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FSVC

CORPORATE GOVERNANCE BEST PRACTICES

A Toolkit for Bank Executives

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PREFACE

Good corporate governance is now recognized as an essential component of good bank management, no less important than sound financial reporting, strategic planning and risk management. Many of the bank failures which we have seen in the past decade, and many aspects of the turmoil which has been afflicting international financial markets during the last year, are attributable to failures of corporate governance.

Many international organizations have published policy documents outlining the principles and good corporate governance for banks. In 2004, the Organization for Economic Co-operation and Development (OECD) published its "Principles of Corporate Governance," much of which has direct relevance to banks. In February 2006, the Basel Committee on Banking Supervision published its paper, "Enhancing Corporate Governance for Banking Organizations." Many national regulators have published guidance to the banks which they supervise.

Within the Middle East, the Union of Arab Banks (UAB) has taken a lead in developing corporate governance principles which are applicable to banks in the region. As part of a project with the Center for International Private Enterprise (CIPE), the "General Guidelines for the Corporate Governance of Banks in the Arab Region" was published by the UAB in 2008. These Guidelines, which are the foundation for this Toolkit, were based on a comprehensive survey of corporate governance practices of Arab Banks, conducted in 2006 and 2007. The OECD has also established a task force to address corporate governance issues for banks in the Middle East. Both the UAB and the Financial Services Volunteer Corps contribute to this task force.

As a result of the efforts of the UAB and others, few bankers in the Middle East question the importance of good governance, or doubt the benefits which good governance can bring to the wider banking systems in which they operate. But what has been lacking – until now – is clear guidance on practical steps which senior executives need to take to upgrade the quality of governance within their own institutions.

Early in 2008, the UAB and the Financial Services Volunteer Corps joined forces to produce a concise guide for senior executives who are committed to improving governance within their institutions, but want practical guidance on the steps which they should take in pursuit of that goal. The result is the "Corporate Governance Best Practices: A Toolkit for Bank Executives."

The Toolkit was drafted by experts who have an extra-ordinary range of professional experience in the field of banking and finance. The draft was then reviewed by risk and compliance officers from more than 20 Middle Eastern banks. Their comments have been incorporated into the text which you have in front of you now. Further comments were received via a consultation process organized by the International Finance Corporation Global Corporate Governance Forum, and specifically from Stilpon Nestor, Cynthia Mike-Eze, Martin Steindl, Mervyn King, Philip Armstrong and Sebastian Molineus. The result is a document which combines international best practices with recognition of the realities of financial markets in the Middle East today.

Each chapter begins by stating basic principles governing one particular aspect of corporate governance for banks. These principles then form the basis for a "checklist" of specific, actionable steps which bank executives can take to ensure they are adhering to best practices.

Both FSVC and the UAB recognize that "ticking the boxes" is not enough. Building good governance is a painstaking process, and can only be achieved through constant self-evaluation. Policies are relatively easy to define – what is difficult is ensuring that they are being implemented and have become engrained in the culture of the bank. This Toolkit should therefore be seen as the beginning of a process, not an end. The Toolkit enables senior executives in the Middle East to be sure that they are asking themselves the right questions as they develop and upgrade governance within their banks. The questions can then be used a springboard into a more detailed discussion. For example, an executive may use the Toolkit to establish and define the responsibilities of key Board committees, such as the audit committee and the risk committee. From there, the executive will later be able to examine whether those committees are working well and fulfilling their objectives.

The authors and publishers of this Toolkit recognize that it is not comprehensive – it was never intended to be so. Some of the comments which we have received from financial institutions in the region have recommended that we add new sections and expand the scope of the Toolkit. For example, the Central Bank of Syria pointed out that particular and difference governance challenges arise in the case of Shari'a-compliant banks. The Central Bank of Syria is right to point this out, and the authors and publishers are grateful to the Central Bank of Syria for their contribution, but we decided that to include additional sections addressing Shari'a-compliant institutions would make the Toolkit too long, and compromise its status as a handy guide, as opposed to a comprehensive study. We also received comments on the section related to board committees, with some banks suggesting additional committees, or different configurations of committees, from those referenced in the Toolkit. Again, the comments were valid, but to have accommodated them would have entailed greatly expanding the length of the document. We did, however, change the wording of the section on board committees (Section 4) to make clear that the committees referenced in the Toolkit are not the only ones which a board may decide to establish.

The Union of Arab Banks and the Financial Services Volunteer Corps are proud to offer this Toolkit to bank executives throughout the Middle East. We welcome any comments you have and would be interested to hear of your experiences as you move to implement strong corporate governance in your institution.

