lebanon (i.e. Anti-Money Laundering Committee) the UAE (Credit Committee). Their formation is typically underpinned by specific rationale: for instance, the Central Bank of the UAE requires the formation of a Credit Committee to oversee significant transactions.[33]

[29] The Bahraini Corporate Governance Code makes it optional for firms to establish a Risk Committee, which is unsurprising since the code applies not only to banks but also to other companies. In Bahrain, only Audit, Remuneration and Nominating Committees are recommended to be introduced on a comply-or-explain basis.
[30] Notably, in Kuwait the remuneration and nomination activities of the board can be merged in a single committee and these responsibilities are carried by executive: in fact, the head of the committee is required to be executive.
[31] For instance, in Qatar, a Nominations and Governance Committee is required to be established, whereas the responsibility for approving remuneration lies in the purview of the Compensation and Remuneration Committee.
[32] The establishment of an Executive Committee is optional in most countries except in Egypt and Lebanon which also is the only jurisdiction in the region to require the establishment of a Compliance/Anti-Money Laundering Committee.
[33] This reflects the fact that board members represent significant shareholders and that the UAE Corporate Governance Guidelines for board directors explicitly allow banks to grant directors or senior management or their family loans on the same terms as those offered to the general public.

> *"A Credit Committee should be formed, by a Board resolution with not less than 5 members. This committee should review, approve or submit recommendations in regard to loans that exceed the value of half of 1 percent of capital and reserves of the bank. It will also review all settlement and write-off cases."*
> Central Bank of the UAE, 2000.

These recommendations are broadly reflected in the results of the survey conducted for this report. **All surveyed banks note to have introduced a Risk Committee, while almost all confirm to have established an Audit and a Remuneration committee.** Almost 70 percent note to have introduced a Corporate Governance committee while Strategy committees remain the least common committee, perhaps due to the fact it is perceived as a responsibility of the board as a whole.

Figure 12. Establishment of Board Committees



Source: GOVERN Survey, 2017.

Although most regulators specify that boards must establish committee charters, some regulators (e.g. UAE) go as far as to provide model charters of these committees which specify the responsibility and quorum requirements. Other regulators in the region have moved to specifically establish the legal responsibilities of each committee, notably the Audit Committee and some have specified quorum requirements for Audit

Committee meetings.[34] Finally, in listed Saudi banks, a board member's absence in more than 3 meetings per year without a valid excuse should result in his or her replacement. (CMA, 2016).

A review of regulatory frameworks also highlights some unorthodox regulatory practices. For instance, the UAE Central Bank, which does not require the majority of the Audit Committee to be independent, requires all members of the Risk Committee to be independent. Likewise, in a somewhat unorthodox approach, the Tunisian Central Bank has forbidden executive presence on the Risk Management committee. It also requires that board committees meet at least 6 times per year, which may have a negative impact on the formation of board committees.

> *"Meetings of the Audit Committee are deemed to have quorum if the majority of independent directors of its membership are present."* Oman Capital Market Authority, 2016.

In Morocco, it is recommended that members of board committees rotate periodically, but such that this does not affect their collective skillset relevant to the exercise of their functions. Likewise, the Central Bank of Morocco, Banque Al Maghrib, requires the establishment of an Internal Audit Committee at the level of the board. In Oman, it is the board and not the management that has the responsibility to recruit the Chief of Internal Audit who in turn has a direct reporting line.[35]

Board Member Responsibilities

Bank board members are generally subject to the same fiduciary duties (duties of loyalty and care) as board members of listed companies. Generally speaking, board member responsibilities are outlined in the corporate governance codes or equivalent, however in some jurisdictions, central banks have issued additional circulars. For instance, in Saudi Arabia, the regulator has issued a memo on the Powers and Responsibilities of Boards of Commercial Banks which recall the provision of the corporate law and other relevant regulations.[36] Likewise, the UAE Corporate Governance Guidelines for Bank Directors are addressed directly to board members to elucidate the supervisory expectations.

To re-inforce the notion of board member responsibility, a number of regulators in the region have limited the number of concurrent board committees that they may have. In Saudi Arabia, bank directors are forbidden to sit on boards of other banks but are allowed to sit of boards of up to 5 other companies provided there are no conflicts of interest. In Oman and Tunisia, the central banks forbid directors from holding more than one directorship. On the other hand, in Morocco, the Banque Al Maghrib leaves it up to the board to determine rules on board renewal and accumulation of parallel mandates.

Other jurisdictions, such as Bahrain, place the responsibility for defining duties and responsibilities of the board and its committees on the board itself. Notably, it charges the Nominating Committee with reviewing the time commitment required from each non-executive director and requires each non-executive director to inform the Committee before he accepts any other appointments to another company.

> *"The company should have a written appointment agreement with each director which recites the directors' powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed."* Central Bank of Bahrain, 2011.

Most regulators have introduced the requirement that bank boards should meet no less than once quarterly and some regulators (e.g. UAE, Morocco, Saudi Arabia) have also established the periodicity of board

[34] This is a relatively unusual requirement although quorum requirements for overall board meetings are becoming more common.

[35] Furthermore, the reports of external auditors are to be submitted directly to the board without first being submitted to the CEO.

[36] This guidance goes as far as to suggest questions to bank boards to consider and to ask of management and suggest a number of areas to monitor in terms of credit management, investment, assets and liabilities mismatches, income and expenditures.

committee meetings. A higher periodicity of meetings is generally recommended for the Audit and Risk Committees whereas others such as Nomination and Remuneration Committees are usually not required to meet as frequently. For instance, the remuneration committee in Morocco is required to meet on an annual basis.

> *"The board shall meet upon the invitation of its Chairman or upon a request from two of its members. The board shall not be valid unless attended by half of the board members, provided the number of attendees shall be no less than 3."* Saudi Capital Market Authority, 2017.

Board Skills

Regulators in the region generally specify that the board must collectively possess the requisite skills to oversee the bank strategy and risks. Some regulators (e.g. Oman[37], Morocco) have decided to put the onus on the board to define the collective skills that it must possess. A number of regulators have been more prescriptive in terms of the type of skills that must be represented on the board or specific committees, and/or have required for board members to receive induction or periodic training.

For instance, the Central Bank of Bahrain and Saudi Arabia's SAMA have stipulated particular skills that the Audit Committee or its members must possess. The Central Bank of the UAE requires that the board as a whole and not the Audit Committee specifically, must feature financial expertise and an understanding of the financial services industry. Table 13 below provides an overview of skills required by national regulators of the board as a whole as well as those expected to of particular board members.

Table 13. Board Education and Skills

Jurisdiction	Skills and Criteria for Boards and Individual Members	Skills Required of Particular Individuals	Board Evaluations
Bahrain	Yes, qualifications board members outlined for different committees	Yes, specific skills for Audit Committee members	Required, at least annually
Egypt	Yes, broadly defined skills and expertise	No	Required, periodic self-assessment, specific timeline not established
Jordan	Yes, broadly defined skills and qualifications	No	Yes, on an annual basis
Kuwait	Yes, broadly defined skills and qualifications	No	No
Lebanon	Yes, broad definition of skills required. Also, a comprehensive questionnaire is required to provide BDL with the information about management	No	No
Morocco	No, the board must collectively have the required skills represented	No	No
Oman	No, required skills defined by board or remuneration and nomination committee Defined for listed banks	No, required skills defined by board or remuneration and nomination committee Defined for listed banks	Required, at least annually for listed banks only
Qatar	Yes, broadly defined skills and qualifications	No	Yes, at least annually
Saudi Arabia	Yes, broadly defined skills and qualifications	Yes, specific skills for Audit Committee members	Yes, on a periodic basis. Additional rules for listed banks apply.
Tunisia	Yes, broadly defined skills and qualifications	No	Periodic board assessments mentioned, but periodicity not specified
UAE	Yes, broadly defined skills and qualifications	At least one member must have financial expertise and some members an understanding of the industry	Yes, at least once annually as per the draft code

Source: GOVERN Research, 2017.

[37] In Oman, this responsibility lies with either the board or the Remuneration and Nomination Committee.

Aspects of the regulations address both the induction requirements and continuous education by board members. These are addressed in a broad manner, generally leaving it up to the Chair to determine the form and frequency of training to be provided. For instance, in Bahrain, it is the duty of the Chair to ensure that each new director receives a formal and tailored induction to ensure his positive contribution to the board deliberations at the beginning of his or her term.

> *"The induction should include meetings with senior management, visits to company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel."* Central Bank of Bahrain, 2011.

Some regulators in the region have taken a more prescriptive approach. In Morocco, the central bank requires that the members of the board assigned to specific committees should receive training relevant to the exercise of their duties in these committees. In Oman, the rules for listed companies (that also apply to publicly listed banks) require an induction programme be organised within 90 days of their assuming functions (Oman CMA, 2016). Few countries in the region have introduced programmes specifically aimed at providing education and training to bank boards.[38]

Other regulators in the region allow boards to augment skills represented on board committees by recruiting members outside of the board. For instance, SAMA and the Central Bank of Bahrain allows bank board committees to be comprised of directors other than board members to augment the skills represented. The Central Bank of Bahrain also allows board or a committee thereof to invite outside experts to participate in board deliberations.

This is indeed an important point since it is tantamount to boards acknowledging that they do not have access to particular needed skills and seeking additional advice is not sufficient. In particular, it raises concerns over board responsibility as boards are legally liable for decisions they take, whereas experts who are not board members invited to sit on board committees cannot be held legally liable.

> *"Committees established by the board on which individuals other than the board members are nominated shall not enjoy the powers of the board and shall be advisory in nature"* Central Bank of Oman, 2002.

Board Evaluations

In order to improve board effectiveness and the performance of individual members, an increasing number of jurisdictions now encourage companies to conduct board evaluations. **While they are becoming increasingly common in listed companies globally[39], board evaluations are typically not mandated either for banks or for listed companies in the region**. Most regulators refer to the need to conduct periodic assessments of the board without referring to the frequency or methods of such evaluations.

Cognisant of the corporate culture in the region, central banks have remained reluctant to impose specific format or frequency of board evaluations. **Board evaluations are required on an annual basis only in Bahrain, Jordan and Oman (for listed banks only), while most other regulators recommend but not require them.** Only in Bahrain, the regulator has specified that it should include the performance of each committee and individual director. Likewise, Saudi Arabia's SAMA requires a periodic assessment of board as a whole and of individual board members.

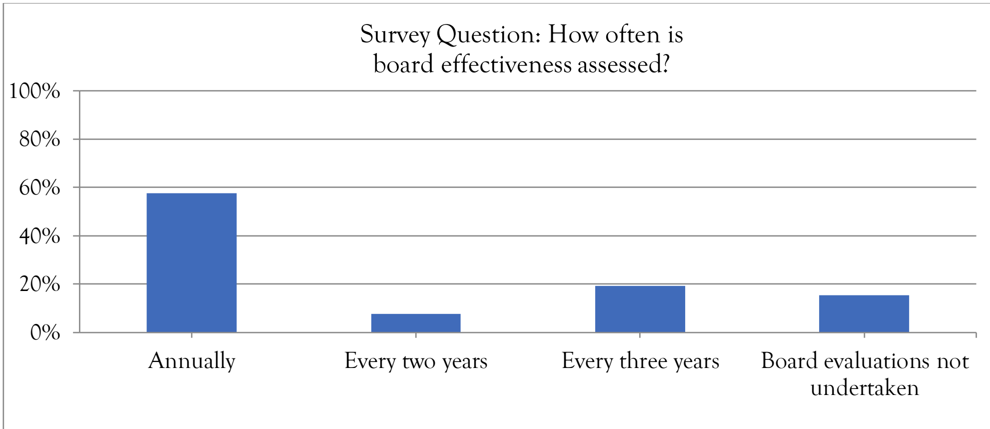
The majority of regulators have been reluctant to require/recommend individual evaluations as this is still seen as a sensitive subject. In Morocco, the periodicity, methods and scope of board evaluation is left to the board to determine. In Lebanon, where the board evaluations have not yet been addressed by the regulator,

[38] Where these exist, these are delivered by dedicated institutes established by central banks such as the Institute of Banking in Saudi Arabia or the Institute of Finance and Governance in Lebanon, in addition to private commercial providers.
[39] For instance, in Europe according to a Heidrick and Struggles survey, 70 percent of boards undertake a formal review annually.

few banks are aware of the importance of board evaluations (GOVERN, 2017). On a regional scale, our sample survey highlights that 58 percent of banks conduct board evaluations on an annual basis.

81 percent of the banks noted that the evaluation covers the board as a whole, while approximately half of the respondents noted that it covers individual board member performance. As a result of board evaluation, 42 percent said further education was provided to board members and the same number said no follow up action was taken at all, while less than 4 percent noted that the evaluation resulted in a changing board composition. Interestingly, less than a third said that the results of the board evaluation are discussed in board meetings or retreats.

Figure 13. Frequency of Board Evaluations



Source: GOVERN Survey, 2017.

The process of conducting board evaluations as well as their results are not required to be disclosed to the public, though they are generally reviewed by central banks as part of their supervision activities. That said, a recent Moroccan regulation requires that board evaluations must be overseen by independent directors and that its conclusions communicated to the central bank, Bank Al-Maghrib, as well as to the Annual General Meeting (AGM).

