



Corporate Governance Guidelines

Policy, Key Components & Principles

National Bank of Bahrain
Compliance Department

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POLICY

NBB firmly believes that adherence to sound corporate governance and development of a conducive corporate culture is vital to its growth, corporate performance and enhancement of trust in the activities carried out by the Bank. This belief is demonstrated through its commitment to upholding the highest standards of corporate governance and ethical conduct.

The Board and Management also believe that accuracy and transparency in reporting results, and maintaining full compliance with laws, rules, and regulations governing the Bank's operations promote the interests of the Bank's stakeholders and benefit the long-term interests of shareholders.

KEY COMPONENTS

The key components of NBB's Corporate Governance philosophy are:

- **Responsibility** – in delegation of authority and division of work with emphasis on prudent risk and control framework.
- **Accountability** – in conduct of the Management and the Board and their relationship to and responsibilities towards all stakeholders.
- **Transparency and Information disclosure** – in an accurate and timely manner to enable stakeholders to assess the bank's financial performance and to judge the effectiveness of the Board and Senior Management in governing the bank.
- **Integrity** - in dealing with customers and delivering services in an ethical manner.
- **Fairness** – in the treatment of all stakeholders (shareholders, employees, depositors, borrowers, and other business partners).
- **Corporate Social Responsibility** – in contributions to the society and environment.

The above Corporate Governance philosophy is supplemented by our Board approved Corporate Governance Guidelines (the "Guidelines") as elaborated herein. These guidelines have been written such that they comply with the High Level Controls (HC) module of the CBB Rulebook, which stipulates that all principles in the HC module are included and referenced to in the Guidelines.

The Guidelines document the Bank's commitment to maintaining sound corporate governance standards and continually seek to implement the best practices in this regard. Assessment of compliance with the Guidelines is carried out annually and reported to the shareholders in the Annual General Meeting.

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PRINCIPLE 1

The Bank must be headed by an effective, collegial and informed Board of Directors (“The Board”). (HC-1.1)

ROLE AND RESPONSIBILITIES

(HC-1.2)

1. All Directors must understand the Board’s role and responsibilities under the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time. In particular:
 - a) The Board’s role is distinct from the role of the shareholders (who elect the Board and whose interests the Board serves) and the role of officers (whom the Board appoints and oversees); and
 - b) The Board’s fiduciary duties of care and loyalty to the Bank and its shareholders.
2. The Board’s role and responsibilities include but are not limited to:
 - a) The overall business performance and strategy and business plan for the Bank;
 - b) Causing financial statements to be prepared which accurately disclose the Bank’s financial position;
 - c) Monitoring management performance;
 - d) Convening and preparing the agenda for shareholder meetings;
 - e) Monitoring conflicts of interest and preventing abusive related party transactions;
 - f) Assuring equitable treatment of shareholders including minority shareholders; and
 - g) Establishing the objectives of the Bank.
3. As a minimum, the Board must:
 - a) Adopt and Annually review strategy of the bank;
 - b) Adopt and review of management structure and responsibilities;
 - c) Adopt and review of the systems and controls framework; and
 - d) Monitor the implementation of strategy by management.
4. The Directors are responsible both individually and collectively for performing the responsibilities outlined above. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.
5. In its strategy review process as mentioned in (3) above the Board must:
 - a) Review the Bank’s business plans and the inherent level of risk in these plans;
 - b) Assess the adequacy of capital to support the business risks of the Bank;

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- c) Set performance objectives; and
 - d) Oversee major capital expenditures, divestitures and acquisitions.
6. The Bank must obtain the CBB's prior written approval for all major proposed changes to the strategy and/or corporate plan of the Bank prior to implementation.
7. The Board should have effective policies and processes in place for:
- a) Approving budgets and reviewing performance against those budgets and key performance indicators; and
 - b) The management of the Bank's compliance risk.
8. When a new Director is inducted, the Chairman of the Board, or the Bank's legal counsel or compliance officer, or other individual delegated by the Chairman of the Board, should review the Board's role and duties with that person, particularly covering legal and regulatory requirements and Module HC of CBB rulebook.
9. The Bank must have a written appointment agreement with each Director, which recites the Directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.
10. The Board is responsible for ensuring that the systems and controls framework, including the Board structure and organizational structure of the Bank, is appropriate for the Bank's business and associated risks. The Board must ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the Bank is exposed in its business activities.
11. The Board must regularly assess the systems and controls framework of the Bank. In its assessments, the Board must demonstrate to the CBB that:
- a) The Bank's operations, individually and collectively are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of the Bank's activities;
 - b) The Bank's operations are supported by an appropriate control environment. The compliance, risk management and financial reporting functions are adequately resourced, independent of business lines and are run by individuals not involved with the day-to-day running of the various business areas. The Board should additionally ensure that management develops, implements and oversees the effectiveness of comprehensive 'Know Your Customer' standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice (with particular regard to anti-money laundering measures). The control environment should maintain necessary client confidentiality and ensure that the privacy of the Bank is not violated, and ensure that clients' rights and assets are properly safeguarded; and

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c) If the Board identifies any significant issues related to the Bank’s adopted governance framework, appropriate and timely action is taken to address any identified adverse deviations from this document or the relevant CBB guidelines.