Fouad Shaker	**Andrew Cunningham**
Secretary General Union of Arab Banks	Managing Director Financial Services Volunteer Corps

CHAPTER 1

DEVELOPING A CULTURE OF GOOD GOVERNANCE THROUGHOUT THE BANK

BASIC PRINCIPLES

Much that is written on corporate governance focuses on the duties of the board of directors, board committees and on financial reporting to outsiders for which the board and senior management are ultimately responsible. This is understandable, since it is the board and the senior managers who have the greatest role in "governing" the bank and it is they who are ultimately responsible for its performance. But corporate governance also needs to extend beyond directors and senior managers. All employees have a role to play in the sound operation of their bank, and corporate governance principles provide the guidance to ensure that they are discharging their responsibilities in line with the policies and controls established by management and the board.

Involving mid ranking and junior members of staff in the bank's governance policies should be seen by senior management as an opportunity to increase the overall performance of the bank. Giving employees a say in how the bank is governed goes hand-in-hand with delegation of authority. The more responsibility is delegated down the chain of command, the greater the need for governance to extend down the chain of command. One leading proponent of corporate governance in the region stresses that corporate governance should be seen as a way in which senior managers can empower their employees.

Yes	No	Has the bank established internal controls and procedures to govern the work and behavior of all its departments?
Yes	No	Does the bank have a Code of Business Ethics which all employees are required to sign when they join the bank?
Yes	No	Is the bank's Code of Business Ethics published on the bank's website?

Yes	No	Does every employee in the bank have a written job description?
Yes	No	Does every employee in the bank receive a formal performance review every year?
Yes	No	Does the bank have a system whereby employees can anonymously report abuses by other staff members and are such employees protected by law or through internal regulations?
Yes	No	Has the board created a "Corporate Governance Committee," whose mandate includes monitoring whether the bank is fulfilling its commitments to good governance?
Yes	No	Does the bank have a formal "Compliance Department" with a mission to ensure that employees understand and implement the bank's internal procedures and play their part in discharging the bank's external obligations[1].
Yes	No	Does the bank have an on-going program to raise employee awareness of corporate governance issues, and the role which every employee can play in strengthening governance within the bank.

Internal procedures and external requirements often coincide. For example, it is good business practice to require employees in certain departments to disclose any personal trading in shares. Such disclosure may also be required by regulatory authorities.

CHAPTER 2

DEFINING THE DUTIES OF THE BOARD OF DIRECTORS

1. KEY PRINCIPLES

There are a few key principles which govern the duties and functions of board members and these can be summed up as follows:

- The board should establish "checks and balances" in the power structure of the bank.
- The board should ensure efficiency of decision making by:
  - Separating executive actions from the oversight of those executive actions.
  - Defining the responsibilities of the board and of management.
  - Delegating responsibilities appropriately.
  - Ensuring that everyone is accountable for their actions and decisions.
- The board should ensure that the bank is transparent to outsiders.
- The board should ensure that the rights of shareholders and other stakeholders are respected.

2. RESPONSIBILITIES AND DUTIES OF THE BOARD

Usually, the most challenging aspect of good governance is the establishment of effective oversight by the board over management. On the one hand, authority has to be delegated to management so that they can manage the bank, and this involves removing board members from any day-to-day participation in the operations of the bank. On the other hand, management has to be made accountable to the board, and the board has to be capable and equipped to exercise that oversight function.

Of course, some senior executives, such as the Chief Executive, sit on the board as executive directors. It is therefore important that there is a clear distinction between these executive directors and the rest of the board, who are non-executive directors. The two types of directors have different responsibilities and accountability both in the board room and in respect of the bank's day-to-day operations.

A crucial aspect of "oversight" entails approving and reviewing the bank's strategy, setting performance indicators for management, and reviewing management's performance. Board members also need to understand the risks which the bank is taking and review internal controls. The board's responsibilities also extend to protecting shareholders rights, and the wider community.

OVERSIGHT

Yes No Has the board officially approved a set of Key Performance Indicators, which can be used to measure the bank's progress and also the performance of the management team?

Yes No Does the board review and discuss the performance and remuneration of the Chief Executive (without the Chief Executive being present) and of other key members of management (also, without them being present)?

Yes No Has the board drawn up a succession plan to be implemented if key individuals (the Board Chairman, key directors, the chief executive, key managers) leave the bank?

RISK

Yes No Does the board hold specific discussions on the risks which the bank is taking, based on data and explanations provided by management?

Yes No Does the board hold specific discussions on the adequacy of internal control procedures, compliance and anti-money laundering policies at the bank?