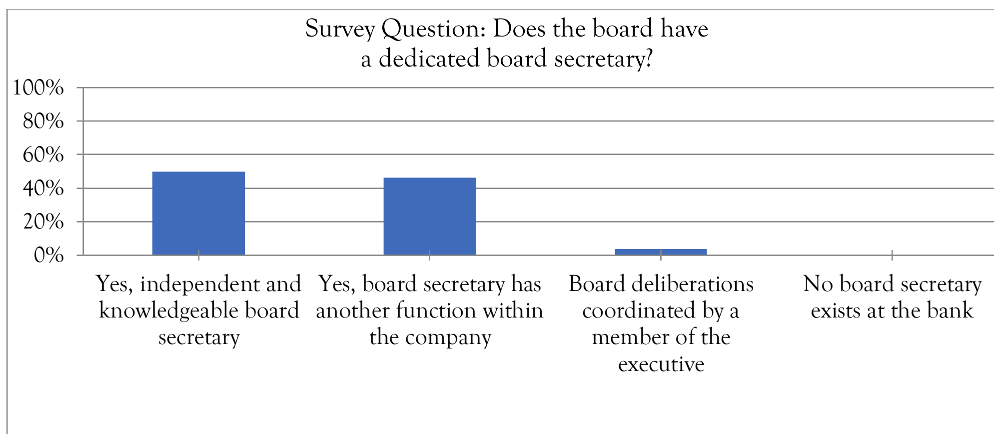
While the responsibility for conducting board evaluations typically lies with the Chair of the board, they may resort to the assistance of third parties and in practice often do so as it is seen as facilitating a more objective approach. AGM approval of the company retained to perform such evaluations is only required in Oman. The Omani Capital Market Authority has prohibited the hiring of external or internal auditors of the company to conduct board evaluations.[40]

> *"The Chairperson shall appraise the performance of the board impartially and independently by a third party appointed by the annual general meeting."* Oman Capital Market Authority, 2016.

In a few jurisdictions, the responsibility for organising board evaluations and training lies with the board secretary. **While the importance of role of the Corporate Secretary is increasingly recognised globally and addressed in the regulations for listed companies in the region, it is generally not evoked in the regulations concerning the banking sector.** Half of the respondents note that an independent and knowledgeable board secretary has been appointed.

Figure 14. Secretary of the Board

[40] Islamic banks are not subject to this provision but are provided with a questionnaire that can help boards assess their efficiency.



Source: GOVERN Survey, 2017.

Few jurisdictions have explicitly required the establishment of this role and defined its profile, with the result that in many banks, corporate secretaries may be board members or other executives. For instance, in Omani listed banks, the Corporate Secretary is required have some knowledge in law, accounting, audit or the company secretariat and shall not be a related party (Oman Capital Market Authority, 2016). In Bahrain, the central bank recommends that the Corporate Secretary should be a person with legal or similar professional experience and training.

> *"The board secretary should preferably be a member of a recognised body of professional accountants, corporate secretaries, a lawyer or a graduate of a recognised university."* Qatar Financial Market Authority, 2009.

Part III. Risk Management

International Regulatory Trends

Following the last financial crisis, the quality of risk management in the financial services sector has become a core focus of regulatory oversight, reflected at once in the prudential and corporate governance regulations for banks. The Basel Committee recommends that bank risk governance frameworks should include policies designed to ensure that the bank's risk identification, aggregation, mitigation and monitoring capabilities are commensurate with the bank's size, complexity and risk profile.

Across the region, regulators are raising their standards concerning the implementation of enterprise risk management frameworks and strengthening the role of the board in risk oversight. **Although Arab banks were not directly affected by the global financial crisis, the adoption of stricter risk management standards across the region reflects lessons learned following the crisis**, which underscored the role of the board in providing guidance between corporate strategy, risk-appetite and the internal risk management protocols.

> *"With few exceptions, risk management is typically not covered, or is insufficiently covered, by existing corporate governance standards or codes. Corporate governance standard setters should be encouraged to include or improve references to risk management in order to raise awareness and improve implementation."* OECD, Risk Management and Corporate Governance, 2014.

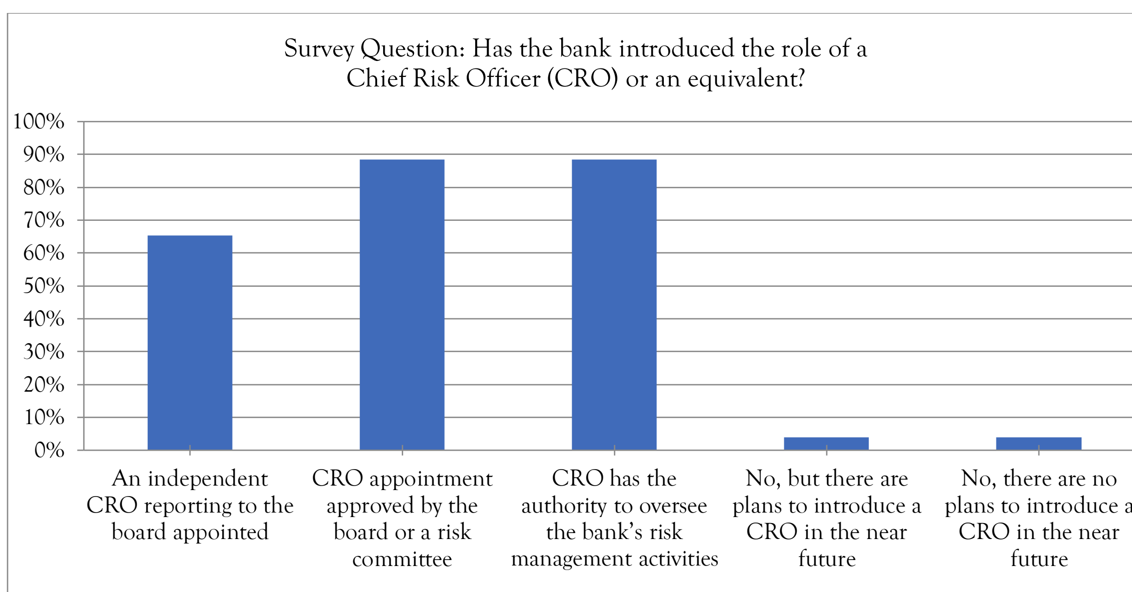
In recent years, **central banks in the region have made significant efforts to integrate risk management standards in national corporate governance codes** and to structure their supervisory activities based on risk-based methods. For instance, Lebanon's BDL, and more specifically the Banking Control Commission which has the responsibility for bank oversight, takes governance metrics into the account in its prudential supervisory activities, allowing it in theory to impose capital surcharges in case of detected deficiencies.

In parallel, in order to operationalise the role of the board in reviewing the risk appetite and overseeing the outcomes of the enterprise risk management (ERM) framework, regulators have notably focused and reinforced the role of the board Risk Management Committee. **The independence and the role of the Risk Committee has been reinforced and its establishment is no longer optional in most jurisdictions.**

The reporting relationship between the Risk Management Committee/the board and the executive has also been strengthened, notably with the introduction of the role of a Chief Risk Officer (CRO) in some jurisdictions.[41] Although it is a not yet a universally adopted requirement, some regulators in the region (e.g. Saudi's SAMA and the Central Bank of the UAE) have transposed this Basel recommendation, requiring banks to appoint a CRO and for him/her to have unfretted access to the CEO and the board. The survey results presented in Figure 15 confirm the growing role of CROs in the region.

Figure 15. The Chief Risk Officer Role

[41] The CRO has a primary responsibility for overseeing the development and implementation of the bank's risk management function, including ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports.



Source: GOVERN Survey, 2017.

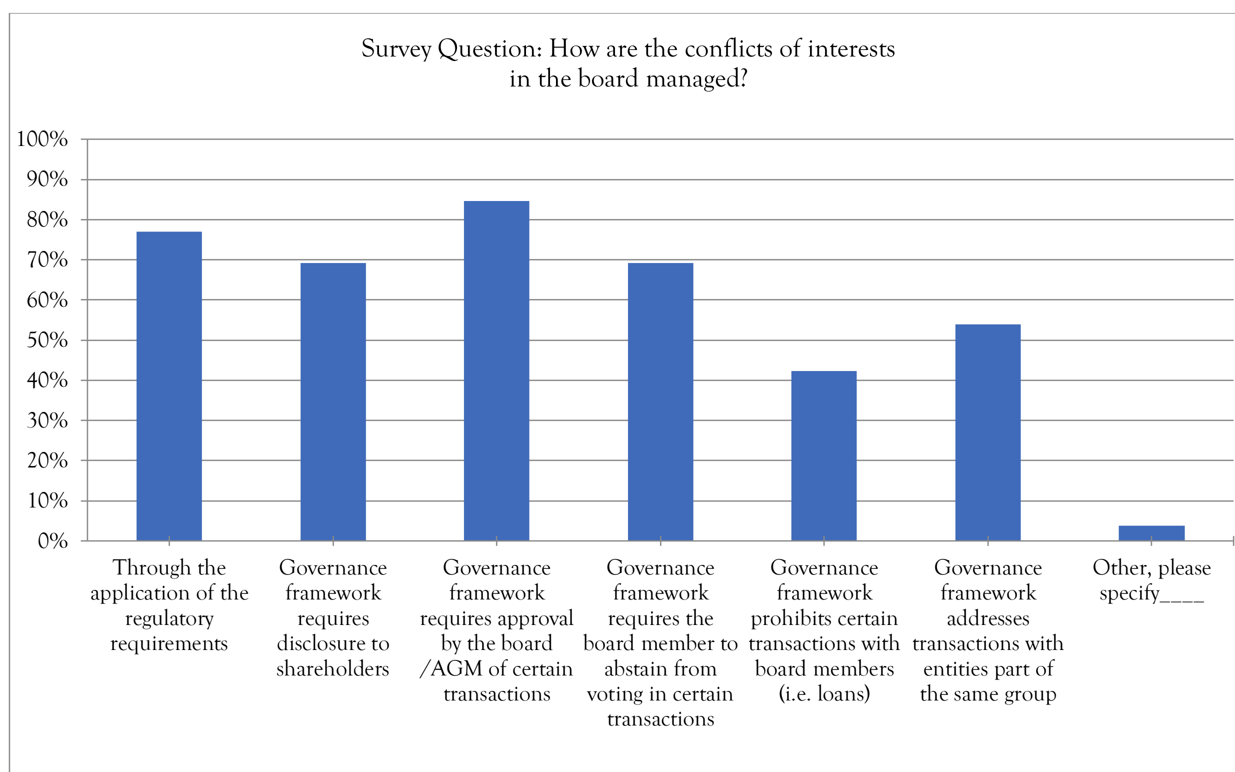
"*Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board.*" Basel Committee, 2015.

The Chief Risk Officer(CRO) role is enshrined and protected in several ways. In the UAE, in case of the CRO's dismissal, board approval and notification of the regulator is required. Risk Committee is explicitly tasked with reviewing the risk appetite of the bank based on the analysis of the CRO. Similarly, in Morocco, the appointment and suspension of the CRO or equivalent must be approved by the board and reported to the regulator. Survey responses highlight that in the vast majority of banks CRO appointment is approved by the board or its risk committee (88 percent).

In addition to reinforcing the role of the Risk Management Committee and the CRO[42], **central banks have started to address specific risks that they believe are critical in the domestic banking sectors.** For example, structural risks related to the concentrated ownership structure and potential conflicts of interests are addressed primarily through shareholder approvals of related party transactions (RPTs), restrictions on or approvals of transactions with entities part of the same group, and by reinforcing the independence of the board more generally. Survey responses point in particular to the importance of AGM approval of specific transactions.

Figure 16. Management of Conflicts of Interest

[42] Some regulators consider that while the CRO will have a direct reporting line to the board, he/she may not be a member of the Risk Committee (SAMA, 2014).



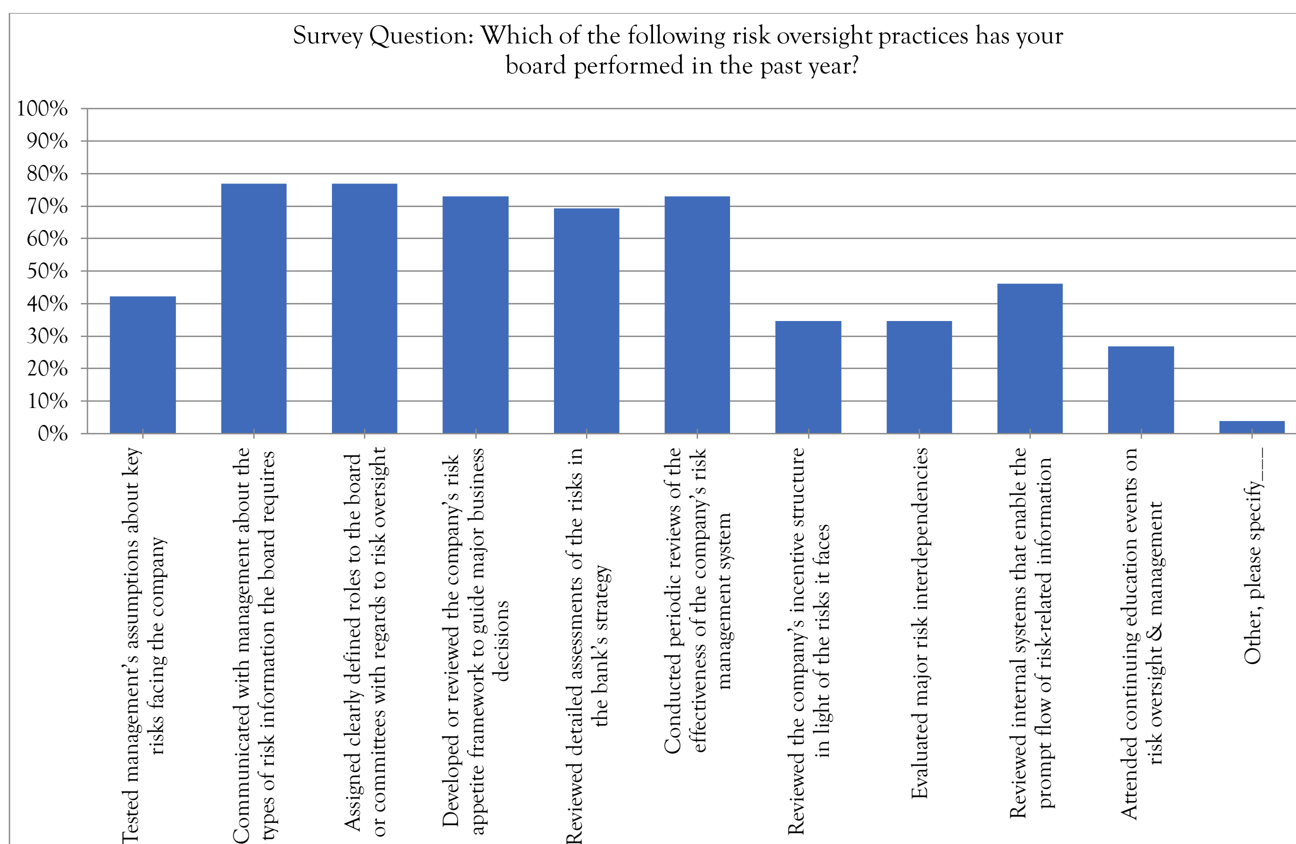
Source: GOVERN Survey, 2017.