12. The Board must adopt a formal Board charter specifying matters, which are reserved to it, which include but needs to be not limited to the specific requirements and responsibilities of Directors. A summary of responsibilities of the Board should be disclosed publicly, in the annual report, which is submitted to the CBB.

DECISION MAKING PROCESS

(HC-1.3)

13. The Board must be collegial and deliberative, to gain the benefit of each individual Director’s judgment and experience.

14. The Chairman must take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

15. The Board must meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All Directors must attend the meetings whenever possible and the Directors must maintain informal communication between meetings.

16. Individual Board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Voting and attendance proxies for Board meetings are prohibited at all times. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings.

Meetings per year	75% Attendance requirement
4	3
5	4
6	5
7	5
8	6
9	7
10	8

17. The absence of Board members at Board and Committee meetings must be noted in the meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when Board members stand for re-election (e.g., Board member XYZ attended 95% of scheduled meetings this year).

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18. In the event that a Board member has not attended at least 75% of Board meetings in any given financial year, the Bank must immediately notify the CBB indicating which member has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance. The CBB shall then consider the matter and determine whether disciplinary action, including disqualification of that board member pursuant to Article 65 of the CBB Law, is appropriate. Unless there are exceptional circumstances, it is likely that the CBB will take disciplinary action. To meet its obligations under (15) above, the full Board should meet once every quarter to address the Board's responsibilities for management oversight and performance monitoring. Furthermore, Board Members should step down if they are not actively participating in Board meetings. Non-attendance at Board meetings does not absolve the Board Members of their responsibilities as Directors. It is important that each individual Director should allocate adequate time and effort to discharge his responsibilities. All Directors should contribute actively to the work of the Board in order to discharge their responsibilities and should make every effort to attend Board meetings where major issues are to be discussed. Participation in board meetings by means of video or telephone conferencing should be regarded as attendance and may be recorded as such.
19. At least half of the Board meetings of the Bank in any twelve-month period must be held in the Kingdom of Bahrain.
20. The Bank is required to submit, on an annual basis, as an attachment to the year-end quarterly PIR, a report recording the meetings during the year by their Board of Directors.
21. The Chairman should be responsible for the leadership of the Board, and for the efficient functioning of the Board. The Chairman must ensure that all Directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each Board meeting and when necessary between meetings. Therefore, it is vital that the Chairman commit sufficient time to perform his role effectively. All Directors must receive the same Board information. At the same time, Directors have a legal duty to inform themselves and they must ensure that they receive adequate and timely information and must study it carefully.
22. The Board should have no more than 15 directors and should regularly review its size and composition to assure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The Board should recommend changes in Board size to the shareholders when a needed change requires amendment of the Bank's Memorandum of Association. In accordance with the Articles of Association any shareholder holding 10% of the shares are entitled to nominate directors in proportion to their shareholding of the capital.
23. Potential non-executive Directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The Nomination Committee should regularly review the time commitment required from each non-executive Director and should require each non-executive Director to inform the Committee before he accepts any Board appointments to another company.

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24. No Board member may have more than one Directorship of Retail Bank or Wholesale Bank . This means an effective cap of a maximum of two Directorships of banks inside Bahrain. Two Directorships of licensees within the same Category (e.g. “Retail Bank”) are not permitted by CBB. The Bank may approach the CBB for exemption from this limit where the Directorships concern Banks or financial institutions within the same group.
25. Any Director should not hold more than three Directorships in public companies in Bahrain with the provision that no conflict of interest may exist, and The Board should not propose the election or reelection of any Director who does.

INDEPENDENCE OF JUDGMENT

(HC-1.4)

26. Every Director must bring independent judgment to bear in decision-making. No individual or group of Directors must dominate the Board’s decision-making and no one individual should have unfettered powers of decision.
27. Executive Directors must provide the Board with all relevant business and financial information within their cognizance, and must recognize that their role as a Director is different from their role as a member of management.
28. Non-executive Directors must be fully independent of management and must constructively scrutinize and challenge management including the management performance of executive Directors.
29. Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment. At a Minimum, all locally incorporated banks must appoint one independent director.
30. At least half of the Bank’s Board should be non-executive Directors and at least three of those persons should be independent Directors. The Chairman of The Board should be an independent Director, so that there will be an appropriate balance of power and greater capacity of The Board for independent decision-making.
31. The Chairman and/or Deputy Chairman must not be the same person as the Chief Executive Officer.
32. The Chairman must not be an Executive Director.
33. The Board should review the independence of each Director at least annually in light of interests disclosed by them, and their conduct. Each independent Director shall provide The Board with all necessary and updated information for this purpose.
34. To facilitate free and open communication among independent Directors, each Board meeting should be preceded or followed with a session at which only independent Directors are present, except as may otherwise be determined by the independent Directors themselves.

