

# Key Principles of Governance in Financial Institutions

## under the Control and Supervision of the Saudi Central Bank

(3<sup>rd</sup> Edition – Dhul Qidah 1442H/June 2021)

### Important Note

To keep pace with updates and amendments regarding the instructions issued by the Saudi Central Bank, SAMA emphasizes the need to always rely on the versions published on its website: [www.sama.gov.sa](http://www.sama.gov.sa).

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# Chapter I

## Definitions and General Provisions

### 1. Definitions

The following terms – whenever they occur in these Principles – shall have the meanings assigned thereto unless the context requires otherwise:

Term	Definition
<b>Central Bank</b>	Saudi Central Bank.
<b>Financial Institution</b>	An entity subject to the control and supervision of the Central Bank, with the exception of insurance and reinsurance companies.
<b>Board</b>	The Board of Directors of the financial institution.
<b>Executive Management (Senior Management)</b>	Persons entrusted with managing the daily activities of the financial institution, and proposing and implementing strategic decisions.
<b>Member</b>	A member of the Board or any of its committees.
<b>Executive Member</b>	A full-time member of the executive management of the financial institution, who participates in managing its daily activities.
<b>Non-Executive Member</b>	A member who is not a full-time member of the executive management of the financial institution and who does not participate in performing its daily activities.
<b>Independent Member</b>	A member who has complete independence in his position and decisions, and who shall not be subject to the following factors affecting independence, to name but a few: <ol style="list-style-type: none"><li>if he holds 5% or more of the shares of the financial institution or any other company within its group, or is a relative of a person who owns such percentage;</li><li>if he is a representative of a legal person that holds 5% or more of the shares of the financial institution or any company within its group;</li><li>if he is a relative of any member or senior executive of the financial institution, or any other company within its group;</li><li>if he is a member of any company within the group of the financial institution for which he is nominated to be a member;</li></ol>

	<ul style="list-style-type: none"> <li>e. if he works or used to work, within the preceding two years, for the financial institution, for any party dealing therewith, or for any company within its group, such as external auditors and main suppliers; or if he, within the preceding two years, held controlling interests in any such parties;</li> <li>f. if he has a direct or indirect interest in the businesses and contracts executed for the benefit of the financial institution;</li> <li>g. if he receives financial consideration from the financial institution in addition to the remuneration for his membership of the Board or of any of its committees that exceeds an amount of SAR 200,000 or 50% of his remuneration of the last year for his membership of the Board or any of its committees, whichever is less;</li> <li>h. if he engages in a business where he competes with the main business activity of the financial institution, or if he conducts business in any of the activities practiced by the financial institution;</li> <li>i. if he served for more than nine years, consecutive or inconsecutive, as a member of the financial institution.</li> <li>j. If he has a credit relationship, in his name or in the name of any of his relatives, with the financial institution that exceeds SAR 1,000,000.</li> </ul>
<b>Relatives</b>	Fathers and mothers; grandfathers and grandmothers; children and grandchildren; and husbands and wives.
<b>Substantial Shareholders</b>	Any person who owns 5% or more of the shares of the financial institution or voting rights therein.
<b>Related Parties</b>	<ul style="list-style-type: none"> <li>a. Substantial shareholders in the financial institution;</li> <li>b. Board members of the financial institution or any of its affiliates and their relatives;</li> <li>c. Senior executives of the financial institution or any of its affiliates, and their relatives;</li> </ul>

	<ul style="list-style-type: none"> <li>d. Board members and senior executives of substantial shareholders of the financial institution;</li> <li>e. Establishments – other than companies – owned by a member or a senior executive, or their relatives;</li> <li>f. Companies in which a member or senior executive or any of their relatives is a partner;</li> <li>g. Companies in which a member or senior executive or any of their relatives is a member of their Board or a senior executive thereof;</li> <li>h. Joint stock companies in which a member or senior executive or any of their relatives owns 5% or more, subject to the provisions of Paragraph (d) of this definition.</li> <li>i. Holding companies or affiliates of the financial institution.</li> </ul>
<b>Stakeholder</b>	Any person who has an interest in the financial institution, including shareholders, investors, customers, and suppliers.

## 2. General Provisions

- a. These principles aim to set the minimum requirements that would enhance the effective management of financial institutions, direct their financial and non-financial resources towards achieving their strategic objectives, maintain their stability, and preserve the rights of stakeholders.
- b. An effective governance system requires independence of and separation between the position of the Chairman of the Board of Directors and that of the Chief Executive Officer (CEO). This would require good organizational and administrative structures and explicit powers and responsibilities among the main parties of the financial institution, including members and executives, in addition to establishing a general framework for control through a risk management department, an internal audit department, and a compliance department, as well as internal control systems and an external auditor.
- c. These principles shall not prejudice the requirements imposed on financial institutions under other relevant laws, regulations, and instructions.
- d. SAMA has issued several regulations related to governance; these principles shall be read alongside these regulations, as the case may be, including the following:
  - Principles of conduct and business ethics in financial institutions;
  - Principles of compliance for commercial banks operating in the Kingdom of Saudi Arabia;
  - Requirements for appointment to leadership positions in financial institutions that are under the supervision of the Central Bank;
  - Shariah-compliant governance framework for local banks operating in the Kingdom; and
  - Sharia- compliant governance instructions for finance companies.
- e. Corporate governance has received international attention, as a number of international agencies and organizations have issued guiding instructions for governance. These agencies and organizations include the following, among others:
  - Basel Committee on Banking Supervision (BCBS);
  - Organization for Economic Cooperation and Development (OECD);
  - Islamic Financial Services Board (IFSB);
  - The World Bank (WB); and

- Committee on Payments and Market Infrastructure (CPMI).

