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Hawkamah announces the 1st Hawkamah-UAB Bank Corporate Governance Awardees

The Hawkamah Institute for Corporate Governance and the Union of Arab Banks (UAB), recently announced Burgan Bank as the winner of the region's first Hawkamah – UAB Bank Corporate Governance Award at a ceremony held in Doha, Qatar.

Selected as the winner from a list of over 40 submissions from banks within the Middle East & Levant, Burgan Bank demonstrated a high level of proficiency, dedication and commitment to good corporate governance in a number of key areas such as structure and functioning of the Board of Directors (or equivalent Supervisory Board), control



Mr. Majed Al Ajeel, Deputy Chairman Burgan Bank and Jonathan Lyon, Chief Executive Officer, Burgan Bank receiving the 1st prize from Dr Nasser Saidi, Executive Director, Hawkamah.

environment and processes, transparency and disclosure, and treatment of minority shareholders.

The decision to name Burgan Bank as the winning submission was reached after rigorous assessment by the international jury of experts. Jury members included Charles Freeland, a well-respected international banking consultant, former Deputy Secretary General, Basel

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Benefits of Corporate Governance to the Banking sector

Extracts from Dr Nasser Saidi's speech at the Bank Corporate Governance Awards Ceremony

The unprecedented degree of interest we've received for the Hawkamah – UAB Bank Corporate Governance Award is a clear testament of the interest that the region's banks are placing on corporate governance in the Middle East. The region is looking at corporate governance because we have to, for the long term sustainability of the region's wealth.

Addressing governance issues is an essential element in corporate sector reform. Most importantly, discussions on corporate governance in the MENA region have to start by looking at how to improve the region's banking and financial systems.

Why? Because Banks have a dominant position in the financial and payment systems in the region, they dominate both the credit and investment processes for the economy and majority of firms in the region. And in most countries of the region, there is a high degree of state ownership and / or a concentration of ownership in the banking sector. More importantly, because of international

trends, there is a need for the region to look at strengthening prudential regulation and supervision, and strengthening transparency, disclosure and reporting. In order to compete and survive in a very competitive global marketplace, the region has to face the challenge of external competition.

And as economies are starting to liberalize and open up, the banks can play a leading role in the corporate sector reform process.

Over the past year and a half, Hawkamah has been busy working with regulators and the private sector to address CG from a policy and firm level. We've worked with various regulatory entities to develop CG frameworks. Likewise, we've worked with various banks in benchmarking their CG practices against international standards.

Corporate Governance is a journey - not a destination. The banks that will be receiving these awards and those that have implemented good CG best practices in their own banks are obviously convinced that implementing corporate governance is good for their bottom-line. ➤



Bank CG Awards....continued from page 1

Committee on Banking; Michael Stevenson, Middle East Senior Partner (PWC) and Ambassador John Bohn, who is currently Commissioner at California Public Utilities Commission and Chair of Globalnet Venture Partners. In addition to Burgan Bank, Dhofar Bank was named as the second runner up and Bank of Kuwait and the Middle East the third runner up.

Jonathan Lyon, Chief Executive Officer, Burgan Bank, said "We are very delighted to win the inaugural Hawkamah – UAB Bank Corporate Governance Award as it acknowledges our commitment to corporate governance. Corporate governance is an integral pillar to our business, promoting transparency and efficiency both internally and externally."

The very essence of CG is a company's ability to create frameworks for accountability and transparency but also to be able to adequately respond to the ever-changing and highly competitive world of banking.

Hawkamah would like to acknowledge our thanks to a very important strategic partnership with the Union of Arab Banks, and the support given to us by MasterCard International. We also would like to thank our international jury, Mr. Charles Freeland, Mr. Mike Stephenson, and Ambassador John Bohn, for their engagement in the region and for providing an invaluable, unbiased perspective in judging all applications. Hawkamah recognizes that they deliberated long and hard in assigning appropriate weightings to over 50 corporate governance indicators, as well as in reviewing the self assessment applications.



Mr. Ahmed Al Shanfari, CEO, Bank Dhofar, receiving the 2nd prize from Dr. Nasser Saidi, Executive Director, Hawkamah ↗



Mr. Hamad Al Marzouq, Chairman and Managing Director, Bank of Kuwait and the Middle East, receiving the 3rd prize from Dr. Nasser Saidi, Executive Director, Hawkamah. ↗

Dr. Nasser Saidi, Executive Director, Hawkamah Institute for Corporate Governance commented, "The Hawkamah Institute for Corporate Governance congratulates Burgan Bank as winner of the Hawkamah – UAB Bank Corporate Governance Award 2007. It is crucial for banks in the Arab world to develop and implement good corporate governance policies and practices and Burgan Bank has demonstrated strong proficiency in various key areas of corporate governance."