Yes No Does the board hold management accountable for large loan exposures and other exceptional transactions?

SHAREHOLDERS

Yes No Are Annual Meetings (and any extra-ordinary meetings) conducted in a way that shareholders are able easily to ask the board questions about the election of directors, their remuneration, the selection of auditors, and the auditors' remuneration.

Yes No Are shareholders given guidance on the level of dividends which they are likely to receive and on other financial performance metrics which the bank is targeting, such as the level of capital?[2]

Yes No Has the board established guidelines on acceptable trans actions which the bank may undertake with "connected persons" (members of management or the board) and related parties, policies for approving such transactions and for disclosing such transactions, and are there adequate approval mechanisms established by law or otherwise?

Yes No Does the board have clear polices defining the independence of the external auditor? (For example, defining how much non-audit work they may undertake for the bank, requiring rotation of the audit firm, or of the partner in charge after a certain number of years.)

Yes No Does the board conduct regular, formal reviews of the bank's strategy?

3. ENSURING EFFICIENCY AND EFFECTIVENESS OF THE BOARD

If a bank is to operate efficiently and effectively, there needs to be a properly organized and coherent system of governance procedures and governance structures. Since banks are complex institutions, which are used to operating under strictly controlled conditions, it is not difficult for a bank to organize such a coherent system of governance.

Board members need to be diligent and capable and their performance needs to be assessed.

Yes No Does the bank's Annual Report include a table showing how many board meetings each board member has attended over the course of the year?

2. For example, the bank may say that it is hoping to expand its business into a new region over the following two years, but that the pace of such expansion will be conditional on its Tier 1 Capital Ratio not falling below 5%.

Yes No Does the bank's Annual Report give a summary of the background and professional experience of board members and senior management?

Yes No Does the bank have a formal orientation program for new board members, and does it organize formal training sessions for existing board members, to keep them up to date with the technical aspects of modern banking, and developments in the bank's business?

Yes No Do independent directors represent a substantial proportion of the total board? (Independent directors can be defined as those who have no links with the bank other than their directorships; are not shareholders; and are not connected with major shareholders or with management.).

Yes No Does the Chairman hold regular, scheduled meetings with the Chief Executive Officer?

Yes No Is an annual evaluation carried out of the board itself, its committees and its members?[3]

3. For example, the board might commission an outside body to review whether the board is meeting the objectives which it has set itself, and, similarly, whether the board's committees are acting effectively.

CHAPTER 3

PROTECTING THE RIGHTS OF SHAREHOLDERS AND OTHER STAKEHOLDERS

BASIC PRINCIPLES

The "corporation" is a flexible and reliable business model which separates the ownership of a company (or a bank) from its management and enables capital to be raised from many different sources. But the "corporate model" only works if the rights of shareholders are clearly defined and enforceable.

The main rights of shareholders relate to ownership and transferability of shares; a pro rata right to dividends and to corporate assets in the event of liquidation; and defined rights to participate in certain corporate decisions.

However, different shareholders may have different objectives and the managers of a bank may have access to information that the shareholders do not have. This could lead management to make decisions which are different from those which the shareholders – the owners of the business – would make for themselves.

Good corporate governance tries to reconcile these potentially conflicting interests (differences within the shareholder group and differences between shareholders as a whole and management). It also guides the way in which controlling shareholders and managers treat other shareholders, and ensures that decisions affecting shareholders are applied and communicated uniformly. There needs to be an appropriate method of legal redress in case abuses occur.

BASIC RIGHTS OF SHAREHOLDERS

The bank's charter should define the basic rights of share ownership, such as the right to buy, register and transfer shares on an equal basis with others who own the same type of shares, the right to pro rata distribution of dividends and, in the event of liquidation, the company's assets, the right to participate and vote at general meetings, the right to receive timely and relevant information regarding shareholder meetings and the bank generally.

Yes No Does the bank provide for registration, disclosure of beneficial ownership, and unrestricted transfer of shares? Are any exceptions, such as limitations on foreign ownership, fully disclosed?

Yes No Do all shareholders have the right to participate in and vote at general shareholder meetings, including for the election of directors?

Yes No Are all shareholders provided with timely, material and relevant information regarding the issues to be addressed at shareholder meetings and with respect to the affairs of the bank generally?

Yes No Do all shareholders participate pro rata in the dividends and other distributions of the bank, and in the assets of the bank in the event of liquidation?