### 3. Scope of Application

- a. These principles shall apply on a mandatory basis for local banks, finance companies, and real estate refinancing companies.
- b. Subject to the mandatory provisions stipulated in relevant laws and regulations, these principles shall apply as guiding rules to credit information companies, payments and financial technology companies, money exchange companies and institutions<sup>1</sup>, consumer microfinance companies, finance support companies, financial lease contract registration companies, and debt-based crowdfunding companies. The Central Bank may, at any time, enforce all or some of the provisions of these principles on a mandatory basis.

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<sup>1</sup> The provisions contained in the Appendix shall apply to money exchange companies and institutions on a mandatory basis.

## Chapter II

### Key Principles of Governance

#### 1<sup>st</sup> Principle: Qualifications of Board Members

Board members shall be qualified to carry out the work entrusted to them, have a clear understanding of their required roles, and have the ability to make decisions impartially and objectively without any external influence whether from inside or outside the financial institution. They shall particularly fulfill the following:

4. Their CVs shall be publicly available in order to enable stakeholders to assess their efficiency and ability to carry out their tasks effectively.

5. A member shall have professional competence and shall possess various practical and administrative skills and experiences, as well as appropriate personal qualities, especially honesty and integrity, in addition to the following:

- a. **Leadership:** He shall possess leadership skills that enable him to delegate powers in order to promote performance, to apply best practices in effective management, and to disseminate professional values and ethics.
- b. **Competence:** This attribute shall appear through the level of education, experience, skills, and willingness to continue learning.
- c. **Guidance:** He shall possess technical and administrative capabilities, speed in making decisions, understanding of the technical requirements related to workflow, ability to provide strategic orientation, long-term planning, and a clear future vision.
- d. **Financial Literacy:** He shall have the skills to read and understand financial statements and reports and the ratios used to assess performance.
- e. **Physical Fitness:** He shall not have a health condition that hinders him from exercising his duties and competencies.

6. A member shall have the following qualities:

- a. **Truthfulness:** He shall have an honest professional relationship with the financial institution, and shall disclose thereto any relevant information before conducting any transaction or entering into a contract with the financial institution or with any of its affiliates.
- b. **Loyalty:** He shall avoid transactions that may entail a conflict of interest, and shall ensure the fairness of dealings and their conduct for the benefit of the financial institution and stakeholders.

- c. **Care:** He shall perform his duties and responsibilities effectively, and shall be keen to provide all the information that would ensure that the decisions made are in the interest of the financial institution. In order to achieve the foregoing, he shall undertake the following responsibilities:
- Attend Board meetings regularly, and not be absent without a justifiable excuse, and prepare for such meetings and effectively participate therein, including raising relevant questions and holding discussions with senior executives;
  - Make decisions on the basis of complete information and in good faith. A member shall not be relieved of responsibility if he abstains from voting without clarifying his opinion on the decision in question;
  - Develop his knowledge of the financial institution's activities and other related areas;
  - Ensure that significant and major topics are included in the Board meeting agenda;
  - An executive member shall provide full information to the Board when requested.

## 2<sup>nd</sup> Principle: Formation, Appointment and Board Affairs

7. The bylaws of the financial institution shall specify the number of members in proportion to its size and the nature of its business, taking into account the following:
- a. The number of members shall not be less than five and not more than eleven.<sup>2</sup>
  - b. The number of independent members shall not be less than two members, or one third of the Board members, whichever is greater.
  - c. The number of executive members shall not exceed two.
8. The General Assembly shall elect Board members for the period stipulated in the bylaws of the financial institution, provided that their term membership does not exceed three years; these members may be re-elected unless the bylaws of the financial institution stipulate otherwise.
9. The procedures for nominating and selecting Board members shall be clear-cut and explicit, and shall observe the diversity of experiences, qualifications, and qualities referred to in the first principle.
10. Members shall choose a non-executive member to serve as the Chairman of the Board<sup>3</sup> and another as his deputy, provided that the Chairman and his deputy do not exercise any of the functions of the executive management.

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<sup>2</sup> As for banks, the number of Board members shall not be less than nine, and not more than eleven, as per the best applicable practices.

<sup>3</sup> As for banks, this member would rather be independent, as per the best applicable practices.