Regulators are increasingly attuned to specific types of financial and operational risks, notably emerging risks that have not previously been considered. Central Banks are addressing financial risks in the sector - notably loan concentration – through traditional prudential supervision approaches including stress testing but also by evaluating the effectiveness of risk management frameworks. In Morocco for example, the regulator requires that banks periodically conduct simulations for their principal forms of credit concentration.

Regulators are also gradually addressing specific emerging risks such as information technology, and cyber risks more specifically, which are considered as a growing threat. This is likely an area where increasing competencies at both senior executive and board levels is required. Some regulators in the region such as Saudi Arabia's SAMA are explicit that the responsibility for the governance of information technology rests with the board and senior management.

At the level of individual banks, **the most prevalent risk oversight mechanisms appears to be stronger communication between the board and management on key risks, assignment of responsibilities for risk oversight to key committees, and periodic reviews of the effectiveness of the company's Enterprise Risk Management (ERM)**. Survey responses also highlight that boards now receive information not only from the risk function but also from compliance and ethics (88 percent), finance and accounting (66 percent) and IT departments (50 percent).

Figure 17. Risk Oversight Practices



Source: GOVERN Survey, 2017.

Systemically Important Banks

While cognisant of the growing domestic and international risks, central banks are aware of the importance of regulatory proportionality. In particular, **regulators are increasingly attuned to the prudential stability risks posed by "too large to fail" banks following the introduction of the framework for Systemically Important Banks (SIBs)[43] by the Basel Committee in 2012**. The rationale for adopting additional measures for Global and Domestic SIBs was based on the "negative externalities" created by systemically important banks which regulatory policies did not, at the time, fully address.

In this regard, the balance between regulatory and board responsibilities has been defined variably across the region. While in jurisdictions such as Tunisia and Morocco, regulators have largely left individual banks to determine the sophistication of their governance frameworks, regulators in Saudi Arabia, Qatar and Oman and have introduced specific provisions concerning SIBs. In countries where a framework for SIBs has been introduced, this had led to concrete measures to address their prudential stability.

For example, in Oman, following the implementation of a methodology for identifying SIBs in 2015, one institution was designated as such, allowing the Central Bank to introduce a capital surcharge. In Kuwait, banks identified as domestic SIBs are required to hold additional capital buffers ranging from 0.5-2 percent in the form of CET (Common Equity Tier) as of 2016. In Bahrain, SIBs are subject to more frequent reporting and inspection and the Central Bank of Bahrain is evaluating the possibility of requiring such banks to hold more capital.

From a corporate governance perspective, the destination of an institution as SIB is not without consequence. For instance, in Oman, the Central Bank of Oman reserves the right to reduce dividend payments and staff bonuses should a bank fail to meet the enhanced capital surcharge. In Lebanon, the Banking

[43] SIBs are large organizations which regulators may require to hold additional capital if their characteristics such as size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity may warrant this.

Control Commission can impose a capital surcharge on banks if it considers their governance structure sub-optimal.

Table 14. Provisions for Large and Systemically Important Banks

Jurisdiction	Provisions on Systemically Important Banks	Provisions on Operating Cross Border	Provisions on Foreign Banks	Provisions for Banks Part of a Group	Provisions for Subsidiary Boards
Bahrain	Yes	No	No	No	No
Egypt	No	No	No	No	No
Jordan	No	No	Yes	No	No
Kuwait	Yes	No	No	Yes	No
Lebanon	No	No	Yes	No	No
Morocco	No	Yes	Yes	Yes	Yes
Oman	Yes	No	No	Yes	No
Qatar	Yes	No	No	Yes	No
Saudi Arabia	Yes	No	No	No	No
Tunisia	No	No	No	No	No
UAE	No	No	No	No	No

Source: GOVERN Research, 2017.

Though few Arab banks have presence outside the region, regulators are also addressing risks in banks operating cross-border. About half of regulators have adopted special provisions for subsidiary boards, in line with the Basel Committee standards which have a dedicated section on group structures: "In a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities." (Basel Committee, 2015).

For instance, the Central Bank of Kuwait requires banks part of complex corporate structures to introduce appropriate provisions in their own corporate governance, in addition to strengthening governance at the group level and internal audit to assess risks at the level of the group. In Morocco, the board is tasked with overseeing the shareholding structure and risk profile of the entire bank group and their reporting to the Bank Al-Maghrib.[44]

> "*Effective risk identification and measurement approaches are likewise necessary in subsidiary banks and affiliates. Material risk-bearing affiliates and subsidiaries should be captured by the bank-wide risk management system and should be a part of the overall risk governance framework.*" Basel Committee, Corporate Governance Principles, 2015.

Requirements address both the responsibilities of parent companies and subsidiaries. In Saudi Arabia for instance, the regulator has suggested that "the board of a banking subsidiary shall set related corporate governance rules and should evaluate any group-level decisions or practices to ensure that they do not put the subsidiary in breach of the local regulations" (SAMA, 2014).

Similarly, in Morocco, boards of subsidiaries are required to ensure that practices at the level of the group are consistent with the regulatory framework applicable to the subsidiary.[45] (Banque Al Maghrib, 2014). Other

[44] Furthermore, the Internal Audit function of the parent company must have adequate frameworks and reporting in place in subsidiaries.
[45] Furthermore, the subsidiary is responsible for transmitting to the parent company and the regulator reporting on significant risks and on the application of the prudential regulation.

regulators such as the Oman Capital Market Authority have included relations between parent and subsidiary banks at the management level, adding a provision prohibiting the bank group CEO to also serve as the CEO of any subsidiaries, whether it is headquartered in Oman or elsewhere.

> *"The Board of the parent company should be aware of the material risks that might affect both the group as a whole and its subsidiaries. It should, therefore, exercise adequate oversight over subsidiaries, bearing in mind legal independence and governance requirements enforced by the supervisory authority on a subsidiary's Board."* Saudi Arabian Monetary Agency, 2014.

Leading global regulators such as the Bank of England has, for example, stipulated that the principles of good governance shall also apply to significant regulated subsidiaries, including independence of the chairman and having a substantial and effective independent presence across the board. "This will help ensure that the subsidiary board is alert to the potential for conflicts of interest and able to take decisions independently where required to meet its own legal and governance responsibilities or in the interests of the safety and soundness of the subsidiary" (Bank of England, 2016).

Where regulators have not pronounced themselves on subsidiary governance structures, banks have been left to decide whether to establish subsidiary boards or to utilise the governance organs of the parent bank to oversee particular country operations. In practice, this implies that governance structures at the level of the parent company such as the Risk Committee de facto fill in for these at the level of the subsidiary banks. **Further guidance from the regulators, clarifying that national governance guidelines apply to large subsidiaries and providing further guidance on the interaction between parent and subsidiary banks would be of use.**

Internal Audit

As the effectiveness of the risk management function is gaining greater regulatory attention, the pillars supporting its effectiveness, notably internal audit, are also getting more explicitly addressed by the regulators. A number of central banks in the region, including in Lebanon, Egypt and Morocco have issued specific circulars concerning the mandate and reporting lines of the internal audit function. Most regulators, with a few exceptions, incorporate internal audit requirements in the general corporate governance rules.

> *"The risk management function should provide input on risks including an assessment of the extent to which the bank's risk management, legal and regulatory compliance, information technology, business line and internal control functions have adequate tools and the expertise necessary to measure and manage related risks."* Basel Committee Corporate Governance Principles for Banks, 2017.

One of the earliest and most comprehensive regulations bearing on Internal Audit were issued by Morocco's Banque Al-Maghrib and Lebanon's BDL. The BDL issued its first regulations on internal audit in banks as early in 2000, prohibiting the outsourcing of the internal audit function and requiring that the function "must be entirely independent from the body entrusted with the operations, have no executive responsibilities within the bank or financial institution, and be objective when fulfilling its duties." (BDL Circular, Basic Decision 7737). The Circular notably prohibits banks to outsource their internal audit function.

Further nuances are specified by the Banque Al-Maghrib, where recent provisions included in the internal audit circular include, for instance, the requirement that internal auditors cannot act as external auditors for a period of a year and that the internal audit function must not be involved in the conception of the risk management framework or the permanent control of risks.[46]

This is indeed in line with the recommendations of the *OECD Corporate Governance Principles* which recommend that the Audit Committee oversee internal and external audit activities with a view to ensure that

[46] In Morocco, one of the first circulars issued by the Central Bank on governance was a 2001 circular on internal audit which was released more than a decade before the Central Bank set a broader structure for corporate governance in 2014.

external auditors maintain objectivity. The OECD Principles consider that "the provision of non-audit services by the external auditor to a company can significantly impair their independence and might involve them auditing their own work."

As highlighted in Table 15, **the independence and authority of the internal audit function is addressed by all central banks.** To assure the independence of this function, some regulators, notably Oman's Capital Market Authority make it the responsibility of the board to appoint the head of the internal audit function. Others, such as the Central Bank of the UAE outline specific criteria that the head of internal audit must possess.

> *"The manager in-charge of the Internal Audit department must be a qualified person, academically or through a professional specialization, with a working experience of not less than 5 years in auditing or banking or financial business."* Central Bank of the UAE, 2000.

Table 15. Internal Audit Function and Responsibilities

Jurisdiction	Independent Internal Audit Function	Internal Audit Reporting to Board/Audit Committee	Audit Committee's Risk Management Role	Whistleblowing Provisions
Bahrain	Yes	Audit Committee Chair	Yes	Yes
Egypt	Yes	Audit Committee Chair and the Board	Yes	Yes (for listed banks only)
Jordan	Yes	Audit Committee Chair	No	No
Kuwait	Yes	Yes, reports directly to the Audit Committee Chair	No, the head of risk management reports directly the Risk Committee	No
Lebanon	Yes	Audit Committee (on a quarterly basis)	Yes, review of the effectiveness of risk assessment, management and reduction methods.	No
Morocco	Yes	Audit and/or Risk Committees	Yes	No
Oman	Yes	Board (on an annual basis)	Yes	No
Qatar	Yes	Board	Yes	Yes
Saudi Arabia	Yes	Board	Partially, but Risk Committee needs to be established as well	Yes (for listed companies)
Tunisia	Yes	Internal Audit Committee is a board committee	No	No
UAE	Yes	Board	No, Risk management committee	Yes

Source: GOVERN Research, 2017.

In all reviewed jurisdictions, **the Internal Audit function reports to either the Board and/or to the Audit Committee or its Chair (and in Morocco also to the Risk Committee) on a periodic basis, typically annually**. Lebanon is the only jurisdiction where internal audit reports to the Audit Committee on a quarterly basis. Furthermore, the external auditor has to file an annual report regarding internal audit to be submitted to the board, to the Governor and to the Banking Control Commission. Similar provisions are also in force in the UAE.

> *"The internal audit department reports to the Chairman, with a copy to each board member and to the CEO of the bank. The manager of this department must also send a copy of the same report to the Central Bank as soon as it is issued."* Central Bank of the UAE, 2000.

An emerging best practice is for the board to play a role in receiving reporting and addressing potential reporting on unethical or illicit behaviours at the bank. As highlighted in Table 15 above, about half of jurisdictions have introduced variable provisions dealing with the role of the board in receiving and processing

complaints from whistle blowers. The Central Bank of the UAE recommends that multiple whistleblowing channels should exist, including the line manager, the compliance function and the Chair of the Audit Committee. The Central Bank of Bahrain recommends that concerns may be communicated directly to any Audit Committee member or, alternatively, to an identified officer or employee who will report directly to the Audit Committee on this point.

Conflicts of Interest

In addition to strengthening internal audit regulations, **a number of regulators have revised their approaches aimed to address how boards shall deal with conflicts of interest.** This is particularly important considering that Arab banks frequently operate as part of wider corporate groups and have concentrated ownership structures leading to an overlap between ownership, board and executive roles. **Generally speaking, two regulatory approaches may be observed with respect to addressing conflicts of interest.**

In some jurisdictions, the regulator generally delegates this responsibility for addressing conflicts of interest to the board, requiring it to establish the relevant policies and monitoring capacity for conflict of interest situations that may arise at the level of the board and the executive. In others, as for example it concerns potentially risky related party transactions (RPTs), regulators outline specific reporting and approval mechanisms by the shareholders or the Central Bank. They have also moved to establish a number of specific broader integrity mechanisms, including for instance on whistleblowing.

As example of the former approach, in Saudi Arabia, the board is required to develop a policy to deal with actual and potential conflicts of interest, providing clear procedures for disclosing conflicts of interest and obtaining approvals.[47] In Morocco, individual board members must provide a declaration of conflicts of interest to the board, including any other mandates they hold as well as their relationship to other board members and executives.

The board - with the support of the external and internal audit functions - has the responsibility to monitor and approve specific transactions.[48] Key among these transactions are related party transactions (RPTs), the approval of which in the region remains primarily with boards and not the shareholders with the exception of a few jurisdictions such as Oman (OECD and UASA, 2014). Appropriate oversight of significant RPTs in the region is important considering concentrated ownership structures in the banking sector combined with the fact that directors are often also significant shareholders in banks as well as other industrial companies.

Indeed, procedures related to approvals and disclosure of RPTs have been addressed in the past 2-3 years. **In most jurisdictions in the region, RPTs require board as opposed to shareholder approval, and by consequence the abstention of concerned board members from board discussion of a particular transaction.** In jurisdictions such as Jordan and Oman, the involvement of independent board members in the review and approval of RPTs is required. Internal and external auditor involvement in the review of such transactions remains variable depending on the jurisdiction as highlighted in Table 16 below.