EQUITABLE TREATMENT OF SHAREHOLDERS

"Equitable treatment" is something which strongly affects how attractive share ownership in the bank will be to potential investors. Any mechanisms which have the intent or the consequence of limiting or restricting the rights of the average shareholder need to be disclosed. This might include "control agreements" among a group of shareholders, or devices to make it difficult to remove existing management.

In order to ensure equitable treatment of shareholders, it is essential that there is a legal framework giving shareholders a means to seek redress for any abuses which they suffer. Furthermore, transparency is facilitated by legal requirements that shareholdings above a certain percentage should be publicly reported and any special shareholder agreements disclosed.

Yes No Are shareholders always given the opportunity to vote on significant issues facing the bank such as changing the terms and conditions of the bank's shares or its governance documents; or a major transaction such as a merger?

Yes No If mechanisms are in place to a) give disproportionate control to one group of shareholders or b) entrench the current management team ("poison pills"[4]) are these properly disclosed, for example in the Annual Report?

Yes No Does the legal framework in which the bank operates protect shareholders against abusive practices such as insider trading or self-dealing?

Yes No If shareholders feel that their rights have not be respected, are there legal or regulatory mechanisms which they can use to get redress[5]?

Yes No Regardless of what the law says, does the bank's regulator provide a way for shareholders who feel they have been unfairly treated to seek redress from the bank?

RIGHTS OF MINORITY SHAREHOLDERS

It is possible that early private equity investors, or others, have special shareholder agreements with the bank giving them greater voting rights or control arrangements. A government or a family group which has a significant ownership share may have a specific agenda which is not necessarily in the interests of all shareholders – any specific ownership arrangement between the bank and the government or a family group should be disclosed.

Yes No Do the corporate governance documents of the bank require a quorum (minimum attendance) and/or a majority decision (minimum number of people in favour) for certain decisions which are put to a shareholder vote, for example, amendments to the bank's by-laws, increases or decreases to capital, and mergers and acquisitions?

4. "Poison pill" is a term used to describe devices used by existing management and/or boards to make a hostile take-over unattractive. For example, a company might put in place provisions which ensure that a hostile take-over will automatically trigger an issuance of shares which existing shareholders can buy, so diluting the shares of the hostile acquirer.

5. In providing protection to investors, a distinction can usefully be made between ex-ante and ex-post shareholder rights. Ex-ante rights are, for example, pre-emptive rights and qualified majorities for certain decisions. Ex-post rights allow the seeking of redress once rights have been violated. In jurisdictions where the enforcement of the legal and regulatory framework is weak, some countries have found it desirable to strengthen the ex-ante rights of shareholders such as by low share ownership thresholds for placing items on the agenda of the shareholders meeting or by requiring a supermajority of shareholders for certain important decisions.

Yes No Do all shareholders have equal rights to subscribe to capital increases (so that shareholders' stakes cannot be forcibly diluted)?

Yes No If there are any special shareholder agreements (for example, giving control or special rights to a limited group of shareholders such as a government entity or a family group), are such agreements made public (for example in the Annual Report)?

Yes No Do the bank's by-laws or Articles of Association enable shareholders, under defined conditions, to call special meetings, add agenda items to meetings, and receive timely notice of shareholder meetings?

Yes No Are there fair voting procedures to ensure that minority shareholders have an effective voice in the election of directors? (One way of ensuring this is a system of "cumulative voting").

OTHER STAKEHOLDERS

Regulated entities, such as banks, are under a lot of pressure to take into account the interests of the community, the environment, and other stakeholders such as employees. Banks now try to turn socially responsible banking policies, such as financial education and banking services for the poor, into a competitive advantage.

Yes No Are the rights of depositors and other creditors explicitly and adequately defined and protected in the bank's published policies on corporate governance?

Yes No Has the bank taken specific steps to align the long term interests of employees with the long term interests of the bank?

Yes No Is the bank implementing programs which take account of social, charitable or other non-traditional objectives which may serve the interest of the bank, its employees, or community in other ways?

Yes No Does the bank have programs or procedures which enable employees or other groups to express their views on community issues, perceived unethical practices, or other concerns?

CHAPTER 4

INTERNAL STRUCTURES: THE ROLES AND DUTIES OF COMMITTEES of the Board

BASIC PRINCIPLES

The Board of Directors is ultimately responsible for the operations and financial soundness of the bank, but the board can extend its oversight capacity by forming specialized committees to oversee specific areas of the bank's operations.

Typically, a bank would have committees covering the following areas:
- Audit
- Risk
- Remuneration
- Nomination

This list of four committees is not exclusive – many banks have additional committees, such as a compliance committee. Others may have a different committee configuration – for example, combining those responsible for audit and risk. However, the four areas citied here – audit, risk, remuneration and nomination – not only cover the most important subject areas of board oversight, but also illustrate how specialized committees can enable detailed supervision of key corporate functions.

