جامعة الفيصل
Alfaisal University

Alfaisal University

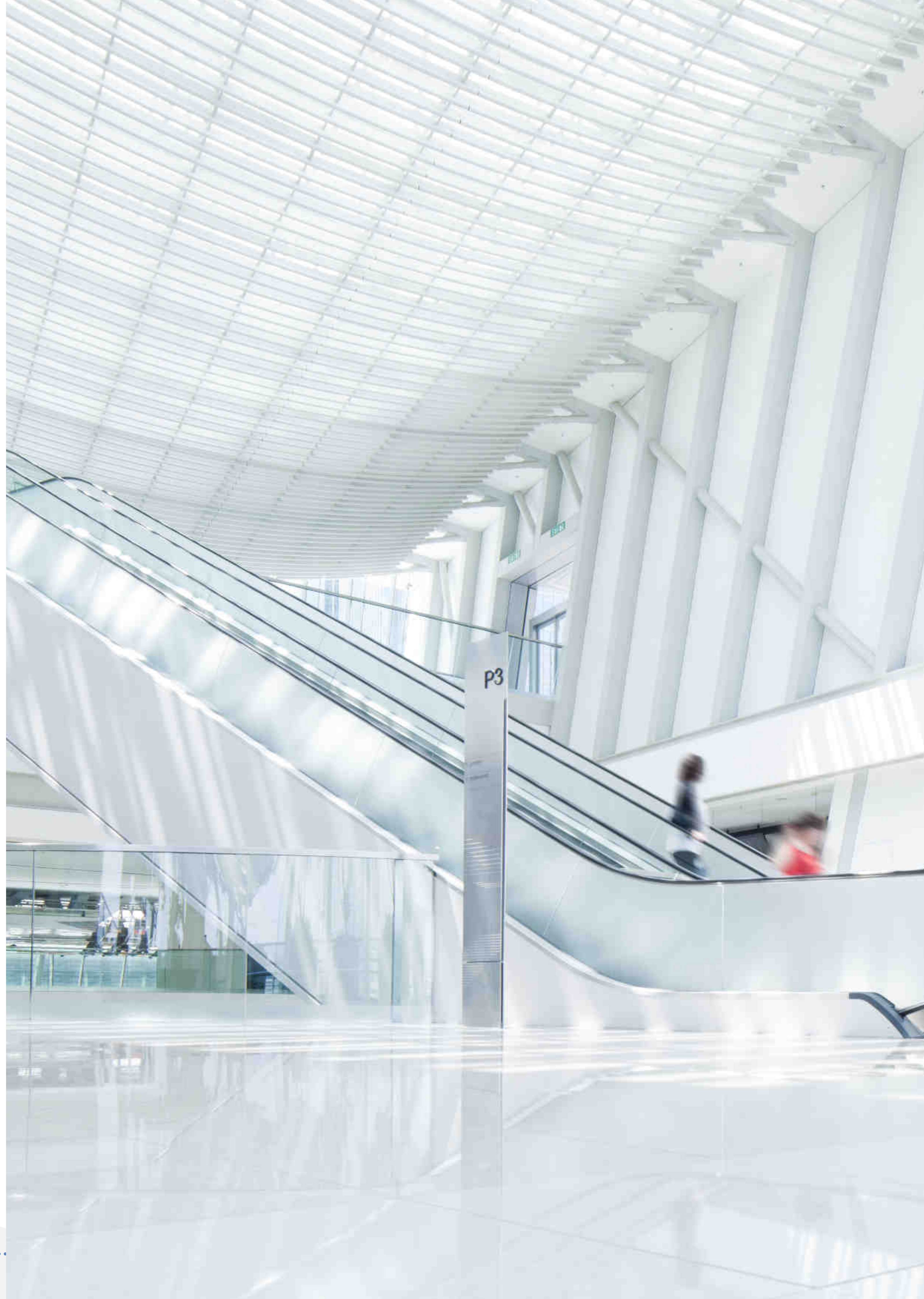
Corporate Governance Center

Corporate Governance Index Insights

مركز الفيصل للأبحاث والدراسات الاستشارية
Alfaisal Center for Research and Consultancy Studies

CGC مركز الحوكمة
Corporate Governance Center

Table of Contents



1 A Message from the President of Alfaisal University

It is my distinct pleasure to announce the release of the 7th Corporate Governance Index Report for the fiscal year 2021. The Corporate Governance Index ("**CGI**") is the cornerstone of the essential services offered and overseen by the committed team of professionals at the Corporate Governance Center ("**CGC**"). The CGC team has dedicated the past few years to the enhancement and maintenance of both the center and its services as highlighted in this report.

Alfaisal University aims to be proactive in developing projects and programs that benefit the Kingdom of Saudi Arabia and are aligned with the Kingdom's Vision 2030. For all the publicly listed companies, the CGI serves as a beacon for excellence in corporate governance as evidenced by the overall increased CGI scores recorded in the 7th cycle. Each year companies achieving the highest CGI scores are presented with the prestigious Corporate Excellence Award. Thereby, heightening public awareness as to their progress in implementing best practices as well as their economic prowess.

As president of Alfaisal University, and on behalf of all concerned, I would like to thank the CGC team for their contribution to cultivating a culture of corporate excellence in governance in the Kingdom.

Dr. Mohammed Alhayaza

President Alfaisal University

Part A Executive Summary

This report will provide a brief introduction to corporate governance and an overview of the CGI and its core objectives. Thereafter, an overview of the methodology used to develop the CGI will be explained.