11. The Board shall conduct an annual evaluation of the extent of independence of the independent member, and shall ensure that there are no relationships or circumstances that affect or may affect his independence; the member shall also inform the Board in the event that circumstances affecting his independence may arise.
12. A written no-objection letter shall be obtained from the Central Bank prior to nominating any member of the Board and its committees, or appointing any of the holders of leadership positions, in accordance with the relevant Central Bank instructions. The Central Bank shall be notified in writing upon accepting the resignation/departure from work/termination of service of any holder of a leadership position, the termination of membership of any member of the Board and its committees, or the independent member's loss of independence, within five working days.
13. A member may not become a member of the board of directors of a similar financial institution operating inside the Kingdom.
14. A member may not become a member of the board of directors of more than five joint stock companies listed on the stock market simultaneously; in the event of a conflict of interest, said member shall be subject to the conflict-of-interest policy.
15. A member may preferably retain his membership for a period not exceeding 12 consecutive or inconsecutive years.
16. Any person who wishes to nominate himself for Board membership shall disclose to the Board and the General Assembly any of the following cases of conflict of interest:
  - a. If he has a direct or indirect interest in the businesses and contracts made for the benefit of the financial institution wherein he desires to be nominated as a board member; and/or
  - b. If he engages in a business that may compete with the financial institution or with any of its activities.
17. Each member shall immediately inform the Board of any direct or indirect interest he has in the businesses and contracts executed for the financial institution's account, and shall not participate in voting on the decision to be taken in this regard.
18. Each member shall maintain the confidentiality of the information of the financial institution, and shall not disclose any information that he has been privy to through his Board membership to third parties, or to any of the shareholders of the financial institution, unless such disclosure takes place during the General Assembly meetings.
19. Each member shall be presented with an induction program that explains the mission, strategic objectives and activities of the financial institution, and with a memorandum explaining the duties and responsibilities of his membership.

20. Members shall carry out the tasks and responsibilities assigned to them through explicit and appropriate procedures; the Board shall review the effectiveness of these procedures on an ongoing basis, and shall identify weaknesses and make the necessary changes whenever required.
21. Members shall be aware of the rules, regulations, and instructions related to the financial institution's business, and shall keep pace with any new developments in this regard.
22. The Board shall hold at least four meetings per year, with one meeting every three months, in order to exercise its duties and responsibilities effectively. Meetings shall also be held whenever required. Non-executive and independent members may preferably hold closed meetings without the attendance of the executive board members, by at least one meeting per year.
23. Board meetings shall only be valid if attended by half the members, provided that the number of attending members be not less than three, unless the bylaws of the financial institution provide for a larger number. All decisions shall be made by the majority votes of the members; in case of a tie, the Chairman of the Board shall have the casting vote.
24. Members shall attend Board meetings regularly, and may do so by technological means; they shall only be absent with an acceptable reason to be reported to the Chairman of the Board in advance. In the event that a member fails to attend three meetings per year without a valid reason, another member shall be appointed to replace his membership.
25. The Board shall draft meeting minutes wherein to note the meeting place, date, beginning and ending time, names of attending and absent members, names of attendees from outside the Board, including an external party such as an external auditor or an internal party such as the financial manager, and a statement of the meeting discussions and deliberations, and the reservations expressed – if any – together with an explanation of the reasons. The meeting minutes shall be signed by all attendees, attested with the decisions and voting results, and kept in a special and organized register.
26. The Board shall, at the beginning of each year, set a specific schedule for receiving reports from committees and internal and external auditors, and shall ensure that the mechanism for drafting, collecting, and submitting reports is appropriate and consistent with the approved internal policy, including submitting same to the Board at the due times.
27. The Board shall appoint a secretary from among its members or others, and shall determine the conditions to be met by him. He shall hold a university degree in law, finance, accounting, or administration – or its equivalent – and shall have relevant practical experience of not less than three years. In the event that he does not hold a university degree in any of these disciplines, he shall have at least five years of relevant work experience.

28. The Board secretary shall perform his responsibilities as per the directives of the Chairman of the Board. He may not be dismissed except by a decision of the Board. His responsibilities shall particularly include the following:

- a. Draft the meeting minutes of the Board, wherein to note the meeting place, date, beginning and ending time, names of attending and absent members, names of attendees from outside the Board, including an external party such as an external auditor or an internal party such as the financial manager, and a statement of the meeting discussions and deliberations, and the reservations expressed – if any – together with an explanation of the reasons. The minutes shall be signed by all attendees, attested with the decisions and voting results, and kept in a special and organized register;
- b. Retain the reports submitted to the Board and the reports drafted thereby;
- c. Inform the members of the dates of Board meetings well in advance of the specified date;
- d. Provide the members with the meeting agenda, working papers, documents and relevant information, as well as any additional documents or information requested by any member in relation to the topics included in the meeting agenda;
- e. Ensure that the members comply with the procedures approved by the Board;
- f. Submit draft minutes to the members to express their opinions thereon prior to signing same;
- g. Ensure that the members have full and prompt access to a copy of the minutes, as well as to the information and documents related to the financial institution;
- h. Regulate the disclosure register of the members and the executive management; and
- i. Follow up on Board recommendations pursuant to a mechanism to be approved by the Board.

29. If a member resigns and he has comments on the performance of the financial institution, he shall submit a written statement to the Chairman of the Board. Said statement shall be presented to the rest of the members, and a copy thereof shall be furnished to the Central Bank.