Dr. Fouad Shaker, Secretary General, Union of Arab Banks, commented, "Burgan Bank, as the first bank in the Middle East to be awarded, has demonstrated the importance of corporate initiatives in the banking industry. We extend our congratulations and send our best wishes to Burgan."

Mark Beer, Vice President, Government Affairs and Corporate Services, MasterCard Worldwide, South Asia, Middle East and Africa (SAMEA) commented, "As a proud supporter of the Hawkamah – UAB Bank Corporate Governance Award, MasterCard is very pleased to congratulate Burgan Bank as the winning bank. MasterCard supports this Award that acknowledges banks who build open and transparent markets and drive efficiencies across their economies and within the payment system."

The Bank Corporate Governance Awards will be organized by Hawkamah Institute for Corporate Governance annually with the Union of Arab Banks. ↗

The Top 10 Banks selected by the International Jury are:

- Abu Dhabi Islamic Bank
- Al Baraka Banking Group BSC
- Bank Dhofar, Oman
- Bank of Kuwait and the Middle East, Kuwait
- Burgan Bank, Kuwait
- Doha Bank QSC, Qatar
- National Bank of Abu Dhabi
- Oman International Bank, Oman
- Qatar National Bank
- Samba Financial Group - KSA



Dr. Nasser Saidi, Executive Director, Hawkamah, and Dr. Basel Hindawi, Director General, Insurance Commission of Jordan, representing the Arab Federation of Insurance Regulatory Commissioners launches the Hawkamah-AFIRC partnership.

Hawkamah and Arab Forum of Insurance Regulatory Commissions Launch Partnership

Hawkamah Institute for Corporate Governance and the Arab Forum of Insurance Regulatory Commissions recently signed a memorandum of understanding to further promote corporate governance in the region, particularly in the insurance industry.

The MOU builds on Hawkamah and AFIRC's active engagement in the development and launch of the Regional Task Force on the Insurance Industry.

The Regional Task Force on the Insurance Industry will bring together regulators and the private sector in a constructive dialogue on assessing the state of corporate governance in the region's insurance industry and developing an insurance corporate governance policy brief to include conventional insurance and "Takaful". The ultimate goal of the task force is to develop corporate governance guidelines for the insurance sector.

So far, Hawkamah has collected responses from over 40 companies and regulators from Bahrain, Egypt, Jordan, Kingdom of Saudi Arabia, Lebanon, Oman, Sudan, and the United Arab Emirates.

The recently signed MOU will be a platform for Hawkamah and AFIRC to build the corporate governance capacity of the industry through workshops, seminars, publications, and research. ↗

Did You Know?

As part of Hawkamah's ongoing efforts to collect information and data to assist in building the business case for corporate governance using latest research produced by various institutions, Hawkamah is introducing this part as a regular feature of its newsletter for your reference.

■ **Did You Know...** that the most successful private equity firms set themselves apart by improving the governance of their investee companies?

A recent McKinsey study showed that only one quarter of private equity investments outperform their relevant stock market indexes over time. What sets the top quartile apart? The amount of ownership control exerted over management of the investee companies by the private equity firm. McKinsey calls this "**governance arbitrage**".*

More specifically, these successful private equity firms:

- Devote significant time to making the investee company board more effective.

In addition, they:

- Devote half their time to the company during the first three months of a deal
- Build up their own viewpoint about how a company can create value; they do not simply accept management's ideas or vision
- Measure performance using operational indicators that are linked to the value creation plan for the investee company

By taking an active role in corporate governance as well as other transformation activities, these firms outperform other private equity firms as well as public companies.

*"*What Public Companies Can Learn From Private Equity*". McKinsey on Finance, Winter 2007.

[Source: IFC] ↗

Bank Note

In a breakthrough, 31 international lending institutions with some US\$1 trillion in assets agreed last month to bolt corporate governance into criteria they use when deciding whether to sink capital into emerging market corporations.

The Oct. 19 [accord](#) further beds governance into the global financial system. But agreeing airy principles was the easy part. Development Finance Institution (DFI) signatories now have to figure out how to train in-house investment staff to spot specific governance risks at target companies and engage with boards on reform.