Table 16. Board Approval of Related Party Transactions

Jurisdiction	Board Policy on Review/Disclosure of RPTs	Abstention of Related Board Members	Opinion from		
			Independent Board Members	*Internal Auditor*	*External Auditor (Before presented to the AGM/Board)*
Bahrain	Required	Required	Required	Required	Required
Egypt	Required	Required	Not Required	Not required	Not required
Jordan	Required	Required	Committee partially of independent	Required	Required

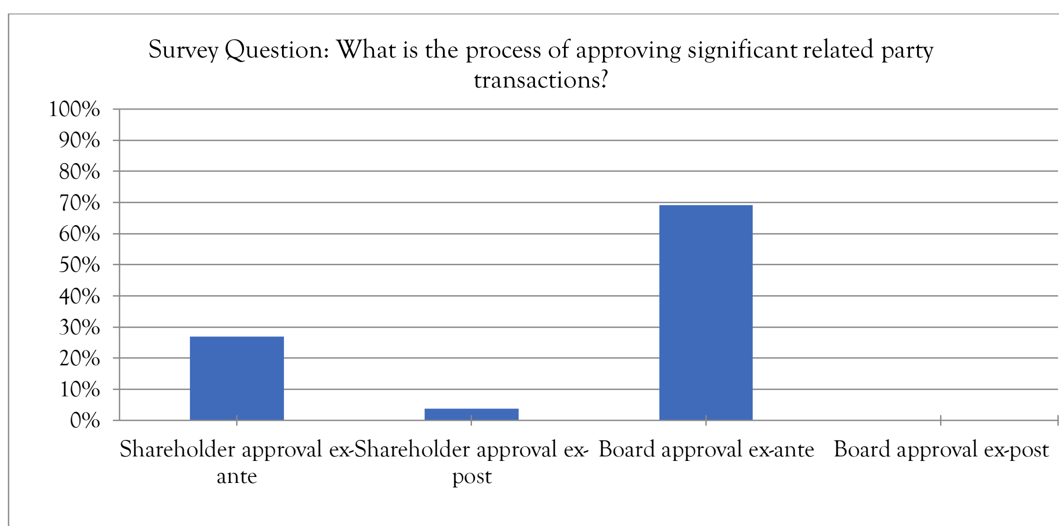
[47] In addition, independent directors have a particular specific responsibility to ensure that the company and its shareholders are given priority in case of any conflicts of interest as well as the implementation of corporate governance rules more generally.
[48] In Saudi Arabia, the CMA places a particular responsibility on the external auditor to review contracts and proposed related party transactions and provide recommendations to the Board.

			board members approves RPTs		
Kuwait	Required	Required	Not Required	Required	Required
Lebanon	Required	Required	Not Required	Not required	Required
Morocco	Not required	Required	Not Required	Not required	Required
Oman	Required	Required	Committee composed of some independent board members approves RPTs	Required	Required
Qatar	Required	Required	Required	Required	Required
Saudi Arabia	Required	Required	Not required[49]	Not Required	Required
Tunisia	Not required	Required	Not Required	Not required	Required
UAE	Required	Required	Not required[50]	Not required	Required

Source: GOVERN Research, 2017.

Survey results reflect the regulatory frameworks in place, highlighting the role of board approvals on RPTs. **Whether board approval for significant RPTs is sufficient when individual board members are involved in particular transaction merits further policy attention.** Policy options for dealing with RPTs must take into account the need for proportionality in regulation in terms of the size of the regulated entity and the size of transaction and their relative impact on the operations of the bank. Table 17 summarises national regulations where shareholder approval is required.

Figure 18. Review of Related Party Transactions



Source: GOVERN Survey, 2017.

Some regulators, such as the BDL have moved further, requiring a review of RPTs by the auditors and by the board, whereby each produces a report, further to which the RPT is submitted along with these reports to the AGM for approval. Perhaps the most comprehensive guidelines on the identification and approval of RPTs in the region are contained in the Omani code for corporate governance for listed firms. Any transactions

[49] Not required, however a review of RPTs is facilitated by assigning a sufficient number of non-executive directors in relevant committees.

[50] However, a company may not enter into any transaction with Concerned Parties which equals 10 percent or more of its assets based on the company's latest annual or periodical financial statements unless such transactions have been approved by the board of directors and the general assembly.

concluded against the CMA rules are considered void.

> *"All RPTs must be reviewed by the Audit Committee prior the execution. In case of RPTs entered in the ordinary course of business, they must be approved by the board. In case of extraordinary RPTs, they must be approved by the AGM prior to execution."* Oman Capital Market Authority, 2016.

Table 17. Shareholder Approval of Related Party Transactions

Country	Requirement (Yes/No)	Content of requirement/recommendation
Bahrain	No	Ratification of RPTs by the AGM ex-post
Egypt	Yes	Review of RPTs by the Audit Committee or equivalent and shareholder approval through the AGM
Jordan	No	Review of RPTs by the Audit Committee or equivalent board committee
Kuwait	Yes	Shareholder approval through the AGM
Lebanon	Yes	Shareholder approval through the AGM
Morocco	Yes	Review of RPTs by the Audit Committee or equivalent and shareholder approval through AGM
Oman	Yes	Shareholder approval only of extraordinary transactions
Qatar	Yes	Shareholder approval through the AGM
Saudi Arabia	Yes	Shareholder approval through the AGM
Tunisia	Yes	Shareholder approval through the AGM
UAE Federal	Yes	Shareholder approval through the AGM

Source: GOVERN Research, 2017.

In order to support the development of adequate mechanisms to monitor potentially abusive RPTs, **regulators could introduce provisions setting absolute or relative thresholds for transactions that require board or shareholder approval**, in addition to the abstention of conflicted board members in discussion concerning their approval. For instance, the Central Bank of the UAE has developed a list transactions and situations that must be submitted to the Board for approval. Guidelines to UAE directors forbid the bank or its senior management to make any investment in any entity in which the director is a principal or owns more than 10 percent (Central Bank of the UAE, 2006).[51]

Some regulators require public disclosure of RPTs in addition to communicating them to the regulator. In Lebanon, an additional report by the external auditors and the board is required. In Saudi Arabia, all transactions or contracts exceeding 1percent of the company's revenues need to be immediately disclosed to the authorities and the public. SAMA stipulates that "the board shall ensure that related party transactions are carried out fairly and without preference at an arms-length basis and disclosed to SAMA within 2 business days." (SAMA, 2010).

Table 18. Disclosure of Related Party Transactions

Jurisdiction	Periodical Disclosure		Immediate Disclosure for Specific RPTs
	Financial Statement	*Additional Disclosure*	
Bahrain	IAS24	Required	Required
Egypt	Domestic standards	Required	Required
Jordan	IAS24	Required	Required

[51] Directors are also forbidden to invest in any opportunities available to him by virtue of his status as a director or any opportunities that the came to know as board members of a bank.

Kuwait	IAS24	Required	Required
Lebanon	IAS24	Required	Required
Morocco	Domestic standards	Recommended by the code but not required	Recommended by the code but not required
Oman	IAS24	Required	Required
Saudi Arabia	IAS 24	Required	Required
Tunisia	IAS24	Required	Required
UAE	IAS24	Required	Required[52]

Source: GOVERN Research, 2017.

[52] Immediate disclosure of RPTs in the UAE is required if it equals 10 percent or more of the value of the company based on the company's latest annual or periodical financial statements.

PART IV. SHAREHOLDER RIGHTS

Shareholder and stakeholder rights are generally not explicitly addressed in the corporate governance codes or regulations in the region considering that they are typically outlined in the corporate law. As such, the same requirements that apply to listed companies or corporations more generally, typically apply to banks as well. The corporate law primarily addresses issues such as the right of shareholders to vote their shares, approve specific transactions and table resolutions for consideration in annual shareholder meetings (AGMs).

As can be seen from the Table 19, there is significant variance in terms of these requirements which are linked to the legal tradition and history of Arab countries, considering that some have a civil law legacy while others are common law jurisdictions. **Ultimately, in most countries of the region, central banks tend not to address shareholder rights and the conduct of AGMs in the corporate governance code or equivalent.** Stakeholder rights are generally also not addressed except in a handful of countries.

> *"The Board should be interested not only in an absolute return to shareholders but also in the licensed institutions' growth and sustained quality of earnings over the long term."* Central Bank of Oman, 2002.

However, **some central banks have added provisions to ensure board accountability to the shareholders in addition to regulatory reporting**. For instance, Saudi Arabia's SAMA requires the disclosure of board member CVs to shareholders so that investors so that they can evaluate their capacity. The Central Bank of Bahrain requires all directors to attend and be available to answer questions from shareholders during AGMs and to ensure that Chairs of the Audit, Remuneration and Nomination Committees are ready to answer questions (Central Bank of Bahrain, 2011). In Saudi Arabia, banks must provide the regulator with a copy of the minutes of the General Assembly meetings within 15 days.

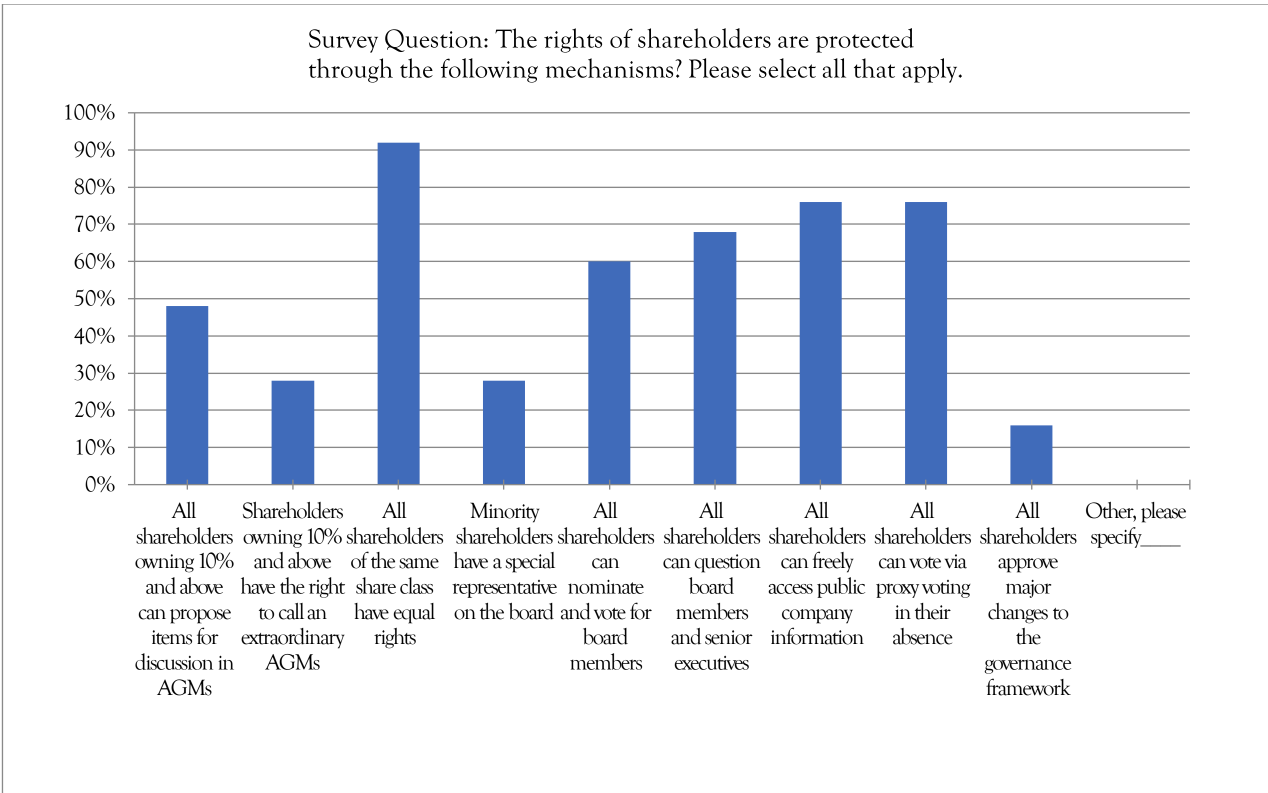
Table 17 summarises shareholder rights in particular in the context of AGMs. While as a matter of regulation, shareholders are allowed to participate in AGMs and table proposals, our survey results demonstrate that areas where shareholders may be challenged include: shareholders being able to call extraordinary meetings, approve major changes to the corporate governance framework and nominate a minority shareholder representative on the board. Further results of the survey on shareholder rights are summarised in Figure 19 below.

Table 19. Shareholder Rights in Relationship to the AGMs

Jurisdiction	Request to Convene a Shareholder Meeting		Request to Place an Item on the Agenda of General Meetings		
	Shareholders	The Firm	Shareholders		The Firm
	Minimum Shareholding	*Deadline for Holding the Meeting After the Request*	*Minimum Shareholding*	*Deadline for the Request (Before Meeting)*	*Accept and Publish Request (Before Meeting)*
Bahrain	10 percent	30 days	10 percent	30 days	N/A
Egypt	5 percent	No	No	No	No
Jordan	25 percent	15 days	No	No	No
Kuwait	10 percent	15 days	5 percent	15 days	No
Lebanon	20 percent	No	5 percent	No	No
Morocco	10 percent	No	5 percent for first 5 months 2 percent for surplus	20 days for non-listed, 10 days for listed	No
Oman	25 percent	No	10 percent	30 days	No
Qatar	10 percent	15 days	10 percent	No	No
Saudi Arabia	5 percent	N/A	5 percent	N/A	N/A
Tunisia	3 percent	15 days	5 percent	15 days	No
UAE	20 percent	15-30 days	10 percent	No	No

Source: GOVERN Research, 2017.