### 3<sup>rd</sup> Principle: Responsibilities of the Board

The financial institution shall have an effective Board to direct its activities, safeguard its interests, and develop its values. The Board shall bear responsibility for its businesses, even if it delegates committees, agencies, or individuals to exercise some of its powers. In all cases, the Board may not issue a general or indefinite delegation. It shall:

30. Form the executive management, regulate, monitor and supervise its operating procedures, and ensure its performance of the tasks assigned thereto.

31. Set and monitor the implementation of the plans, policies, strategies and main objectives of the financial institution, and review same on a regular basis.

32. Ensure the integrity and financial solvency of the financial institution, and maintain effective relationships with the supervisory authorities.

33. Set and comply with clear limits for responsibility and accountability at all levels of the financial institution. Responsibilities shall be completely separated at the level of the executive management.

34. The organizational structure of the financial institution shall determine the competencies and the distribution of tasks between the Board and the executive management as per the best governance practices, improve the efficiency of decision-making, and achieve balance between powers and authorities. In order to achieve this, the Board shall:

- a. Approve and develop the internal policies related to the financial institution's business; this shall include defining the tasks, competencies and responsibilities assigned to the various organizational levels;
- b. Approve a written and detailed policy that defines the powers delegated to the executive management, provided that it includes an account of each power, its method of implementation, and delegation period; it may request the executive management to submit periodic reports on its exercise of the delegated powers;
- c. Determine the issues that it has the power to decide on.

35. Ensure the adequacy of human and financial resources to achieve the main objectives and plans of the financial institution and carry out its obligations.

36. Ensure the existence and development of effective units for compliance, internal auditing and risk management, make sure that such departments are independent from business departments, ensure the availability of the adequate powers and resources therein, and train their staff and develop their capabilities in the field.

37. Develop and monitor the implementation of a comprehensive risk management strategy and policies in proportion to the nature and size of the financial institution's activities, and review same on an annual basis, taking into account to link the level of risks that the financial institution desires to bear in a specific period of time with its strategy and capital plan.
38. Ensure the existence of an effective system for an objective and systematic performance assessment of the financial institution's employees at all levels. The performance assessment of the executive management shall specifically be long-term, and shall not be limited to the performance of a single year only.
39. Select senior executives, and ensure that an appropriate replacement policy is applied and that the substitute is highly qualified and possesses the required skills.
40. Notify the Central Bank in writing of any penalties imposed by any supervisory, regulatory or judicial authority that may affect the functioning of the financial institution, within a period of ten working days as of the date of the penalty.
41. Ensure the independence of the internal and external auditors, and the accuracy and integrity of the information and data to be disclosed in accordance with the disclosure and transparency requirements.
42. Be aware of the main risks that may affect the financial institution and its affiliate companies, and exercise an appropriate supervisory role over these companies, taking into account the legal independence and governance requirements of these affiliates.
43. Set a clear written policy to deal with actual or potential cases of conflict of interest that may affect the performance of members, executive management or other employees of the financial institution upon dealing therewith or with other stakeholders, provided that said policy at least includes the following rules:
- a. Emphasize that members, senior executives and other employees of the financial institution avoid situations that may lead to a conflict of their interests with those of the financial institution, and deal with such cases as per the provisions of the relevant laws and regulations;
  - b. Provide illustrative examples of conflict-of-interest situations that are relevant to the nature of the financial institution's activities.
  - c. Set clear procedures for disclosing conflict of interest in businesses over which a conflict of interest may arise, and obtain the necessary license or approval;
  - d. Make sure to constantly disclose any situations that may lead to a conflict of interest or upon the occurrence of such conflicts;
  - e. Abstain from voting or taking part in decision-making when there is a conflict of interest;
  - f. Set clear procedures when the financial institution enters into a transaction with a related party. Said transactions shall be carried out on a commercial basis only, and shall include notifying the public and

the Central Bank without delay about this transaction if it is equal to or exceeds 1% of the total revenues of the financial institution pursuant to the latest annual audited financial statements.

44. The Board shall not be exempted from responsibility, and shall be held accountable in the event that the operations of the financial institution are outsourced to another party; it shall be aware of the risks arising from the assignment process and shall ensure that the assignment operations be governed by the relevant Central Bank instructions.

45. Evaluate the following on an annual basis:

- a. A member's performance; this evaluation may be assigned to an external party to ensure its objectivity;
- b. Effectiveness of the controls, working procedures, structure, and composition of the Board, together with identification of weaknesses and making the necessary changes when required;
- c. Effectiveness of the applicable governance policies and procedures and practices; it shall be determined whether they require any improvements or changes. The findings of these assessments shall be used by the Board as part of its ongoing improvement efforts, even if it is required to share such results with the Central Bank.

46. Subject to the relevant Central Bank instructions, the Board shall ensure the operation and effectiveness of the following policies and procedures, including, for example:

- a. Policies and procedures for IT and cybersecurity governance;
- b. A policy for the professional conduct and business ethics to be applied in the financial institution;
- c. A policy defining the mechanism for reporting violations in the financial institution and protecting whistleblowers;
- d. Policies and procedures for resolving complaints and objections that may arise between the financial institution and stakeholders;
- e. Policies and procedures to maintain the confidentiality of information.