The CGI delves into the governance practices of the companies established in Saudi Arabia by reviewing the data and doumentation publicly available. The summary of findings of the CGI 2021 are highlighted below and expanded on in the analysis section:

- The companies achieved the highest scores in principles of governance relating to Board of Directors;
- The companies achieved the lowest scores in principles of governance relating to stakeholder interest;
- The companies improved their average scores from the CGI in 2020; and
- The companies were more compliant with mandatory principles of governance than voluntary.

The report concludes with a summary of practical recommendations that companies can implement to enhance their corporate governance structures for the benefit of shareholders and all stakeholders. The recommendations, which are based on the key takeaways from the analysis, take a pragmatic approach to governance that align with the requirements of the regulatory environment in Saudi Arabia, as this will attract the attention of investors. However, Boards should remain mindful of the wider benefits of governance than regulatory compliance and instill a culture of 'doing the right thing' within an organization. The wider benefits include the enhancement of business operations, value creation and helping the Board deliver strategy. Further, an effective governance structure will facilitate innovation within an organization, including having mechanisms in place to allow for an appropriate level of risk-taking, which is essential to a business' success.

ALFAISAL University | Corporate Governance Center

Part B Corporate Governance and the Alfaisal CG Center

1 Introduction to Corporate Governance

The Organization for Economic Co-operation and Development **("OECD")** corporate governance as: *"The procedures and processes according to which an organization is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the Board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making"*[1]. The corporate governance structure is the foundation for effective decision making within a company, which helps the Board to achieve its strategic goals, including the delivery of long-term value for shareholders and other stakeholders. Put simply, corporate governance is essential for the successful running of any organization and the application of these principles depend on the regulatory environment of the organization and its business maturity.

Pillars of corporate governance			
Accountability	**Transparency**	**Fairness**	**Independence**
The Board is accountable to the company's stakeholders and shareholders for its decision making and the company's action and conduct	The Board adopts a transparent approach in relation to its policies and practices and decisions that impacts stakeholders and shareholders	The company values shareholder and stakeholder rights and enables them to vocalize their grievances and address any issues	The Board makes decisions independently and without due influence from the company's stakeholders and shareholders

In Saudi Arabia, the spotlight on corporate governance amplified when the Saudi vision 2030 was announced. The Saudi vision 2030 is a strategic framework, which aims, among other goals, to create a sustainable economy. Therefore, corporate governance is at the heart of the vision in enabling companies to create and sustain higher returns for its shareholders, and creates a trusting environment that attracts and retains new investors. It is worth noting that the benefits of adhering to these pillars are widely recognized and valued by multiple stakeholders for its non-financial benefits too, such as environmental and social factors.

1 https://stats.oecd.org/glossary/detail.asp?ID=6778

2 CGI Project Overview

The CGC developed a CGI in 2017 in collaboration with consultants from Harvard University and Kobirate International Credit Rating and with partial funding from the Ministry of Investment and with strong endorsements from the Capital Market Authority ("**CMA**"), Saudi Central Bank ("**SAMA**"), and the Ministry of Commerce and CG Service Inc.

The CGI ranks publicly traded companies in the Saudi Arabian market according to their compliance to the related governance rules in the country and best governance practice globally. The CGI continues to evolve with the regulatory environment and key governance trends to stay relevant. Using publicly available information and any additional information provided by companies, the CGI comprehensively assesses companies across the following weighted categories:

- Board of Directors
- Shareholder Rights
- Public Disclosure & Transparency
- Stakeholder Rights

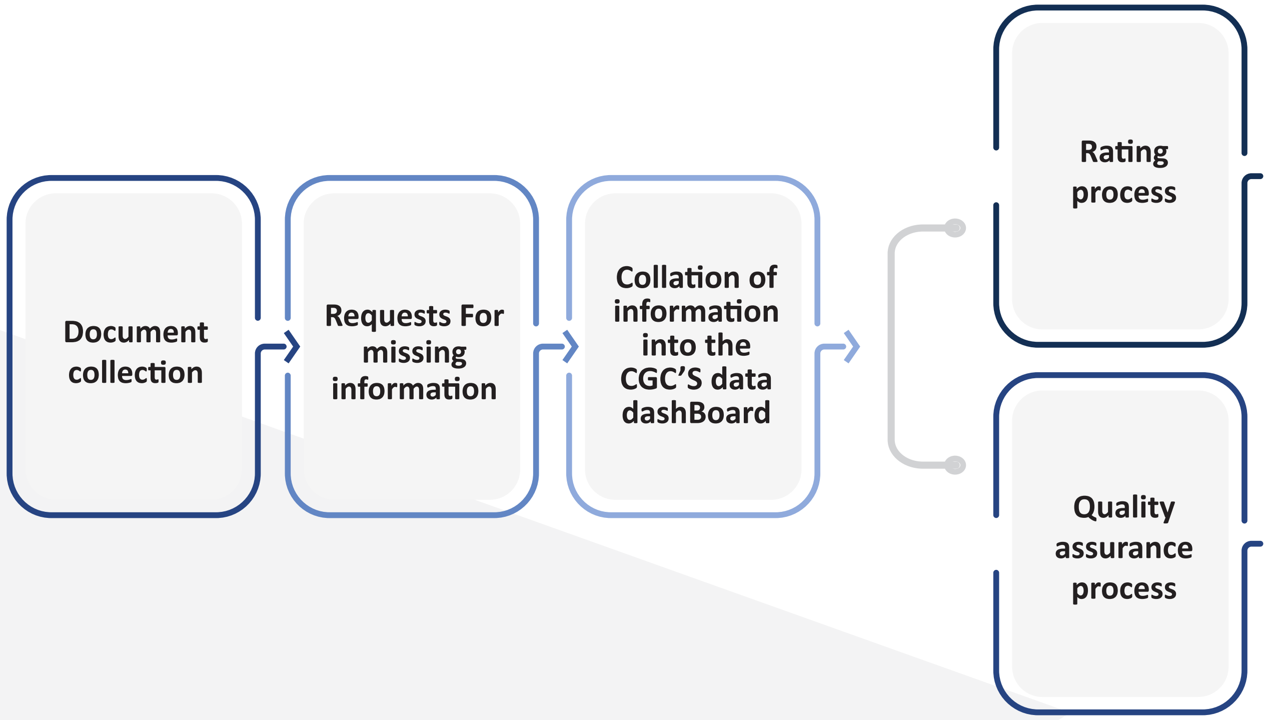
These categories have a number of variables based on principles of corporate governance set locally by the CMA and the SAMA, and globally by the G20/OECD principles. The CGI is a data based and objective performance measure of corporate governance standards. There is also a quality assurance process in place to ensure that quality and objectivity of the index remain high.