Figure 19. Shareholder Right Protections



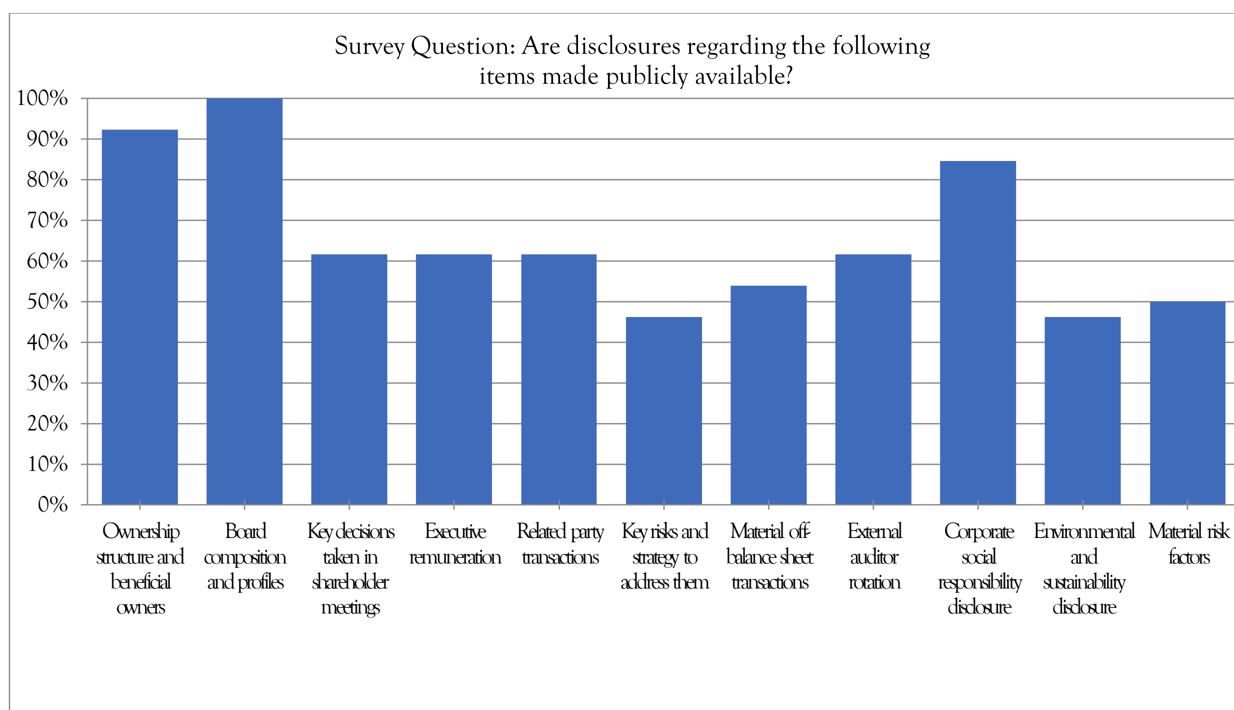
Source: GOVERN Survey, 2017.

Disclosure Standards

Adequate disclosure is an essential condition to enable shareholders to exercise their rights. Indeed, **the quality of disclosure and transparency has been at the core of the corporate governance debate in the region for over a decade** and while regulators have raised standards, investors in the region, especially foreign investors, consider the quality of information, especially of non-financial information as needing further improvement (GOVERN, 2016). The quality of disclosure in the region has improved significantly and now virtually all jurisdictions in the region (except for example Egypt) require reporting according to the International Financial Reporting Standards.

In recent years, regulators have sought to affect the quality of non-financial disclosure - which has been more challenging to improve - adopting various approaches ranging from providing an outline of the directors' report to addressing specific elements of non-financial disclosure that they see as essential. According to our survey, **non-financial information that is most commonly reported by banks includes board composition and profiles followed by ownership structure and corporate social responsibility disclosure**. On the other hand, discussion on key risks and measures to mitigate them remains an area of weakness.

Figure 20. Disclosure Practices and Challenges



Source: GOVERN Survey, 2017.

At the same time, in recent years, **the regulatory emphasis has been on the disclosure of the effectiveness of the enterprise risk management, compliance and corporate governance frameworks**. Risk management and compliance disclosures have been driven in large part by increasing global regulatory requirements and the diversity of new domestic and international risks that banks are confronted with. According to a recent survey of financial crime in the Middle East, 37 percent of the respondents claimed to be concerned regarding their ability to meet the regulatory requirements (Deloitte, 2017).

On the other hand, **the emphasis on improved corporate governance disclosure has been facilitated by the transition, in some countries, to comply-or-explain approaches**, whereby the board report is a source of explanations to the regulator and the public as to the adoption and possible deviations from the recommended practices. In countries where mandatory approaches have been adopted, bank boards are increasingly reporting on the adoption of these standards, in some instances guided by a specific list of disclosure items that central banks mandate.

Corporate governance disclosure required or recommended by central banks commonly includes board composition, board independence, presence and structure of Board Committees, board and executive remuneration and, less frequently, board role in specific functions such as succession planning, risk oversight and stakeholder relations. While some regulators now require disclosure about board performance, including number and attendance of meetings, this disclosure tends to be more process-oriented and few banks in the region discuss sensitive issues such as board evaluations and their results publicly.

Table 20. Corporate Governance Disclosure

Jurisdiction	Annual Corporate Governance Disclosure	Board Members, Board Composition and Committees	Incentive and Compensation Policy	Risk Exposures and Risk Management

Bahrain	Yes	Yes	Yes	Yes
Egypt	Yes	Yes	Yes	No
Jordan	Yes	Yes	Yes	Yes
Kuwait	Yes	Yes	Yes	No
Lebanon	Yes	Yes	Yes	No
Morocco	Yes	Yes	Yes	No
Oman	Yes	Yes	Yes	Yes,
Qatar	Yes	Yes	Yes	Yes
Saudi Arabia	Yes	Yes	Yes	Yes
Tunisia	Yes	Yes	Yes	Yes
UAE	Yes	Yes	No	No

Source: GOVERN Research, 2017.

While the exact scope of reporting differs by country, a **key difference in regulatory approaches is the requirement to issue a formal corporate governance report as part of the annual report**, which is not required in all jurisdictions.[53] In countries such as Saudi Arabia, the CMA has established detailed contents of the board report that companies must address in their reporting. Likewise, in Morocco, the Bank Al-Maghrib, provides a list of governance items on which bank boards are expected to communicate. In Qatar, the annual corporate governance report for listed banks must be signed by the Chairman to attest to its veracity (QFMA, 2009).

The quality of these disclosures in most banks tend to be driven more by pure disclosure requirements as boards and senior management rarely communicate on items not required by the regulator. For instance, a review of annual reports of the largest Lebanese banks has highlighted that banks use their corporate governance reporting primarily to confirm their compliance with the prevailing regulatory standards (GOVERN, 2017). Few banks in the region disclose results of board evaluations of substantive directions given by boards to management.

While few regulators have addressed the channels of disclosure for banks, this is indeed a worthwhile point to consider as smaller banks in the region do not fully leverage their website for shareholder communications. While some regulators in the region, have moved to require the establishment of an independent investor relations function (e.g. ESCA in the UAE), it is at the same time important to ensure adequate periodic disclosure through the websites of bank as opposed to traditional mechanisms such as newspapers which are still legally required in a number of countries such as Egypt.

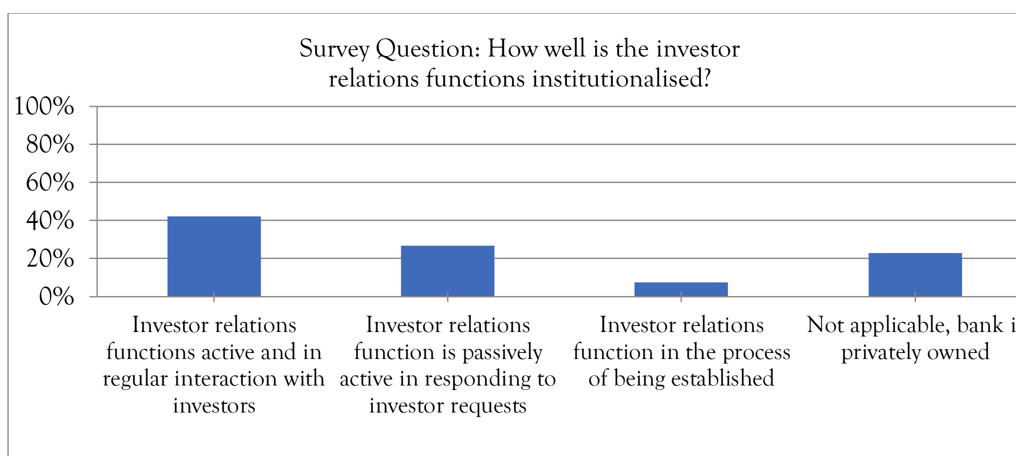
> *"The company should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholders' meeting, and should post significant documents relating to meetings including the full text of notices and minutes."* Central Bank of Bahrain, 2011.

In our survey, while 23 percent of banks are privately held and hence had no Investor Relations (IR) function, 42 percent said to have an active IR function, while 27 percent thought that the function is passive in liaising with investors. A further 8 percent mentioned that the function is currently in the process of being established.

Indeed, GOVERN work across the region demonstrates that **the investor relations function still nascent in most organisations and can benefit from further training to be able to fulfil its role adequately**. For instance, our work in Egypt and other jurisdictions also highlights that IR function's efficiency is contingent on the right tone at the top and the awareness of the importance of investor relations by the C-Suit and boards.

Figure 21. The Investor Relations Function

[53] In countries where regulators have not required the publication of an annual corporate governance report, the corporate governance disclosure has substantively been similar.



Source: GOVERN Survey, 2017.

Remuneration Approval and Disclosure

The debate on the alignment of remuneration with long-term incentives has been less urgent in the region as compared with North America or Europe due to the ownership structure of banks. The disclosure of board and executive remuneration has been an area of regulatory emphasis in the region primarily to align with international standards. In recent years, regulators in the region have felt compelled to address the issue of executive remuneration, notably by introducing shareholder approval processes and limitations on executive remuneration.

While few central banks have moved to provide guidelines on the breakdown of remuneration in terms of fixed or variable pay and its disclosure, a number of regulators (i.e. Saudi Arabia, Oman) have moved to limit the remuneration for the board. In the Gulf in particular, the common approach has been to limit remuneration of board members and executives to 10 percent of net profits. In addition, some regulators have placed limits on the remuneration of individual board members. As highlighted by GOVERN report on board effectiveness prepared for the GCC BDI, some market participants perceive existing limits as negatively impacting the ability of organisations to recruit qualified directors (GOVERN, 2017).

> *"The remuneration of the Chairmen and members of the Board of Directors of banks has also been fixed at a minimum of SR 240,000 and maximum of SR 360,000 per person per annum plus SR 3,000 for attending each meeting, which is subject to proper disclosure and provided that the total remuneration so paid shall not exceed 5 percent of the net profit."* Saudi Arabian Monetary Authority, 2010.

Considering that the integrity of remuneration systems has not demonstrated to be a major source of risk in the MENA region as it has in other developed markets, regulators have not generally considered how to align risk with reward. In particular, as highlighted by Table 21, mechanisms such as time-bound remuneration and clawback provisions have only been introduced by a minority of regulators in the region (e.g. Jordan and Lebanon). In practice, they are however rarely if ever used.

Saudi Arabia's SAMA is the only regulator in the region that has issued a specific guidance on remuneration of board members and executives and the revision of the Saudi corporate law in 2016 has imposed further limitations. SAMA *Rules on Compensation Practices* require that banks establish a compensation policy that covers the objectives of the compensation scheme and establish requirements for linking compensation and performance. The Rules require boards to approve a compensation policy, a copy of which should be submitted to the Banking Supervision Department (SAMA, 2010). Provisions of these Rules are quite detailed, requiring for example that members of the Audit Committee are remunerated similarly to other committees.[54]

[54] This is related to the fact that in Saudi Arabia bank boards may augment committee expertise by inviting outside experts (i.e. not members of the board) to be members of specific board committees.

> *"Remuneration of non-executive directors shall not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits."* Central Bank of Bahrain, 2011.

The guidelines on remuneration of board members and executives issued by Morocco's Banque Al Maghrib are also quite detailed, addressing both fixed and variable remuneration, suggesting the latter is capped as a percentage of the former. It also suggests that an important part of the variable compensation must be comprised of equity or financial instruments. The remuneration of the independent directors can include components other than attendance fees, to be which are awarded as a special arrangement (Banque Al Maghrib, 2016).

> *"Guaranteed variable remuneration must be exceptionally awarded and only apply to recruitment of staff in the first year."* Central Bank of Morocco, Bank Al-Maghrib, 2014.

Importantly, **some regulators have addressed remuneration structures for executives and notably risk and audit related functions whose integrity and diligence are of key importance**. Regulators have focused in particular on the remuneration of audit and risk functions with a view to maintain their objectivity. For instance, the Central Bank of Jordan has forbidden the award of variable compensation to executives responsible for the risk function. In Morocco, the remuneration of the internal audit and risk management staff should be established independently of the revenues of the commercial activities and should be set at a level to attract qualified personnel.

Not all banks in the region disclose annual remuneration and if they do so, it is done on an aggregate level. This is due to the fact that the common regulatory requirement in the region is consolidated reporting of board and top senior executive remuneration, typically for the top 5 senior executives. Shareholder approval of remuneration in the region has not been adopted as a common regulatory approach. Bahrain is the only jurisdiction in the region requiring detailed disclosure[55] of shareholder approval of the structure of remuneration plans. The UAE also has specific approval requirements as specified below.

> *"If the staff annual bonus for the Chief Executive Officer and the rest of employees exceeds 5percent of the net profit, it would require approval of the General Assembly of the bank before disbursement, and this would not nullify any requirement that is more restrictive within the Bank's by-laws."* Central Bank of the UAE, 2000.

Table 21. Executive and Board Remuneration

Jurisdiction	Criteria on Board/Executive Remuneration	Provisions to Align Risk with Reward	Content of Requirement or Recommendation	Source of Recommendations (Code, Regulation, Law, etc.)
Bahrain	Yes	Yes	All plans for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself and not of the specific individuals of benefits under the plan.	CBB Rulebook and Corporate Governance Code

[55] This shall include remuneration paid to each person in the executive management divided in each case into salaries, perquisites, bonuses, gratuities, pensions and any other components, as well as details of stock options and performance-linked incentives available to executives.