47. Approve the remuneration policy for the financial institution employees, which shall include, at a minimum, the types of remuneration (e.g. fixed or performance-related remunerations, or remunerations granted in the form of shares).

48. Verify the accuracy and integrity of the annual and quarterly financial statements and approve same before publication thereof.

49. Form an appropriate number of committees – in accordance with the provisions of the 5<sup>th</sup> Principle herebelow – and approve their work regulations. As an exception, the nomination and remuneration committee and the audit committee shall be approved by the General Assembly. These regulations shall comprise specifying the tasks of each committee, its duration and scope of work, the powers granted thereto,

the responsibilities assigned thereto, and the mechanism governing Board supervision of said committee. The Board shall constantly ensure that committee members exert serious efforts upon performing their work.

50. Announce the Board committees, their scope of work, and the names of their members in the annual report of the Board. The Chairman of the Board shall provide the Central Bank with a list of these committees, their tasks, working procedures, and the names of their members.

51. Without prejudice to the competencies of the Board of Directors, the Chairman of the Board shall undertake the following tasks:

- a. Chair the Board and supervise the effectiveness of its workflow, and perform his competencies effectively;
- b. Ensure that all Board members have timely access to complete, clear and correct information;
- c. Represent the financial institution before third parties in accordance with the provisions of the relevant laws, regulations, and instructions, as well as the provisions of the financial institution's bylaws;
- d. Encourage effective participation between the Board and the executive management;
- e. Oversee the drafting of the Board meeting agenda, taking into account any point raised by a Board member or auditor, and consult with the members upon preparing the meeting agenda.

52. Ensure that the financial institution adopts social responsibility programs, in line with the social responsibility policy approved by the General Assembly, and that the objectives of these programs are directed towards supporting various social projects, increase financial awareness, meet the credit needs of the local economy through granting loans and facilities for productive businesses, and innovate products that encourage economic development without compromising the solvency of the financial institution and stakeholders.

53. Ensure that the services rendered by the financial institution meet the needs and requirements of society at fair costs, and that the financial institution takes the initiative to provide facilities to support and encourage small and medium enterprises.

#### **4<sup>th</sup> Principle: Responsibilities of Executive Management**

The executive management shall monitor and manage the daily activities of the financial institution, and shall ensure that these activities are in line with the business strategy, risk level, and policies approved by the Board. It shall undertake the following responsibilities:

54. Implement the plans, policies, strategies, and main objectives of the financial institution that are approved by the Board.

55. Propose the most appropriate capital structure of the financial institution and its strategies and financial objectives.

56. Propose and implement a comprehensive strategy for the financial institution, as well as the principal and interim business plans, and the policies and mechanisms for investment, financing, risk management, and emergency administrative circumstances management plans.
57. Propose the main capital expenditures of the financial institution, and acquire and dispose of assets.
58. Propose the organizational and functional structures of the financial institution that clarify the role, powers, and responsibility of the various positions within the executive management, including the CEO, and submit same to the Board for approval.
59. Propose a policy of professional conduct and work ethics for the financial institution, and submit same to the Board for approval.
60. Propose a policy for the remunerations granted to employees, including, at minimum, the types of remunerations, such as fixed or performance-related remunerations or remunerations granted in the form of shares, and submit same to the Board for approval.
61. Apply the financial and accounting systems correctly, including the procedures relating to drafting financial reports.
62. Apply appropriate control systems for risk management by generally forecasting the risks that the financial institution may encounter, create an environment that is aware of the culture of risk mitigation at the level of the financial institution, and present same to the Board and other stakeholders with transparency.
63. Manage the resources of the financial institution pursuant to its strategic plans and objectives approved by the Board.
64. Implement internal control and risk management systems, including the conflict-of-interest policy, verify the effectiveness and efficiency of these systems, and ensure their compliance with the level of risks approved by the Board.
65. Submit to the Board an annual report on the internal control system and the implementation thereof to enable the Board to review the system and ensure its effectiveness.
66. Keep the Board constantly and adequately informed of substantial issues, and provide it with such information as it may require, in order to carry out its responsibilities and to supervise the executive management and evaluate its quality.
67. Understand and direct the financial and non-financial structures at the group level, and provide an appropriate mechanism to obtain updated information on the group structure.
68. Set appropriate procedures for regular communication with the financial institution's major clients to assess their risks, and take into consideration the governance frameworks used by clients prior to entering into credit relationships with them.

## 5<sup>th</sup> Principle: Committees Formed by the Board

The formation of Board committees ensures and supports the effectiveness of decision-making to achieve the objectives of the financial institution in accordance with the best practices and specialized technical standards. It also assists the Board to perform its duties and responsibilities, contributes to the effectiveness of performance and to reviewing and monitoring the financial institution's businesses on a regular basis. Committee members may be appointed from within or outside the Board. The formation of these committees shall not relieve the Board of its responsibilities, and it shall observe the following:

69. A member may preferably not be a member of more than two committees.

70. A member shall attend committee meetings regularly, and may do so by using technological means. For a meeting to be valid, it shall be attended by half the members. All decisions shall be made by the majority vote of members; in case of a tie, the chairman of the committee shall have the casting vote. The opinion of a dissenting member shall be recorded in the meeting minutes. Members may not cast their votes by proxy.