Part C Methodology of the CGI

1 Designing the CGI

To design the CGI, Alfaisal University partnered with the Ministry of Investment (formerly the Saudi Arabia General Investment Authority) and collaborated with consultants from Harvard University and Koribate International Credit Rating and CG Service Inc. The CGI is designed in alignment with international best practice (the G20/OECD principles) and the local regulatory landscape (corporate governance principles set by the CMA and SAMA). Furthermore, the CMA and SAMA are supporters and endorsers of the CGI.

2 CGI Evaluation and Rating Process



- Document collection: Publicly available documents that hold information regarding company's com pliance with corporate governance principles were collected. Examples of documents include Annual Reports and General Assembly minutes.
- Document analysis: The documents were collated and assessed against the relevant principles in the CGI.
- Requests for missing information: Companies were individually contacted, allowing them the opportunity to provide the CGC with any missing documentation that was not available online.
- Collation of information into the CGC's data dashBoard: The information and supporting evidence was collated into the CGC's digital data dashBoard, which was designed by the CGC to facilitate efficient evaluation.
- Rating process: The companies were rated in accordance with the evaluation process, and awarded a final grade.
- Quality assurance process: Whilst the companies were being rated, a quality assurance process was undertaken.

3 CGI Models and Sectors

The CGI has three models, which distinguishes companies according to the sector they operate in:

Base Model	Insurance Model	Banking Model
Companies operating in non-banking and non-insurance sectors 225 base variables	Companies operating in the insurance sector 225 base variables+ 41 additional variables	Companies operating in the banking sector 225 base variables+ 31 additional variables
(225 Total Variables)	(266 Total Variables)	(256 Total Variables)

Insurance and banking sector models have jave more variables as they are subject to additional SAMA regulations

Companies operating in the insurance and banking sectors are subject to more stringent corporate governance requirements. It is important that insurance companies are regulated to protect their solvency, and banks must be regulated for the role they play in retaining stable economies. In Saudi Arabia, SAMA is responsible for regulating the banking and insurance markets and has therefore imposed a higher number of corporate governance regulations for the applicable companies. Furthermore, segregating these companies according to these sectors allows for a meaningful analysis, which is explored in greater detail in Part III of this report.

ALFAISAL University | Corporate Governance Center
CGC مركز الحوكمة Corporate Governance Center

4 Understanding the Grade

The scoring process, which is illustrated in the below table, was conducted as follows:

- Each company was assessed against the number variables in the relevant model: base, insurance or banking.
- Points were earned according to the number of corporate governance variables the company adhered to. Mandatory variables "(**m.**)" carry a maximum value of 0.50 points, and voluntary variables "(**v.**)" carry a maximum of 1 point. Points are valued in this method as it indicates a company's willingness to go above and beyond what is required of them from a regulatory standpoint.
- The company received a cumulative score for each of the 4 categories: Board of directors' ("**BOD**") shareholder rights ("**SHR**"), public disclosure and transparency ("**PDT**") and stakeholder rights ("**STK**").
- The company's final score was calculated in accordance with the category weightings.

Each category in the CGI model has numerous variables which were used to measure compliance with corporate governance principles.

Score	Letter Grade	Desccription
90 - 100	A	Execllent
80 -89	B	Very good
70 - 79	C	Good
60 - 69	D	Fair
Below 60	F	Weak

The provision of a lettered grade provides a snapshot of each company's performance at a glance, as well as a high level indication of the performance of the companies collectively.

Part D Analysis of the CGI

1 Guiding principles of the CGI

The guiding principles of corporate governance define fundamentals of good corporate governance in accordance with applicable global and local laws and regulations, as outlined in Part I. The categories of the CGI model are aligned with the guiding principles, each category has numerous variables which were used to measure compliance with corporate governance principles outlined below.

Principle 1 The rights and equitable treatment of shareholders and key ownership functions

Shareholder Rights Category

- Fair Treatment of Shareholders
- Electing the Board Members
- Distribution of Dividends
- Responsibilities of the Extraordinary General Assembly
- Responsibilities of the Ordinary General Assembly

Principle 2 The rights of stakeholders established by law or through mutual agreements and encourage active cooperation between corporations and stakeholders

Stakeholder Rights Category

- Regulating the relationship with Stakeholders
- Reporting Non-Compliant Practices
- Employee Incentives
- Professional Conduct Policy
- Social Responsibility and Social Initiatives

Principle 3 Timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Public Disclosure & Transparency Category

- Policies and Procedure of Disclosure
- The Board's Report
- The Audit Committee's Report
- Disclosure by the Board
- Disclosure of governance rules

Principle 4 The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the Board, and the Board's accountability to the company and the shareholders