Board committees are not a substitute for oversight by the full board. Committees should not have executive powers – their decisions need to be ratified by the full board.

Committees should have written terms of reference defining their role, powers, duties and responsibilities; their members should be drawn from the independent directors (rather than executive directors); and their work should be formally recorded and a summary given in the Annual Report.

In addition to committees, the board should also appoint a Lead Independent Director (sometimes knows as a "Senior Independent Director") as the contact point for shareholders who feel their concerns have not been addressed through the normal channels, such as contact with the Chairman, the Chief Executive, or the Finance Director.

Yes No Does each board committee have written terms of reference setting out its roles, functions, responsibilities, and power?

Yes No Does the bank's Annual Report contain a short report on the activities of each of the committees?

Yes No Is the attendance record of the committee members included in the bank's Annual Report?

Yes No Do all decision of board committees have to be ratified by the full board before they become effective?

Yes No Are all the members of a committee independent directors (as opposed to executive directors)?

Yes No Has the board appointed a "Lead Independent Director"?

AUDIT COMMITTEE

The responsibilities of the audit committee include overseeing the bank's internal and external auditors; making recommendations to the full board on the appointment, compensation, and dismissal of external auditors; and ensuring that timely action is taken to address weaknesses in internal controls, non-compliance with policies, laws and regulators; and any other problems identified by internal or external auditors.

Yes No Does the audit committee comprise only independent board members?

Yes No Has the role of the audit committee been clearly defined by the board, along with the term of office of its members and the dates of its meetings?

Yes No Does the audit committee have relevant and recent experience of financial reporting, auditing and accounting?

Yes	No	Does the audit committee have the power to require the chief executive, the chief financial officer and the internal auditors to attend its meetings?
Yes	No	Does the audit committee have the power to request information from any employee in the bank?
Yes	No	Does the audit committee have the ability, and the resources, to get advice from external persons or entities?
Yes	No	Does the audit committee meet separately with the external auditors, with the senior management and with the internal auditors at least once a year?
Yes	No	Does the audit committee make a recommendation to the Board of Directors on the appointment of external auditors, including the fees to be paid to those auditors?
Yes	No	Does the audit committee comment on the extent to which the independence of the recommended auditors may be affected by additional services which they are providing for the bank?
Yes	No	Does the audit committee review the work plan of the external auditors and the internal auditors, and review the results of their work?
Yes	No	Does the audit committee have clear and written authority over the internal audit staff and their work?
Yes	No	Does the audit committee review all related party transactions and ensure that the rules governing such transactions are being followed.

RISK COMMITTEE

The risk committee monitors the principal risks which the bank has facing, including those which management may not be aware of or may be under-estimating. The role of the risk committee has been highlighted during the recent distress in international financial markets – there seems little doubt that some board members did not understand the risks which their bank was taking and were unable to exercise oversight of management actions.

Yes No Does the risk committee include a majority of non-executive directors?

Yes No Do members of the risk committee fully understand the more complex financial instruments which the bank structures, sells, or buys?

Yes No Do members of the risk committee have a system by which they can oversee the entire risk profile of the bank at any one time, and see how that profile may change over time?

Yes No Does the risk committee review, and make recommendations to the full board on the appropriate level of risk (both total and individual) which may be safely assumed by the bank?

Yes No Does the risk committee approve exceptional transactions (such as unusually large transactions or the launching of a new product) while still holding management accountable for their recommendations on these matters?

REMUNERATION COMMITTEE

The remuneration committee assists the board to monitor the performance of senior management and their compensation. The committee also ensures that the bank's compensation policies as a whole are consistent with the bank's corporate culture, long-term objectives, and control environment. All members of the remuneration committee should be non-executive directors.

Yes No Are all members of the remuneration committee non-executive directors?

Yes No Does the committee review any changes to senior managers' bonus and benefit plans before they are implemented?

Yes No Has the remuneration committee ensured that bonus and incentive schemes motivate employees to focus on the long-term well-being of the company rather than short-term objectives?

Yes No Has the remuneration committee ensured that performance related incentives for senior managers are based on well-defined and verifiable criteria.

Yes No Does the remuneration committee review high-level staffing issues such as employee retention strategies?

Yes No Does the remuneration committee review the compensation of board members and of senior management to ensure that it is consistent with the bank's culture, long-term objectives, strategy, and control environment?