71. A member shall act in good faith, and with due diligence and care for the benefit of stakeholders. He shall perform his duties aloof from any external influence, whether from inside or outside the financial institution. He shall not give precedence to his personal interests or the interests of persons whom he represents over those of the financial institution, shareholders and other stakeholders.

72. Each committee shall have a secretary from among its members or from outside. A committee secretary may preferably not serve as the secretary of another committee, and he shall have the necessary qualifications, skills and abilities to perform the following tasks, as a minimum:

- a. Record committee meetings and draft minutes therefor, taking into account to submit the drafts to the members to express their opinions thereon before signing same;
- b. Prepare and submit committee reports to the Board and retain same;
- c. Inform committee members of meeting dates well in advance of the specified date.

73. The number of committees to be formed by the Board shall be determined pursuant to the nature of operations and the size of the financial institution, in addition to the relative experience and qualifications of the Board members. These committees shall comprise the following, among others:

- **The Executive Committee**

74. This committee shall consist of no less than three and no more than five members, and it may not be chaired by the CEO.

75. The committee shall hold no less than six meetings per year; the risk manager or any person whom the committee deems necessary may be invited to attend committee meetings without having the right to vote on committee decisions.

76. The committee chairman shall submit a report to the Board on any important issue, and shall, upon consultation with the Chairman of the Board, determine the items to be included in the Board meeting agenda, in addition to any subjects not falling within the competence of other committees.

77. The Board shall determine committee powers and responsibilities, and shall monitor the implementation thereof.

- **The Audit Committee**

78. This committee shall be composed of no less than three and no more than five members, all of whom shall be non-executive members, including at least one independent member.<sup>4</sup> It shall be chaired by an independent member, and the number of the members from outside the Board shall exceed that of the members from within the Board. This committee may not be chaired by the Chairman of the Board.

79. The committee shall be formed by a decision of the Ordinary General Assembly.

80. The committee chairman and members shall be appointed for a period of three years, renewable for a maximum of two additional terms.

81. The General Assembly shall, upon a recommendation of the Board, approve committee work regulations, provided that it comprises its work controls and responsibilities, procedures for appointing its members, their membership term, and their remuneration.

82. Committee members shall have academic qualifications and professional experience in auditing and risk management, including knowledge of accounting and auditing standards, ability to understand financial reports, and understanding of the laws, regulations and instructions issued by the relevant agencies.

83. The number of meetings to be held by the committee shall depend on the size of the financial institution and the scope of the tasks assigned thereto, provided that it holds no less than four meetings per year, in addition to any other meetings to be held when required. The committee may invite to its meetings any employee to discuss with him the topics raised therein; this invitation shall include the CEO and the internal and external auditors. The minutes of committee meetings shall be distributed to all members, who shall be entitled to request the committee for clarification of any issues.

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<sup>4</sup> As for banks, all committee members shall be independent, and neither of them shall have a credit relationship with the bank in his name or in the name of one of his relatives, or in any capacity with the bank, its board members, or its executive staff.

84. The committee shall have the competence to monitor the financial institution's work, verify the integrity and impartiality of its reports and financial statements, and ensure the availability of internal control systems therein. Committee tasks shall include the following:

**a. Financial Reports**

- Examine the quarterly and annual financial statements of the financial institution before submitting same to the Board, and provide its opinion and recommendation thereon, in order to ensure their integrity, fairness and transparency;
- Provide its technical opinion – at the request of the Board – on whether the Board report and the financial statements of the financial institution are fair, balanced and understandable, and contain information that allows shareholders and investors to assess the financial position of the financial institution, its performance, business model, and strategy;
- Examine any important or unfamiliar issues contained in the financial reports;
- Scrutinize any issues raised by the financial manager or the auditor of the financial institution;
- Examine the accounting estimates pertaining to significant issues contained in the financial reports.
- Examine the accounting policies applied by the financial institution, and provide its opinion and recommendation thereon to the Board.

**b. Internal Audit**

- Examine and review the financial institution's internal and financial control systems and risk management system;
- Examine the internal audit reports and follow up on the implementation of corrective measures with regard to the remarks contained therein;
- Monitor and oversee the performance and activities of the internal auditor and the internal audit department of the financial institution, in order to ensure the availability of the necessary resources and their effectiveness in performing the activities and tasks assigned thereto;
- Submit a recommendation to the Board to appoint/terminate the service of the manager of the internal audit unit or department or the internal auditor and propose his remuneration;
- Evaluate the effectiveness and efficiency of internal controls, policies and procedures, the reporting mechanism and the extent of compliance therewith, and provide recommendations for improvement thereof.