Board of Directors Category

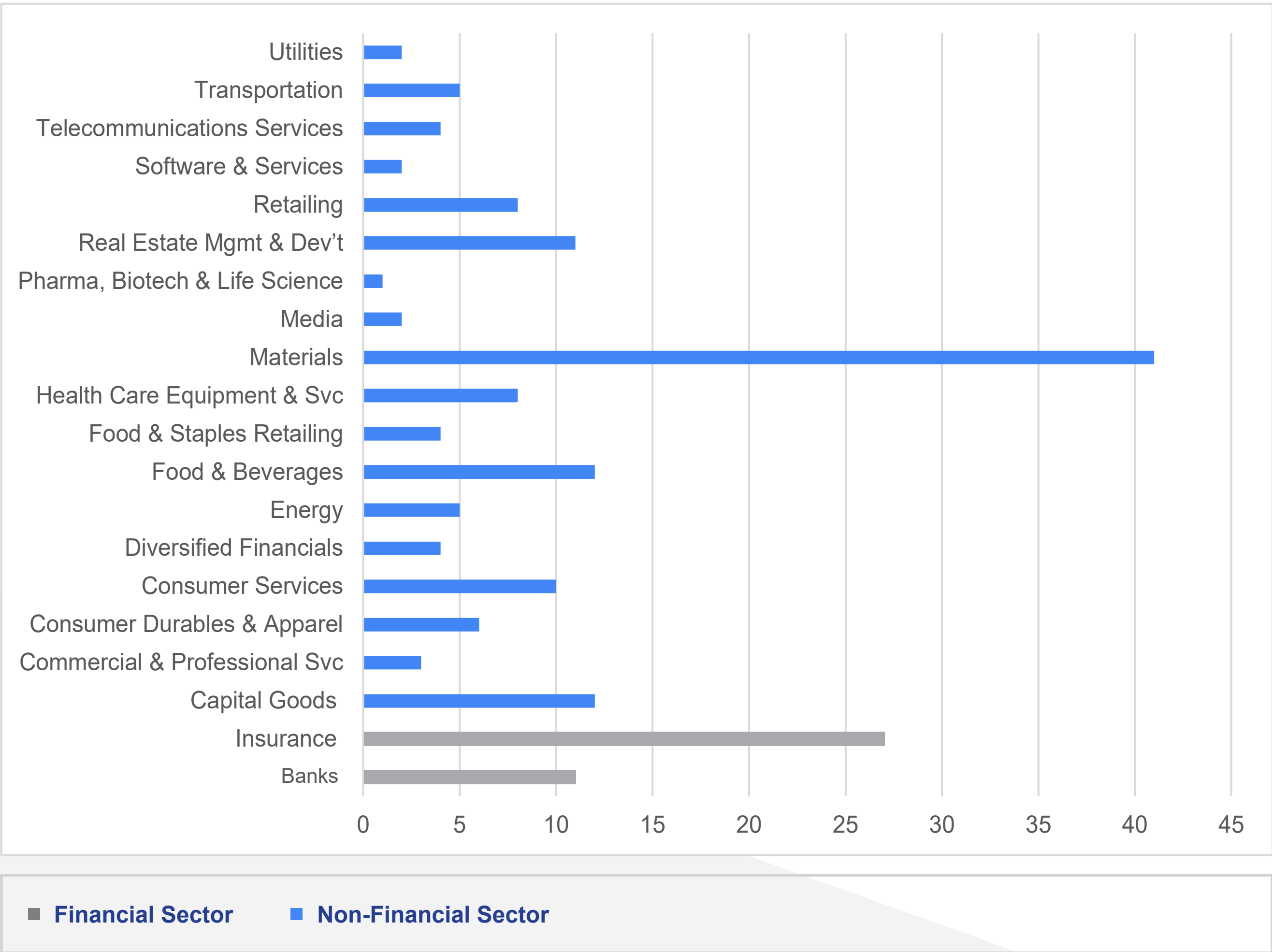
- Composition of the Board & Independence
- Appointment and termination of the Board members
- Main functions of the Board.
- Distribution of Competencies and Duties
- Separation of Positions
- Conflicts of Interest Policy