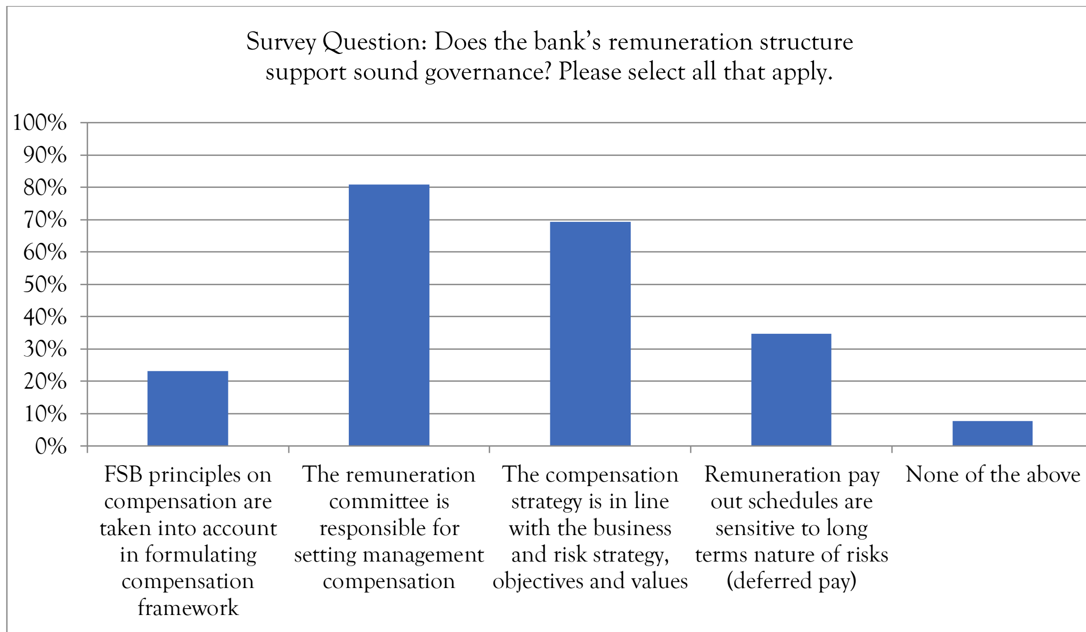
Egypt	Yes	Yes[56]	The bank's long-term objectives are to take into account the development of salary and remuneration policies, in particular not to link the remuneration of board committee members and senior management to short term objectives.	Corporate Governance Code for Banks
Jordan	Yes	Yes	Risks, liquidity, earnings and timing must be taken into consideration. There must be a possibility to delay an appropriate amount of the reward based on the nature and risk of the work. No financial award to risk executives	Corporate Governance Code
Kuwait	Yes	No	Maximum limit of executive and board remuneration fixed at 10 percent of net profits.	Corporate Governance Code
Lebanon	Yes	Yes	Remuneration of directors consists either of an annual remuneration, attendance fees or set as a percentage of the net profit, or a combination of such benefits. Clawbacks should be stipulated if possible.	Central Bank Circular
Morocco	No	No	None	N/A
Oman	Yes	Yes	Maximum limit of board remuneration is set at 5 percent of corporate net profits, provided the total amount does not exceed 200,000 Omani Riyals. There is no limit for management remuneration.	BM 1135 which refers to the FSF Principles for Sound Compensation Practices
Qatar	Yes	Yes	Maximum limit of executive and board remuneration fixed at 10 percent of net profits.	Central Bank Regulations
Saudi Arabia	Yes	Yes	Remuneration of Audit Committee members should compare reasonably with the remuneration of other Board members. Total remuneration so paid shall not exceed 5 percent of the net profit.	Central Bank Regulations
Tunisia	No	No	None	N/A
UAE	Yes	No	Remuneration of board members may not exceed 10 percent of net profits, having deducted depreciation, reserve and distribution of a dividend of at least 5 percent of capital to shareholders.	N/A

Source: GOVERN Research, 2017.

According to our sample survey, the Remuneration Committee is most commonly responsible for setting management compensation, however respondents noted that only for 35 percent of banks the remuneration pay-out schedules are sensitive to the long-term nature of risks. According to the survey, few banks (less than a third) link performance to specific financial metrics, such as revenues, earnings per share or total shareholder return.

Figure 22. Role of Remuneration in Sound Governance

[56] To determine the size of the variable remuneration with the possibility of setting a limit on it and the manner of distributing it to the bank's management based on the size of the risk to which it is exposed



Source: GOVERN Survey, 2017.

Part V. The Role of the Supervisors

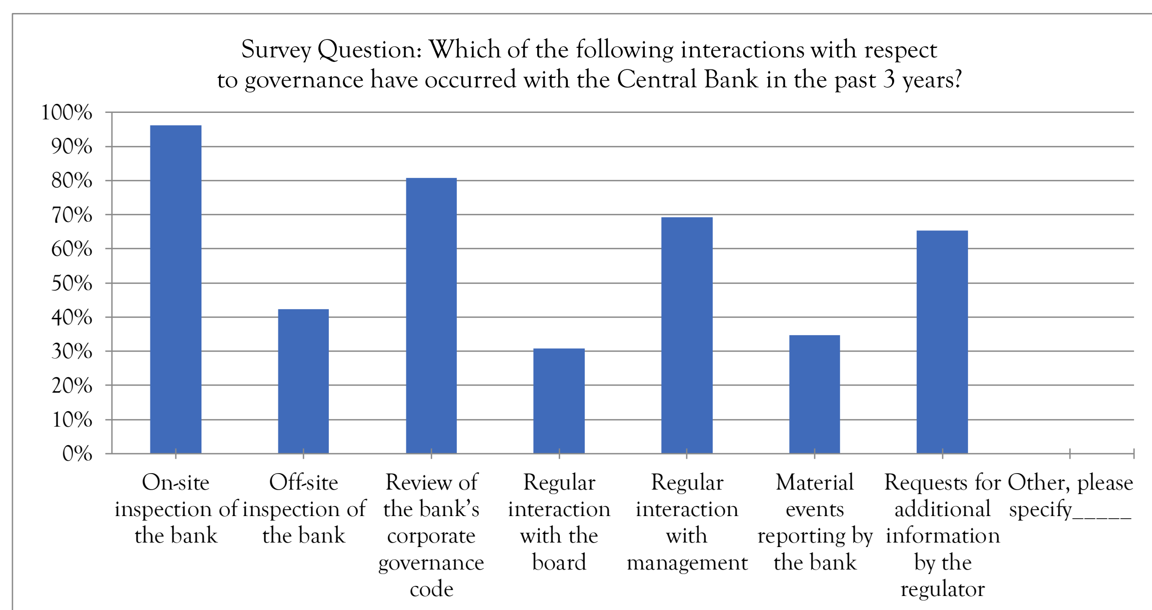
Supervisory Frameworks

As they have revisited the corporate governance requirements, making them either mandatory or "comply-or-explain", **central banks in the region have sought to actively incorporate corporate governance requirements in their prudential supervision approaches**. The banking laws in a number of MENA jurisdictions specify how central banks shall conduct their supervisory responsibilities, outlining an overall supervisory framework.

Approximately half of the central banks in the region (e.g. Oman, Jordan, Egypt) have introduced specialised corporate governance units responsible for supervision of bank governance practices. In Bahrain, the same unit is responsible for oversight of corporate governance in both listed companies and banks. In Lebanon, responsibility for the oversight of bank governance lies with the Banking Control Commission, an entity separate from the BDL. Other central banks continue to address governance oversight as part of their overall supervision activities without dedicated staff or department.

The manner in which corporate governance is overseen by central banks in the region varies in terms of how it is incorporated in off and on-sight inspections and how it is addressed in the overall capital adequacy and stability assessments. For instance, while Saudi and Egyptian regulators conduct annual on-sight supervision of banks, in Morocco this process it is bi-annual and in Jordan and the UAE it is conducted on an ad-hoc basis. This is reflected in the results of our sample survey, which suggests that regulators have not established a regulator channel of dialogue with bank boards, while interactions with the C-suite are frequent.

Figure 23. Interactions Between Banks and Regulators



Source: GOVERN Survey, 2017.

In addition to supervision and enforcement activities which have grown in recent years, a number of regulators (e.g. Egypt, Lebanon and Saudi Arabia) have established dedicated think-tanks or banking institutes with a view to establish training capacity specifically dedicated to the banking sector (refer to Table 22). The primary objective of these is to provide training to banks at the board, management and operational levels on a range of subjects of which governance, risk management and compliance are at the forefront.

For instance, the Egyptian Banking Institute's Corporate Governance Unit, in collaboration with the Prudential Regulations Unit at the Central Bank of Egypt's Supervision Sector, provides training programs for senior and middle managements to raise their awareness about governance practices. Lebanon's BDL recently established a dedicated think tank on governance, the Institute for Finance and Governance, with a primary mission to provide training to the Lebanese banks on corporate governance. A comprehensive list of banking institutes in the region is provided in Table 22 below.

Table 22. Banking Institutes in the MENA Region

Jurisdiction	Name of Entity	Establishment Date	Scope of Activity
Saudi Arabia	Institute of Finance	1964	Retail banking, SMEs, financing, corporate finance, insurance and compliance
Oman	The College of Banking and Financial Studies	1983	Risk management, legal, compliance and audit, finance and accounting, risk management, SME, etc.
Jordan	Institute for Banking Studies	1965	A range of courses and certificates on banking
Egypt	Egyptian Banking Institute	2000	Research in the banking sector, collaboration with international organisations, programme on SMEs
Bahrain	Bahrain Institute for Banking and Finance	1981	Banking, insurance, Islamic finance, project management, information technology
UAE	Emirates Institute for Banking and Financial Studies	1983	Banking, Islamic finance, anti-money laundering, risk management, marketing and sales
Kuwait	Institute of Banking Studies	1970	Risk management, accounting, presentation skills, credit analysis, banking law, etc.
Tunisia	Académie des Banques et Finances	2010	Various certification, non-certification, and distance learning options
Lebanon	Institute for Finance and Governance	2015	Training and research on corporate governance, focus on the banking sector but providing wider services

Source: GOVERN Research, 2017.

Growing Complexity

Effective corporate governance supervision of banks has been rendered more complex by growing international and domestic regulations and compliance requirements. Insofar as many banks are listed, central banks need to coordinate regulatory requirements, reporting and enforcement with securities regulators and stock exchanges. Indeed, banking and securities regulators in some countries in the region are reviewing the coherence and complementarity of the regulatory requirements for banks and listed companies.

At the minimum, it is critical that regulators specify how the different regulatory expectations and regulations should be implemented in instances where banks are supervised by multiple regulators. For instance, in Saudi Arabia, the *Principles of Corporate Governance* issued by SAMA apply in addition to the Rules issues by the Saudi Capital Market Authority. In Bahrain, which has a single code for banks and listed companies, the Code clearly stipulates that it is complementary to the Commercial Companies Law and explains areas where it goes beyond the letter of the law (e.g. Chair/CEO separation).[57] While there could be a variety of regulatory co-operation and complementarity, it is essential that regulators make the overall framework clear.

Regulatory clarity is even more crucial since MENA banks are increasingly also affected by the scope of international regulations. For instance, the increasing application of anti-money laundering and transparency regulations has affected Arab banks, especially organisations operating internationally, but also banks operating in the region by virtue of correspondent banking relations. The internationalisation of banks requires further policy guidance and support in the implementation of the regulatory framework, including in the area of corporate governance.

While regulators in the region are increasingly aligning with Basel requirements in addressing systemically important banks, the internationalisation of banks is arguably not getting the required attention. Notably **the issue of subsidiary governance is rarely addressed by in the regulatory frameworks of banks**. Furthermore,

[57] Furthermore, the role of the regulators (stock exchange, central bank, ministry of commerce and others) is clearly outlined.

only a few regulators (e.g. Jordan) have addressed the governance of foreign banks operating in their jurisdiction and this is important as the sectors are getting liberalised and further opened to competition.

While few Arab banks have been able to establish a truly international presence, **the consolidation of banks in the Gulf (e.g. NBAD and FGB in the UAE) and the expansion of some banks in other emerging markets (e.g. expansion of Moroccan banks to Sub-Saharan Africa) may result in the emergence of fewer banks and national champions**. This will require them to reckon with international governance and compliance obligations. At the same time, **the high interest in the fin tech space in the Gulf, especially in the UAE, will require banks to stay agile** as the sector will be subject to "creative disruption" in the coming years.

Emerging Risks

Compared to the banking systems of other growth and developing markets, and despite its peg to the dollar and the dollarization of public debt, the banking sector in the region has not been significantly affected by the global financial crisis. **The resilience of Arab banks is to some extent related to their concentrated ownership structure which has translated in prudent risk management and generally lower risk appetite.** It is also related to the fact that banks have been insulated from global financial sector risks by strict prudential and product regulations which forbid potentially toxic products such as mortgage-backed securities.

When Basel III standards were released in 2010 following crisis, Arab banks generally viewed them as being a response to problems that emerged in other markets and hence some contested their relevance to the sector's dynamics and challenges. However, changes in the economic context in the region in recent years brought on by the significant decline in commodity prices and its repercussions on both government budgets and also private sector growth, requires more careful prudential oversight of banks.

At the same time, **there are number of emerging global and domestic risks that banks and their regulators need to be attuned to going forward.** Domestically, credit concentration both to specific borrowers and specific sectors remains relatively high, as few banks have an international client base. In most countries except for Qatar and Lebanon (as well as others such as Algeria not covered by this report[58]), credit and assets are concentrated domestically in the private sector. For instance, in Saudi Arabia, net foreign assets remained just over 10 percent of banks' total assets (SAMA, 2016). In Qatar, domestic credit comprised 88 percent of the total credit at the end of 2015 (Qatar Central Bank Report, 2016).

As mentioned elsewhere in this report, lending concentration remains high. For instance, the 5 largest borrowers are equivalent to 35 percent of the Omani banks' total capital, while the top 10 largest borrowers represented over 100 percent of Tier 1 capital in Qatar.[59] The 10–20 largest borrowers in three Kuwait banks represented more than 18 percent of total gross loans and advances (IMF, 2016).