### **c. The Auditor**

- Submit a recommendation to the Board to nominate/dismiss auditors, determine their fees and evaluate their performance, after verifying their independence and reviewing the scope of their work and the terms of their contracts;
- Verify the auditor's independence, objectivity and fairness, and the effectiveness of audit activities, taking into account the relevant rules and standards;
- Review and provide its opinion on the auditor's plan and activities for the financial institution, and ensure that he does not provide any technical or administrative works beyond the scope of audit work;
- Respond to the queries of the financial institution's auditor;
- Examine the auditor's report and comments on the financial statements and follow up on the procedures taken in connection therewith.

### **d. Compliance**

- Review the findings of the reports made by supervisory authorities, and ensure that the financial institution has taken the necessary measures with regard thereto;
- Report to the Board any issues that it deems necessary to take action on, and provide recommendations as to the procedures to be taken in connection therewith;
- Ensure the financial institution's compliance with the relevant laws, regulations, policies and instructions, and take the necessary measures to improve the financial institution's level of regulatory compliance.

#### **● The Nomination and Remuneration Committee**

85. This committee shall consist of no less than three and no more than five members, including at least two independent members. It shall be chaired by an independent member, and shall not be chaired by the Chairman of the Board.

86. The General Assembly shall, upon a recommendation of the Board, approve the committee work regulations, provided that they include its working rules and procedures, tasks, procedures for appointing its members, and their membership term and remuneration.

87. The committee shall be in charge of identifying and proposing candidates for selection as members of the Board and the executive management, and preparing a clear policy for the remuneration of said members, as per the relevant Central Bank instructions.

88. The committee shall hold no less than two meetings per year, wherein to examine and evaluate members' performance, nominate new members, and discuss the policy for remunerations and incentives.

89. Committee tasks shall include the following:

- a. Coordinate with the Human Resources Department to develop the replacement and succession policy, and ensure the executive management's compliance therewith;
- b. Establish a record of the qualifications and skills of Board members in order to identify the additional skills required to activate the role of the Board and ensure its implementation of its tasks and responsibilities;
- c. Ensure that the remuneration amount is consistent with the prevailing local norms and control systems, and is appropriate to achieve the shareholders' interests and the financial institution's long-term strategic goals, and ensure that the incentive system is reviewed periodically and that it does not encourage participation in high-risk operations to achieve short-term profits, in addition to its agreement with the risk policy of the financial institution approved by the Board.

- **The Risk Committee<sup>5</sup>**

90. This committee shall be composed of no less than three and no more than five members, three of whom shall be non-executive members, and it shall not be chaired by the CEO.

91. Committee members shall have an appropriate level of knowledge of risk management, and shall include an expert in cyber and technical risks.

92. The financial institution's risk manager shall report to the Board through the risk committee, which shall have to submit its opinion on the risk management reports to the Board.

93. The committee shall hold at least four meetings per year, and it may invite the risk manager to attend its meetings without being a member therein.

94. Committee tasks shall comprise the following:

- a. Develop a comprehensive risk management strategy and policies, in line with the nature and size of the financial institution's activities, and taking into account cyber and technical risks, ensure their implementation, and review and update same pursuant to the internal and external changes that occur to the financial institution;
- b. Determine and maintain an acceptable risk level to which the financial institution may be exposed, and ensure that the financial institution does not go beyond said level;
- c. Verify the feasibility of the financial institution's successful continuation of its activities, and identify the risks that threaten its existence over the following twelve months;

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<sup>5</sup> In finance companies, this committee is referred to as the "Risk and Credit Management Committee".

- d. Oversee the financial institution's risk management system, and evaluate the effectiveness of the systems and mechanisms for identifying, assessing and monitoring the risks that may endanger the financial institution so as to determine areas of inadequacy therein;
- e. Reassess the financial institution's ability to bear and be exposed to risks on a regular basis, for example, by conducting stress tests;
- f. Prepare and submit to the Board detailed reports on exposure to risks and the proposed steps to manage these risks;
- g. Provide recommendations to the Board as per the appointment/termination of service of the manager of the risk unit or department;
- h. Provide recommendations to the Board on risk management-related issues;
- i. Ensure the availability of adequate resources and systems for risk management;
- j. Review the organizational structure of risk management and provide recommendations thereon prior to approval thereof by the Board;
- k. Verify the independence of the risk management staff from business departments;
- l. Ensure that the risk management staff are aware of the risks threatening the financial institution, and endeavor to raise awareness of a culture of risks;
- m. Review any issues raised by the audit committee that may affect the financial institution's risk management.

#### **6<sup>th</sup> Principle: Rights of Shareholders**

95. The Board shall ensure that the financial institution's corporate governance policies protect the rights of shareholders and enable them to exercise their rights with ease, and help to provide effective communication channels and various means of contact with all shareholders of the financial institution. It shall also ensure that all shareholders, including minority shareholders, are treated fairly, and shall constantly urge them to participate in the General Assembly meetings and to submit proposals related to the financial institution's performance and the development of its operations.

96. The financial institution shall have specific procedures to ensure that shareholders exercise their rights and obtain appropriate information without delay. These rights shall comprise the following: obtaining profits, attending shareholder assemblies and participating in their deliberations, and voting on their decisions in person or through the use of technology, as determined by the relevant laws and instructions.

97. The financial institution shall provide the Central Bank with a copy of the General Assembly meeting minutes within a period not exceeding 15 days from the meeting date.