2 Summary of Key Findings per Analysis

A Overview of Companies

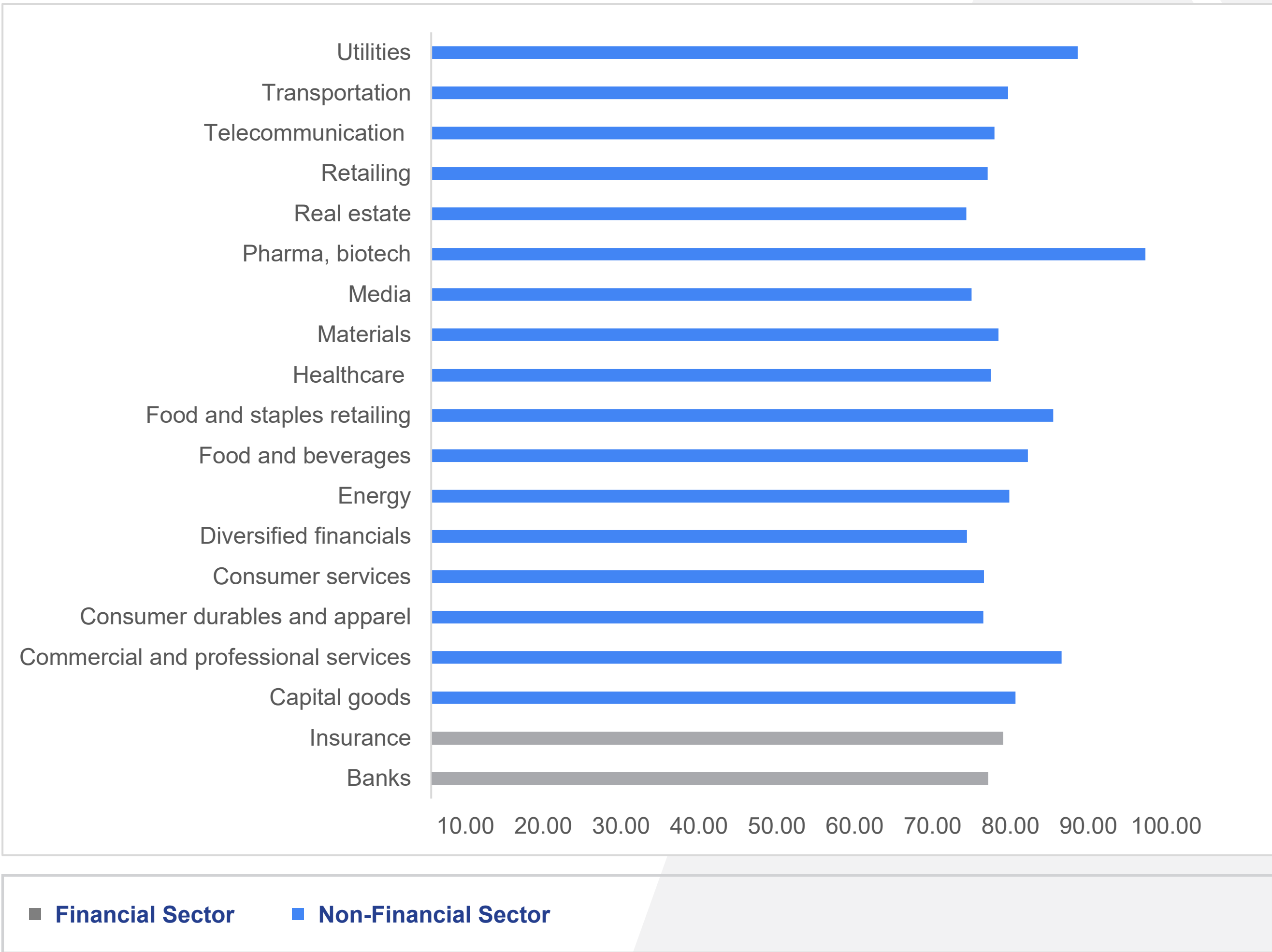
There are a total of 178 companies included in the CGI, 38 of which fall under the financial sector and 140 under the non-financial sector. As shown on the below chart, among both sectors, the highest number of companies is in the materials industry with a total of 41 companies, following which comes insurance companies in the financial sector with a total number of companies 27.

Chart 1: Number of companies per sector



[4] https://www.corporatesecretary.com/articles/technology-social-media/33138/uk-companies-warm-hybrid-agms-finds-report-white-case

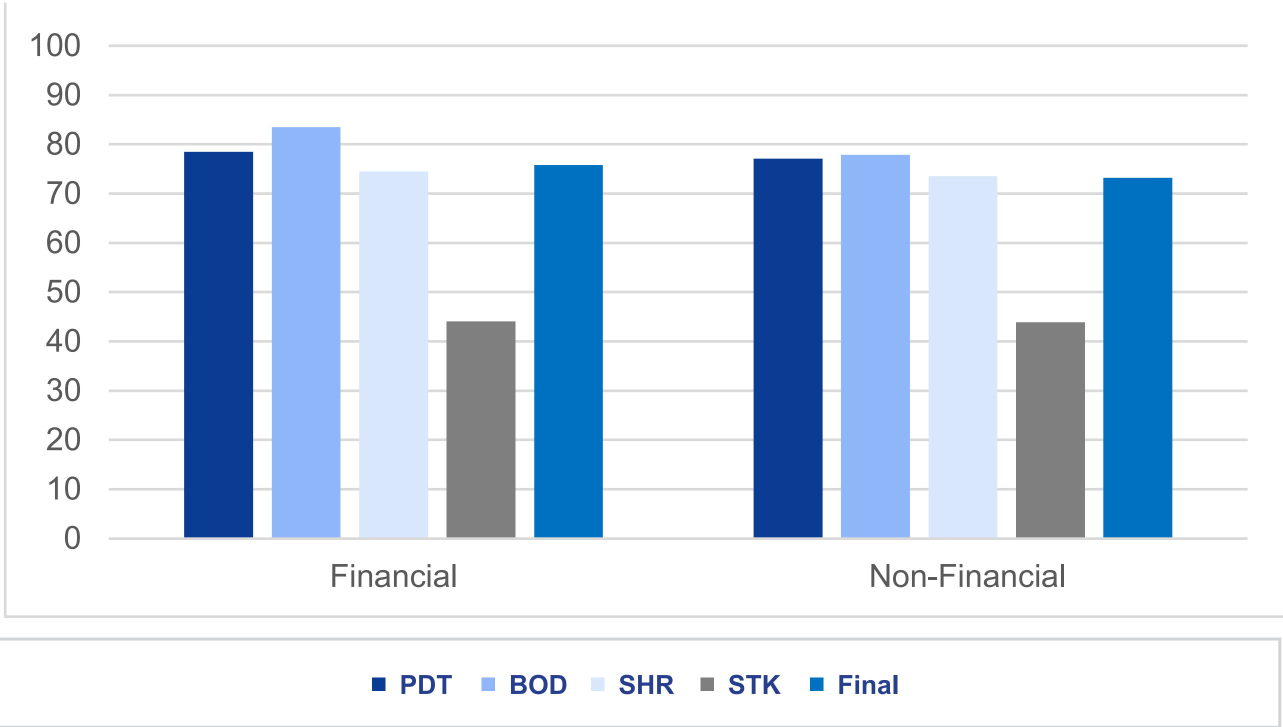
Chart 2: Average final score across financial and non-financial sectors



B Overview of FY21 Results

In order to understand the performance of the companies in FY21, a sectoral analysis was conducted by calculating the average final score of each of the categories in the CGI. The following charts highlight the highest and lowest performing categories per sector.

