



Chabahar International Bank (Offshore)

| Corporate Governance
| An Excerpt

Preface

Corporate governance has gained prominence as a means to ensure financial stability, competitiveness, and accountability. It promotes transparency, fairness, and responsibility to protect stakeholders' interests. Following global banking crises, effective governance became essential to mitigate risks and strengthen financial systems.

At Chabahar International Bank (Offshore), all activities put in place to direct corporate behavior and ensuring that ethical standards and integrity are upheld across the organization. This, in return enables the management to fully observe corporate governance principals, as the Basel committee highlighted, and decision making shall be comply the relevant riles and regulations.

Definitions

Key terms are defined for clarity:

- **Corporate Governance** involves the relationships among management, board, shareholders, and stakeholders to guide objectives, allocate authority, and monitor performance.
- **Board of Directors (Board)** is elected to oversee strategy, compliance, and risk management.
- **Executive Committee (Senior Management)** executes approved strategies.
- **Risk-related concepts** include *Risk Appetite*, *Risk Culture*, *Risk Capacity*, and *Risk Management*, all emphasizing identifying, measuring, and mitigating risks.
- **Duty of Care** and **Duty of Loyalty** bind board members to act prudently and in the institution's best interest.

Board's Overall Responsibilities

The board is accountable for all operations, including setting strategic goals, ensuring financial soundness, enforcing internal controls, and overseeing management.

Its duties include:

- Approving **business strategies**, **governance framework**, and **risk policies**.
- Safeguarding **shareholders' and depositors' rights**.
- Ensuring adherence to **regulatory obligations** and **ethical standards**.
- Supervising senior management **performance** and promoting **risk awareness** across all levels.

The board must promote a **culture of integrity**, **prohibit misconduct**, and ensure mechanisms for **whistleblowing** and **open communication**.

Board Composition and Practices

Board members must possess expertise in **banking** and **finance**, **good reputation**, and **independence**.

Most members should be **non-executive**. They cannot **simultaneously** serve on other banks' boards or subsidiaries.

The board must:

- Conduct annual **self-assessments** and **performance evaluations**.
- Maintain clear **documentation** of meetings and decisions.
- Periodically **review** its structure and governance practices to improve efficiency.

Role of the Chair

The **Chair** must be a non-executive member, independent, and competent. The Chair ensures informed decision-making but does not participate in board committees.

Board Committees

To execute duties effectively, the board must form key committees:

- **Audit Committee** – ensures financial integrity and internal control.
- **Risk Committee** – oversees risk governance and management.
- **Compliance Committee** – ensures regulatory adherence.
- **Compensation Committee** – The Board shall establish a Compensation Committee to oversee fair and transparent remuneration aligned with long-term performance and regulatory standards. The committee designs policies and incentives promoting responsible conduct and equity. When necessary, the Board may form additional committees such as Appointment, Credit, and Investment to support governance effectiveness

Senior Management

Senior management operates under the board's oversight, ensuring **accountability, transparency, and risk control**.

They must:

- Design clear **decision-making procedures**.
- Respect the **independence** of control functions (audit, risk, compliance).
- Keep the board **informed** about financial performance, strategy deviations, and compliance issues.

Sharia Compliance

The board must ensure that all products, contracts, and operations **comply** with Sharia principles.

It may **consult** expert Sharia advisors and implement mechanisms to **prevent** fictitious transactions and ensure lawful profit-sharing.

Governance of Group Structures

For institutions with subsidiaries, the board bears overall responsibility for group governance.

It must ensure:

- Clear **division** of roles and responsibilities within the group.
- Proper **oversight** of subsidiaries and prevention of intra-group conflicts.
- Transparent **structures**, consistent **strategies**, and effective **risk communication** across entities.

The board must **report** group policies and structures to the Central Bank periodically.

Risk Management

A robust, independent risk management function headed by a **Chief Risk Officer (CRO)** must exist.

The CRO, approved by the Central Bank, **oversees** risk identification, measurement, and mitigation, **reports** directly to the board, and **participates** in key decision-making processes.

The function must be **independent** of revenue-generating units to maintain objectivity.

Risk Identification, Monitoring & Control

Risk governance should **align with** the institution's size and complexity.

Procedures include:

- Identifying all **material risks** (credit, market, operational, reputational).
- Using **stress testing** and **scenario analysis**.
- Maintaining **internal controls** and early warning systems.

- Reviewing risk management **effectiveness** through regular assessments and audits.

Risk Communication

Continuous, accurate, and transparent communication about risks must exist between the board, management, and employees.

Risk reports should be **comprehensive, timely**, and include **stress-test results, exposures, and risk-return relations**.

- Clarified expectations for **accuracy, timeliness, and escalation** in risk reporting.
- Emphasized **Board evaluation of information quality** and **rapid communication channels** for urgent issues.

Compliance

The board must ensure a **strong compliance framework** to uphold laws and regulations.

A **permanent compliance unit** and a **senior compliance officer**, approved by the Central Bank, are required.

Internal Audit

An independent internal audit function **reports directly** to the board, assessing the effectiveness of governance, controls, and risk management.

It must follow **international auditing standards**, maintain **autonomy**, and regularly **evaluate** the institution's internal control system.

Compensation

The board oversees employee and management **remuneration** to ensure **fairness, alignment** with performance, and **compliance** with the institution's long-term strategy.

Compensation policies must be reviewed annually.

Disclosure & Transparency

Transparency is vital for stakeholder **trust**.

The board must publicly disclose:

- Financial statements and governance information.
- Risk management, related-party transactions, and audit findings.
- Ethics, social responsibility, environmental policies, and Sharia compliance. Such disclosure ensures that depositors and shareholders can evaluate the board's performance and governance effectiveness.

Conclusion

The Corporate Governance Principles comprise **101 articles** promoting transparency, accountability, and ethical conduct. They reinforce effective oversight, risk management, and compliance to ensure the stability and integrity of Chabahar International Bank's operations under the Central Bank of Iran's regulations.