A related risk is that MENA bank balance sheets are dominated by short-term lending. In Saudi Arabia, short-term loans account for approximately half of total bank loans (SAMA, 2016). This is due to the fact that GCC countries have a large share of the credit portfolio in personal consumption loans. Credit facilities are therefore concentrated in some potentially risky assets, such as personal and real estate loans, the share of which exceeded 40 percent of the total banking assets in a number of Arab countries (IMF, 2016). The downward pressure on the valuation of real estate can, in this context, put a stress on banks and this was indeed highlighted during the crisis in Dubai in 2008-2009.

To address some of these emerging risks, **regulators have placed limits on risk exposures on specific sectors** (i.e. real estate) and on individuals (i.e. large individual and government exposures). For instance, in Bahrain, a bank may not incur an exposure to an individual or a group of counterparties which exceeds 15 percent of the bank's capital base without the prior written approval of the Central Bank. In Qatar, the regulator has limited exposure to real estate finance, where it shall not exceed 150 percent of the bank's capital and reserves.

While these limits, combined with strengthened prudential oversight, are expected to reduce the vulnerability of Arab banks to possible regional or international shocks, risk management processes at the level of individual

[58] In countries characterized by high state ownership in the banking sector, the prevalence of NPLs related to lending to state-owned enterprises tends to be higher. Iraq, Algeria and Libya, characterized by the dominance of public banks, therefore have higher than average level of non-performing loans.
[59] According to the latest available data, as of end 2012.

banks are crucial. **Robust risk management processes are critical due to the emergence of other, less traditional risks that Arab banks have hereto not addressed, including the emergence of cyber risks.**

Emerging information technology trends (e.g. the rise of bitcoin and cryptocurrencies, cyber warfare, etc.) present both risks and opportunities and, more generally, threaten to disrupt established banking and governance models. The larger risk of broader industry disruption by fintech has not been addressed in the strategic plans of most banks in the region, though their competitiveness going forward will be contingent on their ability to compete in the area of mobile and virtual banking.

Industry developments such as the emergence of fintech present a source of strategic risk but also of an opportunity for Arab banks which so far has been largely untapped except the UAE where both the Dubai International Financial Centre (DIFC) and the Abu Dhabi Global Market (ADGM) issued a framework for licencing fintech firms. These trends will require a fundamental overhaul of strategy and risk management processes both board and executive levels. Likewise, regional trends brought on by challenging macro-economic conditions in recent years, may translate into further consolidation in the banking sector and place additional stress on bank balance sheets.

Bank balance sheets will also be affected by the implementation of Basel III requirements which are at various stages of being introduced in the region. For instance, Basel III capital requirements have already been enforced in Lebanon and Morocco for progressive implementation, respectively, by end-2015 and end- 2018, while frameworks required to enforce these regulations are expected to be finalized in the near-term in Jordan and Tunisia. On the other hand, as explored in this report, frameworks for defining SIBs have been slower to implement across the region.

The introduction of capital requirements imposed by Basel is anticipated to have an impact on the growth trajectory of MENA banks. A recent analysis of the banking sector in the region highlights that it will experience an average capital shortfall of around 25 percent of the total regulatory capital required by 2019[60] (Strategy&, 2017). The higher capital requirements, combined with more stringent definitions of capital, mean that Middle East banks will need to raise more capital if they are to continue on the current growth trajectory (ibid).

Compliance with Basel but also with the AMF/CFT standards has been an area of significant attention for both banks and their regulators as the complexity of global regulations is growing. A number of countries in the region such as Lebanon and the UAE have recently signed the *OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters*, requiring them to share information on clients. At the same time, as Arab banks are being pressured by supranational and national authorities for greater transparency, de-risking by leading global banks implies that compliance with the existing frameworks is a sine qua non but condition but not a guarantee for Arab banks to remain integrated in the global financial architecture.

Notably, as a result of growing compliance pressures and related costs, the **de-risking by leading global banks has put pressure on correspondent banking relationships (CBRs) with Arab banks.** A survey of Arab banks conducted in 2016 suggests that withdrawals of CBRs in MENA have had an impact on 39 percent of banks in the region, affecting both commercial clients and even non-for-profit organisations (AFF, 2017). The main causes behind termination or restriction in CBRs with Arab banks region include changes to legal and supervisory requirements in foreign jurisdictions, fuelled by concerns about money laundering and terrorism financing (AMF, WB, IMF, 2016).

Industry and regulatory trends clearly highlight the important and increasingly expansive responsibilities of management and boards of Arab banks to adapt strategy to industry developments which may render existing operating models obsolete, while at the same time paying greater attention to domestic and international compliance obligations. Holding board and management accountable in turn requires a review of the "governance machinery" (i.e. risk and audit frameworks) that need to support governance organs in their interactions with the shareholders and the regulators.

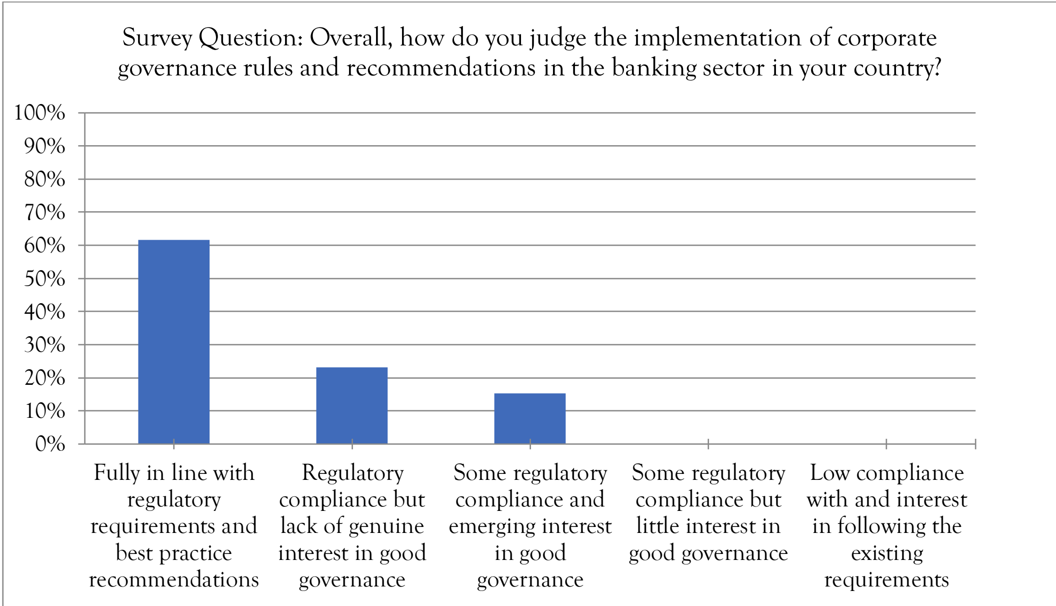
Going forward, **banks and central banks will benefit from a greater attention to corporate governance with a particular emphasis on further enhancing management and board skills to deal with major industry**

[60] In nominal value, for the 22 banks analysed, Basel III capital shortfall was estimated at over $35 billion USD in 2019, equal to roughly 25 to 28 percent of the total required capital.

developments and risks, as well as to address greater domestic and regulatory regulations, notably in the areas of tax and transparency. Further emphasis on how good governance can support growing compliance obligations of Arab banks is clearly useful as they are confronted with the implementation of Basel III, foreign reporting obligations and AML and tax transparency obligations.

Survey responses indicate that **60 percent of banks are generally content with the level of implementation of corporate governance in their organisation**. As highlighted in this report, ongoing transformation of bank governance frameworks in the region needs not only to support better board level governance and interactions with senior management, but also needs to support communication with the regulators and shareholders.

Figure 24. Implementation of Corporate Governance Guidelines/Regulation



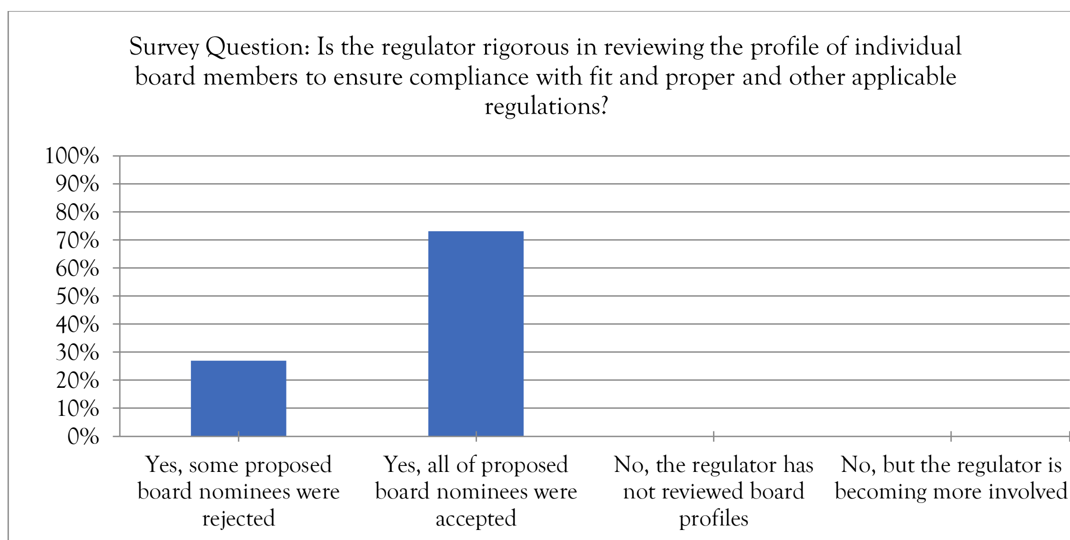
Source: GOVERN Survey, 2017.

Shareholders, especially in listed banks, are expecting reporting in line with their global peers. In listed banks, this reporting is usually supported by the Investor Relations department**. Regulators expect more detailed governance reporting by banks to support their supervision activities, in which governance is considered as a part of macro-prudential oversight**. In a number of countries, the law places an important degree of responsibility on bank boards for assuring the quality of communications between the bank and its supervisors.

Boards are increasingly expected to communicate with their supervisors on a regular basis as well to inform the regulators of any material evolutions.[61] At the same time, as highlighted by our survey, the regulators are not reflected in rigorous application of "fit and proper" requirements across the region. However, in several jurisdictions, auditors also have a duty towards the regulator.[62] In light of the important role of auditors, a number of regulators require for 2 external auditors for listed companies and banks (i.e. Lebanon, Egypt and Saudi Arabia).[63]

Figure 25. Application of Fit and Proper Requirements

[61] In Saudi Arabia for instance, bank boards are required to inform Saudi's SAMA for any material developments. Any penalties imposed on the bank or by any other authority must be reported to SAMA within 5 business days.
[62] For instance, in the UAE when the auditor submits his resignation or his services are terminated, the Central Bank of the UAE should be informed of this before this decision is implemented.
[63] While this remains a common practice in the MENA region, requirements for auditor rotation tend to be less onerous than international requirements.



Source: GOVERN Survey, 2017.

Reflecting the priorities and trends outlined above, this report focuses on measures to improve board-level governance, risk management and internal controls as well as regulatory compliance both domestically and also with respect to international regulations. **The recommendations put forth throughout this report are summarised in the following section.**

Although they do not address all aspects of the governance framework that regulators and banks need to implement in the coming years, they focus on issues of critical importance. It is hoped that their implementation will support banks and their regulators in focusing on areas and practices which are of utmost priority to the challenges Arab banks face today.

Summary of Policy Recommendations

The Regulatory Framework

- Regulators are encouraged to review the consistency of domestic regulatory standards with the revised *OECD Principles of Corporate Governance* and the *Basel Committee Principles on Corporate Governance*.

- Some regulators have already included corporate governance in the broader prudential assessments of banks and this practice should be encouraged.

- Regulators should consider the benefits and costs of introducing mandatory versus "comply-or-explain" approaches. A mixture of requirements may also be advisable in jurisdictions where the size and sophistication of banks may be variable.

- At the same time, central bank regulations bearing on governance of banks should be consolidated in a single code/recommendation with additional guidance if necessary in order to make them accessible and easy to follow.

- The regulations developed by central banks and securities regulators should be consistent as to ensure that listed banks can follow a framework that is not contradictory. Where banks have listed equity, regulators may wish to consider subjecting them to the same standards as other listed companies.

- Regulators may wish to consider addressing particular Shari'a governance concerns and prerogatives, either as part of the main corporate governance code or as a separate regulation.

- State-owned banks should be subject to the same regulatory framework as all other banks to ensure a level playing friend.

- The particular dynamics of family-owned banks merit to be considered from the perspective of ensuring there are the right separation of powers between ownership and management.

- Central Banks and other regulators are encouraged to consider introducing proportionality and flexibility and regulatory approaches to banks of different size, sector and complexity.

- The regulatory treatment of systemically-important banks as proposed by Basel Committee, including surveillance of corporate governance of such institutions, should be implemented in the region.

- Central Banks may wish to establish specialised units or expertise to monitor the implementation of good corporate governance in supervised entities. The efforts of the banking institutes established by a number of central banks can be complementary in providing training to boards and executives on corporate governance.

- Industry associations should be provided a formal role in the development of self-regulatory standards, including on corporate governance.

Board Nomination and Appointment

- The "fit and proper" criteria for board members merit to be further detailed to ensure that board members of banks are suited to fulfil their responsibilities.

- Central Banks should review the profile of board members individually and the board as a whole. Likewise, the resignation of board members as well as senior executives should be notified to the regulator.

- In addition to the corporate governance code, guidelines on board duties and responsibilities may be useful to outline the scope of fiduciary duties of board members.

- Board members serving on particular committees, notably the Audit Committee, should be subject to specific financial literacy criteria. Risk Management and Governance committees should also have individuals with specific skills and qualifications.

- Boards should be comprised of a sufficient number of independent directors and best practice would suggest that this means that at least 30-50% of board members be independent.

- It is critical that key committees of the board especially Audit, Nomination and Remuneration and Governance Committees are majority independent and led by an independent director.

- Regulators may wish to review existing board independence regulations and ensure that the appointment of directors in banks is consistent with the established requirements.