Chart 3: Average score per category for financial and non-financial sectors



i Financial Sector

Financial sector analysis includes banking and insurance sectors separately as well as a comparison of their performance against each category, with companies in the banking sector achieving slightly higher scores.

1 Key Finding:

Companies in the financial sector achieved the highest compliance in the BOD category

Banks

- Banks appointed non-executive directors who had diversified experience in a variety of areas and limited the number of executive directors to two.
- Banks established mandatory committees (i.e. Audit, Remuneration, Nomination) as well as voluntary committees (i.e. Risk Management).

Insurance Companies

- Insurance companies presented a Corporate Governance Code for the approval of the General Assembly.
- Insurance companies ensured the number of Board members was at a sufficient level for carrying out their duties effectively, and that a deputy chairman (if appointed) was a non-executive member.
- Insurance companies established the mandatory committees, including Executive and Investment committees.
- Insurance companies ensured that the Board chairman presided over the Remunera tion and Nomination committee.
- Insurance companies ensured the Risk Management Committee was composed of at least three members.

2

Key Finding:

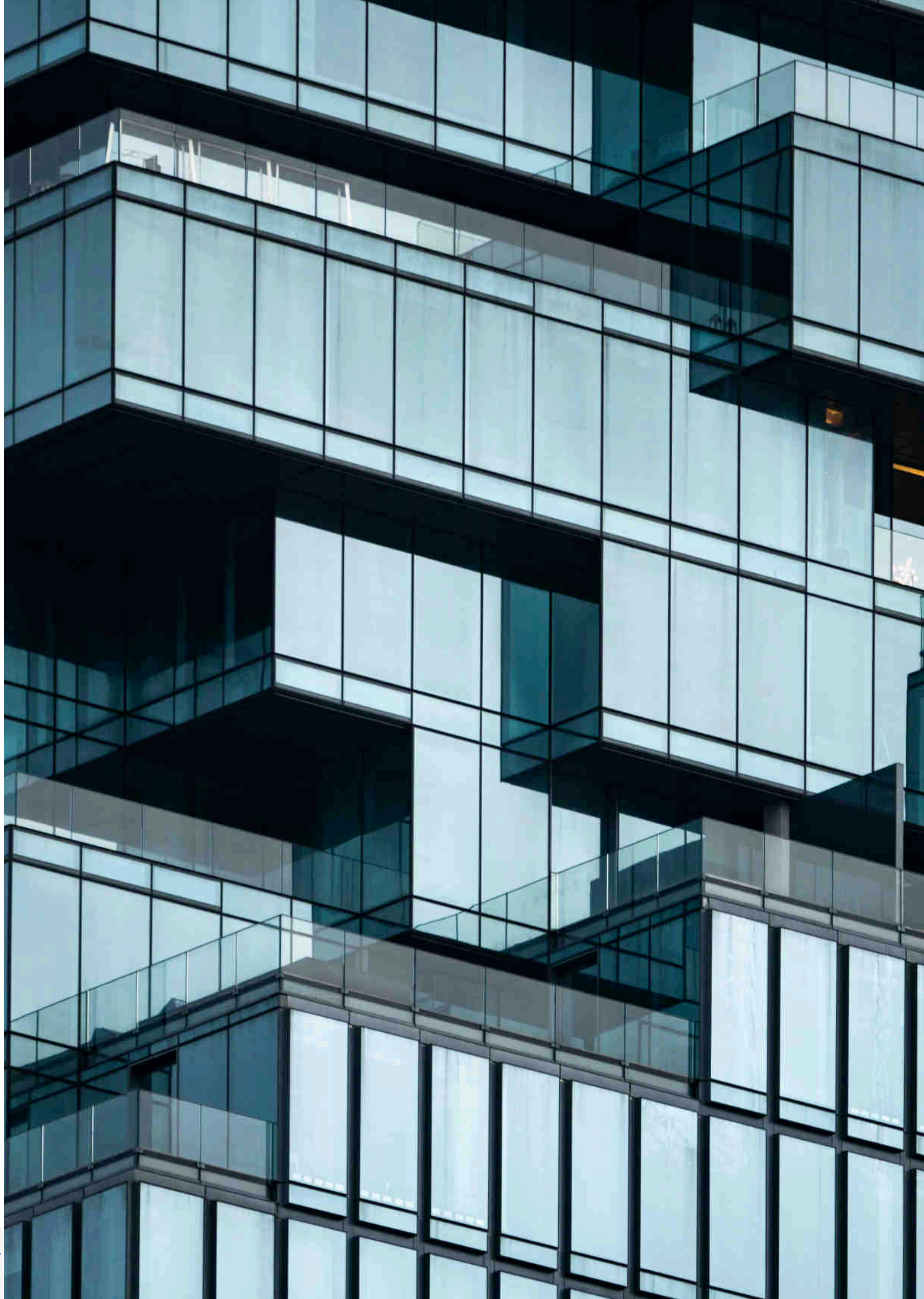
Companies in the financial sector achieved the lowest compliance in the STK

Banks

- Banks put in place a clear and written policy with the aim of protecting stakeholders.
- Banks had a written statement clarifying that employees should be treated pursuant to the principles of justice and equality and without discrimination.
- Banks provided access to information necessary for stakeholders to fulfill their re sponsibilities.
- Banks developed necessary policies and procedures to be followed when stakeholders submit complaints.