For guidance, the DFIs plan to use the Organisation for Economic Co-operation and Development's [Principles of Corporate Governance](#). The DFI deal was the work of the [Netherlands Development Finance Company](#) and the [International Finance Corp.](#) (IFC), investment arm of the World Bank Group. The IFC itself drove staff attention to governance when it told supervisors to peg pay, in part, on how well personnel addressed governance in their portfolio work.

[Source: Global Proxy Watch] ↗

Corporate Governance in Islamic Financial Service Providing Institutions

Dr. Nasser Saidi, Executive Director, Hawkamah Institute for Corporate Governance recently spoke about Shari'ah Compliant Corporate Governance at the 5th Islamic Funds World Seminar 2007 held on November 14, 2007 in Dubai, UAE.

Dr Saidi highlighted the Importance of Corporate Governance vis-à-vis Institutions Offering Islamic Financial Services, presented an overview of key issues and standards on Corporate Governance for Islamic financial institutions and explained the role of Hawkamah in addressing Corporate Governance for such institutions in the MENA region.

A brief overview of his presentation on Islamic Corporate Governance is as follows:

CG Codes and Principles have been developed for major sectors of modern economies i.e.:

- o Listed Companies (OECD, WB)
- o Banks and financial institutions (BIS)
- o Insurance Companies (IAIS)
- o Investment managers (IOSCO, Hermes, ICGN)
- o Family enterprises (Cadbury)
- o State Enterprises (OECD)
- o Islamic Financial Institutions (IFSB)

We all have heard of the Corporate Failures due to lack of good CG, some of which are summarized as follows:

- o Too much power is centred on one individual without proper oversight
... e.g. **Enron, Banque du Caire**
- o Board fails to ensure controls are robust or question the unusual or the unrealistic
... e.g. **Barings / Amaranth**
- o Poor disclosure and transparency becomes commonplace
... e.g. **WorldCom**
- o Shareholder rights are mistreated
... e.g. **Parmalet et al**

Good Corporate Governance companies relate not only to better operating performance but also better market valuations.

The basic CG principles of Accountability, Fairness, Transparency and Responsibility applies to Islamic Financial

Service Providing Institutions (IFS's) as well however, IFS's are subject to an additional layer of governance since the suitability of its investments and financing must be in strict conformity with Shari'ah.

For this purpose, Islamic banks employ an individual Shari'ah Advisor and/or Board. Hence, central to the IFS's framework is the *Shari'ah Supervisory Board* (SSB) and the *internal controls* which supports the Internal Shari'ah Review Unit.

The various governance challenges faced in this regard by the *Shari'ah Supervisory Board* (SSB) are Independence, Confidentiality, Competence, Consistency and Disclosure of the Shari'ah Scholars rulings.

There is also a particular category of Account holder with Islamic Banks called the Investment Account Holders which are entitled to additional disclosures. The IFSB CG Standard treats Investment Account Holders as quasi-shareholders and thus recommends strong CG to protect their interests in respect of how their monies are managed as well as to enable monitoring the performance of their portfolio.

The DFSA regulatory module for Islamic Finance, the ISF module contains enhanced disclosure for Investment Account Holder. This is to ensure that the rights of Investment Account Holders, in respect to the performance of their portfolio are transparent and better managed through enhanced disclosure.

Other challenges faced by Islamic Finance business is the lack of rating agencies for such business.

Hawkamah being the Institute for Corporate Governance can help overcome the challenges above as we undertake an assessment of CG practices which can help Boards evaluate their CG practices benchmarked against International Best Practices. We also conduct a CG training program catered specifically for Asset Managers. Build capacity of Board through Board Development and Board Secretary Courses. We are in the process of setting up a Task Force devoted to the development and fine tuning of Shari'ah compliant Corporate Governance which will result in the development of Corporate Governance guidelines and criteria for loans and investments. We are also developing a Corporate Governance Rating System for Shari'ah Compliant Banks and Financial Institutions. ↗

Order your copy today!

If you are involved in capital markets, banking and financial services, investment and fund management, corporate strategy development, management consultation, and economic policy making, this publication is a 'must-read' to keep abreast of the changing investment and business environment in the GCC countries



[Corporate Governance in the GCC: Country Reports and Comparative Survey](#)

Forthcoming Events

[Dec 03 – 04](#)

Director Development Workshop (Part I), Dubai

[Dec 05 – 06](#)

Director Development Workshop (Part III), Dubai

Hawkamah Subscription Details

Become a Member of Hawkamah! Are you an individual or organization looking to promoting good corporate governance?

For more information, please go to: http://www.hawkamah.org/services/hawkamah_membership/becoming_member/

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