NOMINATIONS COMMITTEE

The nominations/appointments committee oversees the appointment of board members and ensures that the process is formalized and transparent. The committee also oversees succession planning for the board and ensures that plans for senior executive succession planning are in place. The nominations committee should include non-executive directors.

Yes No Does the nomination committee include a majority of non-executive directors?

Yes No Has the committee established (and the board approved) succession plans for senior executives and the chairman?

Yes No Has the committee established (and the board approved) clear procedures for the appointment of senior staff and the recruitment of new board members?

Yes No Has the recent appointment of senior staff and board members followed the procedures which have been agreed?

CHAPTER 5

TRANSPARENCY AND DISCLOSURE: WHAT TO DISCLOSE AND TO WHOM?

BASIC PRINCIPLES

Effective and timely disclosure enhances a bank's reputation for integrity and gives investors and others confidence in its financial reporting. Shareholders and potential investors require reliable, consistently presented information in order to assess management performance and strategy, and from there to make informed decisions when they vote their shares. There are three key areas of disclosure:

- Financial performance.
- Financial and non-financial risk exposure.
- Corporate governance standards.

FINANCIAL PERFORMANCE

Market participants (for example, bond holders, as well as equity investors), regulators and other stakeholders need to be given timely access to complete and accurate information concerning the financial condition and performance of the bank. The annual report and interim reports are the central vehicle for the provision of such information. The audit of the bank's financial statements should be done by a respected and knowledgeable accounting firm which has experience of bank audits.

Yes	No	Are the bank's financial statements audited by a recognized and competent accounting firm?
Yes	No	Are the bank's financial statements prepared in accordance with IFRS or a similar high-standard financial reporting standard?
Yes	No	In addition to the balance sheet, income statement, and cash flow analysis, does the bank's annual report include a discussion by management of its business strategy, financial performance, accounting performance, risk profile and other factors which may affect how the financial statements are interpreted?

Yes No Are the financial results presented on both a consolidated and an unconsolidated basis?

Yes No Are the quality of both assets and liabilities adequately disclosed, for example, by highlighting geographic or sectoral concentrations, provisions for loan losses, and guarantees and contingent funding commitments?

RISK EXPOSURE

Financial disclosure should include an explanation of risk limits, strategies and procedures for monitoring and managing risks, and the discussion of how effective those strategies have been. In addition to regular disclosures, the bank should be ready to make immediate public disclosure of any unexpected events which could have a material impact on the financial condition of the bank, including its share price.

Yes No Does the bank's annual report include a section explaining the bank's risk tolerances, its risk exposures, and its strategy for managing risk?

Yes No Are off-balance sheet transactions and commitments disclosed and explained?

Yes No Does the bank disclose its policies on the use of derivatives for hedging and other hedging techniques?

Yes No Does the bank have a policy in place to ensure prompt disclosure of material, unforeseen events, or developments which could affect the bank's performance?

CORPORATE GOVERNANCE DISCLOSURE

Banks should disclose their strategic objectives, basic organizational and governance structure, and their strategy for dealing with changes in market conditions and the competitive landscape. A bank should also provide information on its compliance with good corporate governance practices and codes. To do this the bank should adopt a code of business conduct detailing internal policies to which management and staff are held accountable.

Yes No Has the bank published an account of its business objectives and its organizational and governance structure?

Yes No Does the bank's annual report explain the incentive structure and remuneration practices for senior management, as well as the actual amounts paid (either in cash or in stock) to senior managers and to directors?

Yes No Does the bank have a corporate governance policy and a code of ethics and, if so, are these published?

Yes No Do the CEO and CFO publicly certify that financial statements are correct?

CHAPTER 6

STAYING AHEAD OF THE CURVE: WHAT'S NEW IN CORPORATE GOVERNANCE?

Although the concept of corporate governance has existed for as long as there have been corporations, it is only recently that corporate governance has emerged as a distinct discipline and the subject of particular study and focus. Not only is thinking on governance constantly developing, but coverage of governance issues is constantly widening.

Executives who are keen to ensure that their governance practices are in line with the newest thinking, and with generally accepted best practices, should review the websites of organizations such as the Organisation for Economic Co-operation and Development (OECD), the Bank for International Settlements, the International Finance Corporation (IFC), and other international bodies who frequently produce research on governance. Accounting firms and consultancy firms also produce reports and recommendations on good governance practices, which are usually freely available on their respective websites. Within the Middle East, both the Union of Arab Banks (UAB) and the Hawkamah Institute of Corporate Governance have published guidelines on corporate governance.

Since 1999, the World Bank Group and the International Monetary Fund a "Report on Standards and Codes" (ROSC) on various countries. ROSCs typically include analysis of corporate governance standards within the country being examined.