Insurance Companies

- Insurance companies had an employee appointed to receive and address complaints or reports sent by stakeholders and mechanisms that are set for employee participation, schemes for granting company shares or a percentage of the profits.
- Insurance companies had a CSR policy in place that had been approved in an ordinary General Assembly Meeting.
- Insurance companies had written a policy for staff recruitment and prepared training and development for staff recruitment.



ii Non-Financial Sector

Due to the high number of companies in the non-financial industry (140 companies across 17 industries), these companies these industries were grouped together as they had a comparable number of companies in each industry as per the following groups:

Group	Number of Companies	Sectors
Group 1	1 to 4	Pharma, Biotech & Life Science, Media, Utilities, Commercial & Professional Services, Diversified Financials, Food & Staples Retailing and Telecommunications Services.
Group 2	5 to 8	Energy, Transportation, Consumer Durables & Apparel, Health Care Equipment & Services and Retailing.
Group 3	10 to 12	Consumer Services, Real Estate Management & Development, Capital Good and Food & Beverages
Group 4	41	Materials

1 Key Finding:

Companies in the non-financial sector achieved the highest compliance in variables that related to independence of the Board

Group 1	All of companies ensured that their directors did not hold directorship positions of more than 5 joint stock companies at the same time.
Group 2	All of companies ensured that no Board member had any interest in business and contracts executed for the Company's account.
Group 3	All of companies had at least one independent Board member with no interest in the business and contracts executed for the company's accounts.
Group 4	Majority of companies ensured that a Board member would not be appointed to more than 5 listed joint stock companies at the same time.

2 Key Finding:

Companies in the non-financial sector achieved the lowest compliance in variables relating to appointment of a Board Secretary, despite this being mandatory principle.

Group 1	None of the companies of the following three industries had appointed a Board Secretary: Media, Telecommunications and Pharma, Biotech & Life Science.
Group 2	25% to 67% of companies had appointed a Board Secretary.
Group 3	9% to 33% of companies had appointed a Board Secretary.
Group 4	39% of companies had appointed a Board Secretary.

C Overview of the Yearly Analysis

i Five Year Analysis

To produce this analysis, the final scores were refined to include companies that have been consistently included in the CGI over the 5 years.

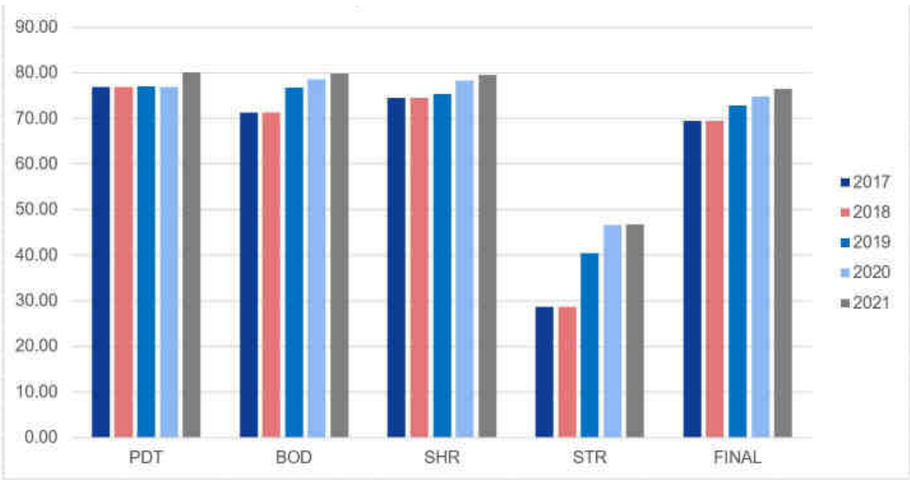


Chart 4: Non-Financial Sector Five Years Analysis

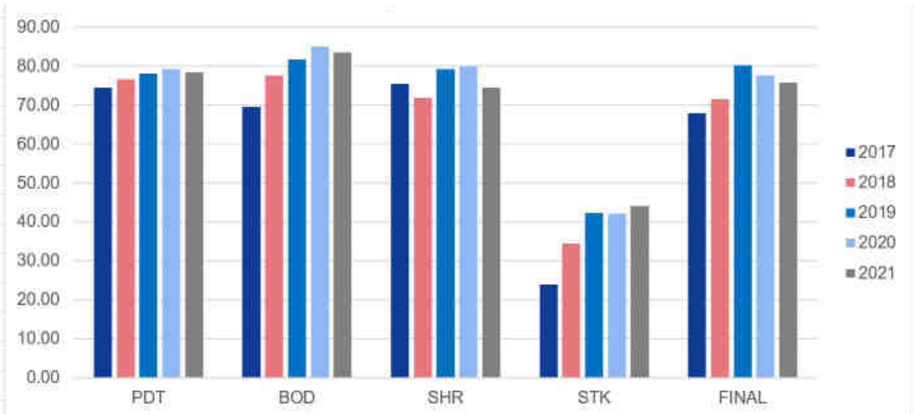


Chart 5: Financial Sector Five Years Analysis

A The key findings are as follows:

- In the financial sector, the overall final scores increased between 2017 and 2019, but have shown a steady decrease from 2019 to 2021. Despite this, there have been increases in the PDT, BOD and STK categories over the 5 year period - showing greater commitment to corporate governance in these areas in the finance sector.
- In the non-financial sector, the results are more positive, with a steady increase in the overall scores between 2018 and 2021. Furthermore, there have been increases across all categories over the 5 year period.

An analysis between FY20 and FY21 is conducted below to show the most recent trends and areas for improvement for the year ahead.

ii Comparison between FY20 and FY21

A Financial Sector

1 Key Finding:

The insurance sector overall decreased its average scores in principles relating to stakeholders. The banking sector overall increased its average scores in principles relating to stakeholders.