98. The main rights of shareholders shall comprise the following:

- a. Obtain all relevant information that enables them to fully exercise their rights on a regular basis and without delay, without prejudice to the interests of the financial institution;
- b. Participate and cast their votes in the General Assembly meetings, taking into account the topics that they wish to raise therein;
- c. Discuss the topics listed on the General Assembly agenda, direct queries to Board members and the certified accountant, and obtain a statement thereon;
- d. Select Board members by using cumulative voting.

99. Shareholders shall be provided with information about the venue, date and agenda of the General Assembly 21 days prior to its meeting.

100. Shareholders may nominate and elect members, inquire about their qualifications, experience and ability to perform their work, discuss the amount of remuneration and financial incentives received by members and senior executives. Moreover, they shall be entitled to submit any inquiry to the Board regarding any unprofessional practices and to obtain a statement thereon.

#### **7<sup>th</sup> Principle: Disclosure and Transparency**

101. The Board shall set forth in writing the disclosure policies in line with the disclosure requirements contained in the relevant laws, regulations, and instructions, subject to the following:

- a. Those policies shall include appropriate disclosure methods to enable stakeholders to access financial and non-financial information pertaining to the financial institution and its performance, including the financial institution's future orientations and strategic plans, as well as the credit ratings granted thereto by international credit rating agencies.
- b. The disclosure shall be made in an explicit, correct and non-misleading fashion, and in a timely, regular and accurate manner.
- c. Disclosure policies shall be reviewed periodically, and their compliance with the best practices and with the provisions of relevant laws, regulations, and instructions shall be verified.

102. The Board shall draft an annual report indicating the operations of the ended fiscal year, provided that it includes, at a minimum, the following:

- a. Names of the members of the Board, the committees, and the executive management, and their current and previous jobs, qualifications and experience;
- b. Names of companies inside or outside the Kingdom in which a Board member of the financial institution is a member of their current or previous boards or manager;

- c. Composition of the Board and classification of its members as follows: an executive member, a non-executive member, and an independent member;
- d. Number of Board meetings held during the ended fiscal year, their dates, and the attendance record of each meeting, listing the names of attendees;
- e. Any punishment or penalty imposed on the financial institution by the Central Bank or by any supervisory, regulatory or judicial authority, together with a statement of the reasons for the violation and the agency imposing such punishment/penalty;
- f. Details of the financial institution's social contributions;
- g. A list of the dates of the General Assembly meetings held during the ended fiscal year, and the names of members who attended same;
- h. Name of each affiliate company or its group, its capital, the financial institution's ownership percentage therein, its main business activity, its principal country of operation, and its country of incorporation;
- i. Information related to any businesses or contracts to which the financial institution is a party, or in which a member, executive manager, or any person related to either of them, has an interest. This shall include the names of persons engaged in these businesses or contracts, and the nature, terms, duration, and amount of same. If no such businesses or contracts exist, the financial institution shall submit a statement of same;
- j. Disclosure of the remunerations granted to members of the Board and its committees, as well as to five senior executives who received the highest remunerations, including the CEO and the financial manager;
- k. Results of the annual audit and the effectiveness of the financial institution's internal control procedures, as well as the efficiency of its internal control system.

## Appendix

### Governance Controls of The Money Exchange Sector

1. Exchange centers shall set and develop internal governance regulations and shall obtain approval thereof by the owners or the Board – as the case may be – and shall set adequate and appropriate policies and procedures for supervision and control of the center’s performance. They shall ensure that employees comply with these regulations, and shall provide the Central Bank with a copy thereof, upon their approval or upon introducing any subsequent amendments thereto, within 21 working days from the date of their approval or amendment.

Such regulations shall include the following controls, as a minimum:

- a. A description of the organizational structure, including the departments, functions, tasks, and responsibilities of each thereof;
- b. Policies and procedures that prevent or limit any activity or relationship that may affect the implementation of governance principles;
- c. A policy for reporting violations pursuant to the Central Bank’s instructions in this regard; the Central Bank shall be furnished with a copy of this policy;
- d. Controls for independence and separation of tasks;
- e. Responsibility and accountability limits;
- f. Provisions related to the prevention of an expected or actual conflict of interest, and the mechanism for dealing with such case upon its occurrence;
- g. A description of the compliance function;
- h. A description of the internal control function;
- i. Provisions of integrity and transparency;
- j. Compliance with the relevant laws, regulations and instructions;
- k. Means of maintaining the confidentiality of information;
- l. Provisions of fair dealings;
- m. Controls for protecting the assets of the exchange center;
- n. Provisions related to the compliance of exchange centers with the principles of fair competition and the prevention of monopoly; and
- o. Provisions related to compliance with the center's policies of professional conduct and work ethics.

2. The exchange center shall monitor the risks related to the center's business activities, such as currency risk and exposure, shall follow up on the currency movement and inventory, and shall prepare reports thereon. Such reports shall be approved by the owners or the Board of Directors.

3. The owner or the Board shall inform the Central Bank of any penalties imposed on the exchange center by any supervisory, regulatory or judicial authority within a period of five working days from the date of imposing the penalty.