Another source of ideas is the Annual Reports of other banks – seeing the standards being used by other banks and how compliance with those standards is reported in the banks' Annual Reports provides a good impression of trends and of generally accepted good practices.

The most important source of new information on corporate governance is the bank itself – analyzing one's own performance is the best way to develop and improve corporate governance. For example, when the CEO resigned to take up a new position, was the succession planning work done by the nomination committee effective in smoothing the transition to a new CEO? Did the nomination committee follow the procedures for recruiting a new CEO which had been agreed by the board?

The most difficult times to maintain good governance practices are times when the bank is under stress. Financial market turmoil, such as that seen in 2008, often leads senior executives to abandon well-thought through procedures and go for “quick fixes.” The period immediately after market stress is an excellent time to review whether governance policies which were prepared during good times remained robust when times were bad.

APPPENDIX 1

BIOGRAPHIES OF TOOLKIT AUTHORS AND EDITORS

Toolkit Authors

Abdul Hakim Kanan
Chief Internal Auditor, Dubai Islamic Bank Group

Mr. Kanan has over 23 years of experience in internal audit and risk management having held senior positions at five of the largest banks in the United Arab Emirates. He is a former President of the UAE chapter of the Institute of Internal Auditors and a former Board Member of the UAE chapter of the Information Systems Audit & Control Association.

Nicholas Krasno
Managing Director, Krasno Financial Advisory

Mr. Krasno has over 30 years of international experience in banking and finance. In 2003, he established his own financial consulting and advisory practice. Prior to founding his own firm, Mr. Krasno was Senior Vice President in the Financial Institutions, Banking & Sovereign Risk Group of Moody's Investors Service and before that was an officer with several North American banks.

Robert C. Dinerstein
Former Co-Chair, Global Financial Institutions, Greenberg Traurig

Mr. Dinerstein is a distinguished attorney and served as Global Co-Chair and New York Chair of Greenberg Traurig's Financial Institutions Practice until July, 2008. Before joining Greenberg Traurig, Mr. Dinerstein was Vice Chairman, Americas and Senior Corporate Counsel at UBS Investment Bank, and prior to that was its Global General Counsel. He also served as general counsel of Shearson Lehman Brothers and Citicorp's Investment Bank.

Michael Robert Hanlon
Non-Executive Chairman, ICB Banking Group

Mr. Hanlon is a Retail Banking Executive with extensive business and management experience gained both in the UK and within Central and Eastern Europe. He is the former CEO of Islamic Bank of Britain and has held senior management positions at Raiffeisen Zentralbank Osterreich, Raiffeisen Bank Polska, and Barclays Bank.

James C. Key
Principal Partner, Shenandoah Group, LLP

Mr. Key is the principal partner of The Shenandoah Group, a consulting firm focused on enterprise risk, governance, and control solutions to help organizations add value for their enterprises. He was formerly Director of Internal Audit at IBM Corporation where he had responsibility for audit operations in North America and Asia Pacific. Mr. Key is currently a facilitator for the Institution of Internal Auditor's Vision University for audit executives.

Toolkit Editors

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Mr. Cunningham joined FSVC in 2004 to establish and manage the company's office in Cairo. He transferred to New York in 2006 to manage the company's Middle East programs and has since been given additional responsibility for FSVC's work in the Balkans. Prior to joining FSVC, he was a Senior Vice President with Moody's Investors Service, rating banks in the Middle East and Europe.

Myla Yee
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Ms. Yee oversees the Financial Services Volunteer Corps' commercial banking practice. She joined FSVC in 2004 and has served in various capacities at the firm, most recently as Country Representative in Albania. She has worked with the United Nations, World Bank, UBS, Smith Barney, and the Trickle Up Program.

Rania Z. Khouri
Director, Union of Arab Banks

Ms. Khouri is responsible for developing and implementing projects aimed at supporting and strengthening the Arab Banking sector. She began her career in banking in 1988 as a credit officer then joined the UAB in 1992.

Amina El-Sharkawy
Program Officer, Middle East and North Africa, Center for International Private Enterprise (CIPE)

Ms. El-Sharkawy oversees the Center for International Private Enterprise (CIPE)'s program in the Levant sub-region (Lebanon, Syria, and West Bank/Gaza), Turkey, and Iran. She develops and manages corporate governance, advocacy, anti-corruption, entrepreneurship, and business association capacity building programs for CIPE's projects in the aforementioned countries. El-Sharkawy previously worked at the World Bank Institute Finance and Private Sector Development division, where she led a regional competitiveness and corporate responsibility project in the MENA region.