Banks	**+ 8%** Companies included a statement that maintained the confidentiality of reporting procedures **+ 8%** Companies produced a statement or procedure that provides stakeholders with necessary protection **- 18%** Companies listed its CSR activities **- 6%** Companies disclosed their plans for achieving social responsibility on their periodical reports
Insurance Companies	**+ 5%** Companies had compensation policies for staff **+ 1%** Companies had a compensation policy for its employees **- 13%** Companies prepared a training and development programme for its employees **- 6%** Companies had performance assessment and rewarding criteria for staff

2 Key Finding:

Overall, the financial sectors decreased their performance in the SHR category between FY20 and FY21

Banks	**+ 100%** Companies identified their chief governance officer in their annual report **- 10%** Shareholders had the right to appeal for nullification of the resolutions of the general and special shareholder meetings **- 15%** Companies had the competency to amend the company's bylaw, specifying the proposed amendments in the agenda of the meeting invitation and announcement amendments resulting in the announcement of the results of the meeting **- 13%** Companies granted access to shareholders to the minutes of the General Assembly meeting minutes
Insurance Companies	**- 10%** Shareholders had the right to appeal for nullification of the resolutions of the general and special shareholder meetings **- 4%** Shareholders were able to dispose of their shares in provision with the relevant laws. Another area of decrease was in the management of the Shareholder's assembly **- 7%** Companies announced the results of the General Assembly immediately after its conclusion

B Non-Financial Sector

PDT shows the highest increase between FY20 and FY21. STK has the lowest figures between the four categories which is consistent with all the previous years and as highlighted in STK Analysis as part of the non-financial analysis for FY21.

1 Key finding:

An overall increase in complying with principles relating to PDT.

Group 1	**+ 50%** Companies in Media published their Board report and information in respect of major shareholders, including names and percentage of shares, on their website
Group 2	**+ 20%** Energy companies had disclosures of the Board members **+ 60%** Energy companies had disclosures of the Executive Management **- 75%** Energy companies included executive management names in their Board of directors report
Group 3	**+ 22%** Capital Goods companies put in place policies, procedures and supervisory rules related to disclosure **+ 5%** Companies published the Board report on their website
Group 4	**- 24%** Companies omitted to include Executive Management names in the Board of Directors report **- 16%** Companies included details of shares and debt instruments issued for each affiliate company **- 33%** Companies included a description of any interest in a class of voting shares held by persons (other than the company's directors, Senior Executives and their relatives) who have notified the company of their holdings pursuant, together with any change to such interests during the last fiscal year

Part E Recommendations

The tone of a company is set from the top. Therefore, the Board should ensure that governance is not viewed as a box-ticking exercise in the organization as its benefits extend far beyond regulatory compliance, as noted in the executive summary. With this in mind, it is recommended that companies seek to continually improve their corporate governance structures in line with best practices. As summarized by the GCC BDI, improved corporate governance in the region ''will be of benefit not just to the organizations these serve, but their wider stakeholder bases and the communities they operate in, too. Improved governance will also elevate the reputation of the Gulf region as an incubator for best practices in corporate accountability, efficiency, and transparency''.

The following are practical steps that the Board can take to improve governance structures, based on insights from the CGI analysis:

- Increase stakeholder engagement:
  - Identify who the company's key stakeholders are, as this will widely differ between companies and will go beyond the company's employees. There are a variety of mapping exercises that can be undertaken to establish this, and this exercise will help the Board identify which groups should be prioritized in terms of engagement.
  - Develop a robust strategic plan for stakeholder engagement. As a minimum, this should consider the company's policies and procedures which aim to protect stakeholders and safeguard their rights, employee incentivisation scheme and ESG practices.
  - The Board should develop a plan for appropriate methods of reporting and communication with their stakeholders.
  - The stakeholder engagement plan should be regularly reviewed and adapted where necessary.
  - The Board should report on stakeholder-related metrics, even if they are not mandated by regulation or law. This will increase accountability and build trust among existing investors, whilst also attracting new investors.

- Increase compliance with voluntary principles
  - The importance of governance and compliance with voluntary principles can be assessed in a refresher session by the Board.
  - As a minimum all listed companies should appoint a Board Secretary (and support function if required) with the relevant skills and experience to support the Board in the company's governance, as this is a mandatory requirement. A key role of a Board Secretary is to be aware of the corporate governance landscape, and should be best placed to advise the Board and the Chairperson on voluntary principles that the company should adhere to.
  - The Board should consider the use of technology to increase their compliance with voluntary principles where possible. For example technology can be used to increase efficiency of the processes around Board meetings and Board evaluations.
  - The topic of governance should be a key item on director inductions and be discussed in regular training sessions.
  - Whilst compliance with all principles (mandatory and voluntary) should remain a focus for Boards, a heightened focus on voluntary principles is required as it is evident these are currently being over looked. Companies captured within the CGI can request a personalized report from the CGC which will provide an overview of the principles they did and did not comply with in FY21.

- Improve public disclosure and transparency
  - Ensure that the topic of transparency is high on the Board agenda and discussed at appropriate frequency. This includes having the right structure and executive management to promote transparency and reporting.
  - Staying on top of the governance landscape can be achieved by conducting focused sessions on upcoming changes to laws and regulations relating to public disclosure and transparency. Companies in Saudi Arabia should pay close attention to the updated CCL and the updates that are due to the G20/OECD principles as these will likely implicate their corporate governance requirements in the future.
  - Arrange for a Board Secretary to be appointed as they play a pivotal role in ensuring that companies comply with their reporting obligations as well as advising on the policies and procedures that should be put in place in this regard. Further and more broadly, the Board secretary will support in determining if any updates in the governance landscape affects the company and if any action needs to be taken. An investor relations team (whose responsibility is to manage the flow of information between the company and its stakeholders) should also be considered to support in this area.