- Independence requirements should be set with reference to a negative criteria which should address any conflicts of interest situations which could compromise a director's objectivity.

- Independent directors should be limited in the number of mandates they can cumulate. They may be allowed to continue serving on the board after but shall not be considered as independent.

- Boards of banks should facilitate discussions among the independent directors separately from the main board and consider appointing a lead independent director to lead this discussion.

- Board members, especially those appointed as independent directors, should be free of conflicts of interest and should report to the board and the regulator immediately if there are any material changes to their situation.

- Regulators should consider measures to foster female participation on bank boards. This could include a range of measures including quotas and guidelines. Banks should be required to report to the regulator and the public measures they have adopted to foster diversity.

Board Effectiveness and Responsibilities

- Boards should adopt a board charter, outlining the role, responsibilities and composition of the board and its committees. The charter should address not only the regulatory requirements but also the specificities of the bank's ownership structure and other relevant parameters.

- Members of bank boards should take their duties seriously and hence should avoid sitting on more than 5 boards in order to dedicate sufficient time to their responsibilities. Conflicts of interest that might arise from their executive or board appointment in other organisations should be considered.

- Boards should conduct assessments annually and no less than every three years. Regulators might consider requiring boards to provide them the results of these assessments, which should include any actions that the board is taking as a consequence.

- Succession planning is a gap which is not addressed by all regulators in the region. The Nomination Committee should be charged with elaborating a succession plan for senior executives and the board.

- The requirement existing in most jurisdictions for board members to hold shares in order to qualify for board membership creates legal obstacles and should be abolished.

- Regulators should pay particular attention to regulations dealing with addressing conflicts of interest in the banking sector, taking into account the ownership structure of banks.

- Notably, regulators in best practice jurisdictions in the region have expressly forbid lending to board members and members of senior management.

- Boards should be supported by a qualified Corporate Secretary who should not be a member of the executive nor be a member of the board. The Corporate Secretary shall support the organisation of board meetings, board evaluations and training.

- Board members should receive training when they assume their responsibilities and periodically as it relates to the challenges faced by the board and/or the specific committee on which they serve. At the same time, boards should have the resources to engage external expertise if/when required.

The Risk Management Framework

- Bank executives and management should evaluate and seek to address particular risks stemming from concentrated lending and consider how domestic institutions may be impacted by economic and political shocks.

- They may consider reviewing limits established on exposures to a single organisation/high net worth individual by a particular bank. Likewise, regulators should consider exposures to such entities faced by the domestic banking system as a whole.

- Banks should establish specific procedures for approving related party transactions, including establishing specific thresholds for transactions that need to be approved by the board (or its Audit Committee) or the shareholders.

- Regulators may wish to retain the right to unwind abusive RPTs at the expense of the party at fault.

- The risks stemming from cross-border operations of domestic banks should be reviewed and coordinated with peer regulators in the region and internationally.

- Information technology, notably cyber risks, should be considered by the Risk Management Committees and strategies to address these in the short- and medium terms shall be devised.

- In fully and partially state-owned banks, the risks related to non-performing loans stemming from non-arm's length lending practices to the government or other SOEs need to be addressed.

- Certain practices such as lending to board members, especially when it is not done on market terms, should be forbidden. Other situations which may create conflicts of interest should be addressed in the board charter.

- The board of the bank should be aware of and have process to monitor the risk profile of the organisation as a whole and at the level of individual subsidiaries.

- Banks should appoint a Chief Risk Officer with the mandate to implement an enterprise risk management framework across the organisation. The CRO should also report to the board and the dismissal/resignation of a CRO should be notified to the regulator.

- The internal audit function should be endowed with the necessary resources and independence to carry out its activities. The Head of Internal Audit should report to senior management and to the board, at least annually.

- Governance of bank subsidiaries should be consistent with group-level practices. At the same time, care should be exercised so that these practices are consistent with the regulatory requirements in the jurisdiction where the subsidiary operates.

- Macro-prudential review of banks should take their risk management practices into account with the possibility that the regulator may levy an additional surcharge if the practices are insufficient.

- The board shall set up channels to receive complaints from the company's employees, partners or the broader stakeholder community. There should be a process established to review these complaints and the identity of whistle-blowers acting in good faith should be protected.

Shareholder Rights

- Shareholders should be informed of AGMs with sufficient notice to facilitate their participation. Shareholders, especially foreign shareholders, should be enabled to participate and vote in AGMs virtually via modern technology.

- It is increasingly considered a good practice for board members to participate in AGMs and to answer questions shareholders may have, in addition to the participation of executive management.

- In order to elect board members, shareholders should be provided with sufficient information about their profile, including their CV and how they fit the skill gaps of the board.

- Cumulative voting on board members is an increasingly recognised practice in the region and should be used to elect board members in banks.

- The annual report should include a corporate governance report outlining how the bank complies with domestic and international corporate governance guidelines and what actions the board is planning to adopt to further improve corporate governance.

- Disclosure should be provided through several modern and accessible channels of information including in particular the corporate website. To the extent possible, banks should provide reporting in English and Arabic.

- Listed banks should establish an investor relations function to liaise with shareholders. The head of this department should be of sufficient seniority to be able to address shareholder inquiries.

- Banks should review the quality of their non-financial disclosure to ensure that, in particular, governance, environmental and social disclosure are not provided as segregated information but in the form of integrated reporting.

- It is increasingly considered a good practice for bank boards and management to disclose the remuneration of top executives and board members, including a discussion on how it fosters long-term objectives of the organisation.

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ANNEX 1. BANK LEGAL AND REGULATORY FRAMEWORKS

Jurisdiction	Banking Law	Last Update	Corporate Governance Code	Last Update	Other Relevant Regulations on Corporate Governance
Bahrain	The Central Bank of Bahrain and Financial Institutions Law	2015	The Corporate Governance Code of the Kingdom of Bahrain	2010	- CBB Rulebooks - Commercial Companies Law 2001
Egypt	The Banking and Monetary System Law No. 88 of 2003, Amended by law No. 162 of 2004 and 93 of 2005	2005	Corporate Governance Code for Egyptian Banks	2011	- Listing requirements of the EGX - Corporate Governance Code (for companies listed on the EGX 2017 - Corporate governance code for state-owned enterprises (2006)
	Executive Regulations of the Law 88	2003			
	Companies Law No. 159 of 1981	2003			
Jordan	Central Bank of Jordan Law No.23 of 1971	2016	Corporate Governance Code for Banks	2016	- Corporate Governance Code for Shareholding Companies listed on the Amman Stock Exchange (2017)
	Banking Law No. 28 of 2000 Amended by Temporary Law No.46 of 2003	2003	Corporate Governance Code for Islamic banks	2016	
Kuwait	Law no. 32 of the year 1968 Concerning currency and the organisation of banking business	2007	Rules and systems of governance in Kuwaiti banks	2016	- Corporate governance code for KSE listed companies (2016)
			Regulations of governance oversight in Islamic Kuwaiti Banks	2016	
Lebanon	Law No 13513, Law of Money and Credit	1963	Basic Decision No 9382, Corporate Governance	2006	- Basic Decision No. 7737, 7776, 7818, 9286, 9793 9956, 11821 - Law No 234 on Regulating the Financial Intermediation Profession (2000) - Law No 318 on Fighting Money Laundering (2001)
	Law No 575 on the Establishment of Islamic Banks in Lebanon	2004	Basic Decision No 9725, Corporate Governance in Islamic Banks	2007	
Morocco	Central Bank Law No 76-03	2006	Moroccan Code of Corporate Governance for Credit Establishments	2010	- Circular on independent directors in banks (2016) - Circular on internal audit in banks (2001) - Circular on banks' reporting obligations to the CB (2000) - General Corporate Governance Code (2008)
	Banking Law 103-12	2014	Central Bank Directive on the Governance of Credit Establishments	2014	
Oman	Central Bank of Oman Banking Law	2012	Corporate Governance Guidelines for Banking and Financial Institutions (Circular 1119)	2014	- Commercial Companies Law promulgated by Royal Decree 55/90 - Money Laundering Law promulgated by Royal Decree 34/2002 - Circulars BM 705 (1993), BM 839 (1998), BM 868 (1999), BM 932 (2002), BM 1119 (2014), BM 919 (2001), BM 1135 (2015)
			Islamic Banking Regulatory Framework	2012	
			Code of Corporate Governance for PJSCs	2016	
Qatar	Law of the QCB and the Regulation of Financial Institutions (Law no. 13)	2012	Central Bank Corporate Governance Guidelines	2015	- Commercial Companies Law - Circular No. (88/2009) - Circular No. (75/2011) - Corporate Governance Code for Companies Listed in Markets Regulated by the QFMA (2009)
Saudi Arabia	Banking Control Law	2008	Principles of Corporate Governance for Banks Operating in Saudi Arabia	2014	- Commercial Companies Law (2016) - Clarifying Memo on Powers and Responsibilities of Members of the Board of Directors of Saudi Commercial Banks (2008) - Requirements for Appointments to Senior Positions in Financial Institutions Supervised by the Saudi Arabian Monetary Agency (SAMA) (2013) - SAMA Rules on Compensation Practices (2012) - Corporate Governance Regulations for Listed Companies (2017)
			Compliance Manual for Banks Operating in Saudi Arabia	2009	

Tunisia	Law No. 35 on the Status of the BCT	2016	Guidelines for Banks and Credit Institutions	2011	- Code of best practice of Corporate Governance (2008)
	Law No. 48 on Banks and Financial Institutions	2006			
UAE	The Federal Law No. (10) of 1980 concerning the Central Bank, the Monetary System, and the Regulation of Banking Profession	Ongoing by circulars and notices	Corporate Governance Requirements for UAE bank directors	2009	- Commercial Companies Law (2015) - Corporate Governance Code for listed companies (2016)
			Circular 23/00 Required Administrative Structure in Bank	2000	

Source: GOVERN Research, 2017.

ANNEX 2. BOARD COMMITTEE REQUIREMENTS

Jurisdiction	Audit committee			Nomination committee			Remuneration/compensation committee		
	Establishment	*Chair independence*	*Minimum number or ratio of independent members*	*Establishment*	*Chair independence*	*Minimum number or ratio of independent members*	*Establishment*	*Chair independence*	*Minimum number or ratio of independent members*
Bahrain	Yes	Yes	At least 3 and majority needs to be independent	Yes	Yes	Only independent or only non-execs (in the latter case majority needs to be independent)	Yes	Yes	Only independent or only non-execs (in the latter case majority needs to be independent)
Egypt	Yes	No	None, 3 non-executive board members	Yes	No	3 non-executive board members	Yes	Yes, recommended	3 non-executive board members
Jordan[64]	Yes	Yes	Majority must be independent	Yes	Yes	Majority must be independent	Yes	Yes	Majority must be independent
Kuwait	Yes	No	None, 3 non-executives including the head of the committee	Yes, allowed to merge remuneration and nomination	No	None, 3-executive including head of committee	Yes, allowed to merge remuneration and nomination	No	None, 3-executive including head of committee
Lebanon[65]	Yes	Yes	3, by virtue of BDL circulars	No	N/A	N/A	Yes	Yes	3
Morocco	Yes	No	Non-executive, a third independent	Yes	No	Non-executive, a third independent	Yes	No	Non-executive, a third independent
Oman	Yes	Yes	Majority needs to be independent	Yes	No	No	Yes	No	No
Qatar	Yes	No	All members must be independent or non-execs	Yes	No	It is preferable that all or most of its members are independent or non-executive directors	Yes	No	It is preferable that the majority is independent
Saudi Arabia	Yes	Yes	NA, but majority non- executive from either the board or outside the board	Yes	Not specified, but Chairman of the board cannot chair the	At least 2 of 3 members	Yes	Yes	At least 3 All members must be non-execs and preferably independent
Tunisia	Yes, only internal audit committee	No	No	No	No	No	No	No	No
UAE	Yes	Must not be the chairman of the board,	N/A	Yes	No	N/A	Yes	No	No

[64] In Jordan, regulations merged the Nomination and Remuneration Committee into one single committee.
[65] In Lebanon, separate, stricter requirements exist for banks.

		rotation of the chair at least once every 4 years							

Source: GOVERN Research, 2017.

ANNEX 2. BOARD COMMITTEE REQUIREMENTS: CONTINUED

Jurisdiction	Risk Committee			Governance/Ethics/Compliance Committee			Other		
	Establishment	*Chair independence*	*Minimum number or ratio of independent members*	*Establishment*	*Chair independence*	*Minimum number or ratio of independent members*	*Establishment*	*Chair independence*	*Minimum number or ratio of independent board members*
Bahrain	Recommended based on complexity of business	Yes	Only independent or non-executives (majority needs to be independent)	Yes	Yes	At least 3	Yes, Executive Committee if needed	N/A	N/A
Egypt	Yes	Non-executive chair	Majority must be non-executive	Yes	No	3 non-executive members	Executive Committee	No	No
Jordan[66]	Yes	No	At least three members of the board of which 1 must be independent	Yes	Yes	Majority independent	No	N/A	N/A
Kuwait	Yes	No	3 non-executive directors	No	-	No	No	N/A	N/A
Lebanon[67]	Yes	Yes	3 independent	No	-	-	AML/CFT Committee	Yes (and may not sit on other board committees)	No
Morocco	Yes	No	Non-executive, a third independent	No	N/A	N/A	No	N/A	N/A
Oman	Yes	No	No	No	N/A	N/A	No	N/A	N/A
Qatar	Yes	No	N/A	Yes	No	Independent or non-executive directors	Boards may establish other committees	N/A	N/A
Saudi Arabia	Yes	Non-executive	No	No	N/A	N/A	Executive Committee	No	No
Tunisia	Yes	Yes	No, but all committee required to be non-executive	No	N/A	N/A	Executive Credit Committee	No	No
UAE	Yes	No	All	No	N/A	N/A	Executive Committee on an optional basis	N/A	N/A

[66] In Jordan, regulations merged the Nomination and Remuneration Committee into one single committee.
[67] In Lebanon, separate, stricter requirements exist for banks.

INSTITUT POUR
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