Dina Kaddouh
Director, Union of Arab Banks

Ms. Kaddouh, joined the Union of Arab Banks in 2007, she is responsible for coordinating projects between UAB and International and Regional Organization. She has over 15 years of experience in the banking sector where she most recently held the position of deputy branch manager in a leading Lebanese bank.

APPENDIX 2

FEEDBACK

As a first step the Union of Arab Banks sent the toolkit to governors of central banks in the region and UAB board members, several have highly commended the work of the toolkit and others suggested several amendments or additions, which we have incorporated.

Moreover, to galvanise more feedback from banks in the region, the UAB has circulated the toolkit to its members, conducted workshops, and finally received the support of its general assembly held on April 19, 2009 to adhere and comply with the General Guidelines for the Corporate Governance of Banks in the Arab Region and use the Corporate Governance Toolkit.

Workshops were held in several countries across the region (Lebanon, Jordan, Egypt, UAE and Tunisia) where experts in corporate governance from the banking sector from the country itself and across the region sat and discussed the particulars of the toolkit. Feedback was incorporated and this is the final version. For the sake of confidentiality names and banks are not mentioned here.

Lastly, we would like to thank the following institutions for their assistance:
1- Lebanese Transparency Association for their providing their experts during workshops
2- Egyptian Institute of Directors represented by Dr. Ashraf Gamal, for collaborating with us during workshop held in Cairo.
3- IFC Global Corporate Governance Forum for organizing comments by Stilpon Nestor, Cynthia Mike-Eze, Martin Steindl, Mervyn King, Philip Armstrong and Sebastian Molineus.
4- l'Institut Arabes des Chefs D'entreprises IACE , represented by Mr. Majdi Hassen Executive counsellor, for collaborating with us during workshop held in Tunisia
5- Ms. Alissa Koldertsova, Policy Analyst, Corporate Affairs Division, Organisation for Economic Co-operation and Development for generously giving of her time to comment on the toolkit.

APPENDIX 3

TOOLKIT PROJECT TEAM

THE UNION OF ARAB BANKS (UAB)

The Union of Arab Banks currently comprises of more than 330 Arab financial and banking institutions. This makes the UAB the foremost banking and financial consortium in the region, and the truest representative of the Arab banking community. The UAB is committed to serving the Arab banking sector, ensuring its complete compliance to international financial standards, and strengthening its international cooperation with the world marketplace and thus participation in international initiatives.

Over the last three decades, UAB has developed its role as a pivotal referral entity for the Arab banking community through its professional training, information, research and advisory services in the fields of finance and banking. The UAB is a leader in organizing seminars, forums and conferences in Arab and non-Arab countries. The UAB organizes annually forty to fifty seminars in the Arab region, one international conference in a foreign country, and three conferences in the Arab region. These play a major role in developing the thinking, awareness and practices in the Arab banking sector.

UAB is renowned for its banking and communication capabilities within its member base, with other financial and banking institutions in the Arab region, and with key international financial markets.

FINANCIAL SERVICES VOLUNTEER CORPS (FSVC)

The Financial Services Volunteer Corps (FSVC) builds strong financial systems that enable developing and emerging market countries to realize economic opportunities and their citizens to achieve a better quality of life. FSVC is a not-for-profit, private-public partnership that carries out its mission by recruiting leading financial, legal and regulatory experts. These volunteers provide state-of-the-art technical assistance to overseas partners and build personal bridges across international borders. FSVC's targeted, results-driven missions help develop central bank capabilities, strengthen commercial banking systems and build capital markets.

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE (CIPE)

The Center for International Private Enterprise (CIPE) strengthens democracy around the globe through private enterprise and market-oriented reform. CIPE is one of the four core institutes of the National Endowment for Democracy and a non-profit affiliate of the U.S. Chamber of Commerce. For 25 years, CIPE has worked with business leaders, policymakers, and journalists to build the civic institutions vital to a democratic society. CIPE's key program areas include anti-corruption, advocacy, business associations, corporate governance, democratic governance, access to information, the informal sector and property rights, and women and youth.

As part of a project with CIPE, UAB published the "General Guidelines for the Corporate Governance of Banks in the Arab Region" in 2008; these Guidelines form the foundation for this Toolkit. The Guidelines were based on a comprehensive survey of corporate governance practices of Arab Banks, which was conducted in 2006 and 2007 in partnership with CIPE. CIPE provided editorial support for this Toolkit, as well as supported and contributed to the overall effort of the Toolkit's development, awareness-raising, and dissemination.