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REPRESENTATION OF ALL SHAREHOLDERS

(HC-1.5)

35. Each Director must consider himself as representing all shareholders and must act accordingly. The Board must avoid having representatives of specific groups or interests within its membership and must not allow itself to become a battleground of vested interests. If the Bank has controllers¹ or a group of controllers acting in concert, the latter must recognize its or their specific responsibility to the other shareholders, which is direct and is separate from that of the Board of Directors.
36. If the Bank has a controller, at least one-third of the Board must be independent Directors. Minority shareholders must generally look to independent Directors' diligent regard for their interests, in preference to seeking specific representation on the Board.
37. If the Bank has controllers, both controllers and other shareholders should be aware of controllers' specific responsibilities regarding their duty of loyalty to the Bank and conflicts of interest and also of rights that minority shareholders may have to elect specific Directors under the Company Law. The Chairman of the Board, or other individual delegated by the Chairman of the Board, should take the lead in explaining this with the help of the Bank's lawyers.

DIRECTOR'S ACCESS TO INDEPENDENT ADVICE

(HC-1.6)

38. The Board must ensure by way of formal procedures that individual Directors have access to independent legal or other professional advice at the Bank's expense whenever they judge this necessary to discharge their responsibilities as Directors and this must be in accordance with the Bank's policy approved by the Board.
39. Individual Directors must also have access to the Bank's corporate secretary, who has the responsibility for reporting to the Board on Board procedures. Both the appointment and removal of the corporate secretary must be a matter for the Board as a whole, not for the CEO or any other officer.
40. Whenever a Director has serious concerns, which cannot be resolved concerning the running of the Bank or a proposed action, he should consider seeking independent advice and should ensure that the concerns are recorded in the Board minutes and that any dissent from a Board action is noted or delivered in writing.
41. Upon resignation, a non-executive Director should provide a written statement to the Chairman, for circulation to the Board, if he has any concerns such as those in Paragraph 41.

¹ Controller is a natural or legal person who either alone, or with his associates holds 10% or more of the shares, or is able to exercise (or control the exercise of) 10% or more of the voting power in the licensee or its parent or is able to exercise significant influence over the management of the licensee or its parent.

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DIRECTOR 'S COMMUNICATION WITH MANAGEMENT (HC-1.7)

42. The Board must encourage participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the Directors.
43. Non-executive Directors should have free access to the Bank's management beyond that provided in Board meetings. Such access should be through the Chairman of the Audit Committee or CEO. The Board should make this policy known to management to alleviate any management concerns about a Director's authority in this regard.

COMMITTEES OF THE BOARD (HC-1.8)

44. The Board must create specialized committees when and as such committees are needed. In addition to the Audit, Remuneration and Nominating Committees described elsewhere in this module, these may include an executive committee to review and make recommendations to the whole board on the Bank's actions, or a Risk Committee to identify and minimize specific risks of the Bank's Business.
45. The Board should establish a corporate governance committee of at least three independent members, which should be responsible for developing and recommending changes from time to time in the Bank corporate governance policy framework. As permitted by Rule HC-1.8.5, the Corporate Governance Committee is combined with the Audit Committee.
46. The Board or a committee may invite Non-Directors to participate in, but not vote at, a committee's meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas.
47. Committees must act only within their mandates and therefore the Board must not allow any committee to dominate or effectively replace the whole Board in its decision-making responsibility.
48. Committees may be combined if no conflict of interest might arise between the duties of such committees, subject to CBB's prior approval.
49. Every committee must have a formal written charter.
50. Where committees are set up, they should keep full minutes of their activities and meet regularly to fulfill their mandates. The establishment of committees should not mean that the role of the Board is diminished, or that the Board becomes fragmented.

EVALUATION OF THE BOARD AND EACH COMMITTEE (HC-1.9)

51. At least annually, the Board must conduct an evaluation of its performance and the performance of each committee and each individual Director. The Bank has set up a procedure in this regard which should be followed.

The evaluation process will include:

- a) Assessing how the Board operates,

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- b) Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee;
- c) Reviewing each Director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making;
- d) Reviewing the Board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the Board; and
- e) Recommendations for new Directors to replace long-standing members or those members whose contribution to the Bank or its committees is not adequate.

52. While the evaluation is a responsibility of the entire Board, it should be organized and assisted by an internal Board committee and, when appropriate, with the help of external experts.

53. The Board should report to the shareholders, at each annual shareholder meeting, that evaluations have been done and report its findings.

PRINCIPLE 2

The Approved persons must have full loyalty to the Bank.

(HC-2.1)

PERSONAL ACCOUNTABILITY

(HC-2.2)

54. The Bank is subject to a wide variety of laws, regulations and codes of best practice that directly affect the conduct of business. Such laws involve the Bahraini Stock Exchange Law, the Labour Law, the Commercial Companies Law, occupational health and safety, environment and pollution laws, as well as the Law, codes of conduct and regulations of the Central Bank. The Board sets the "tone at the top" of the Bank, and has a responsibility to oversee compliance with these various requirements. The Board should ensure that the staff conduct their affairs with a high degree of integrity, taking note of applicable laws, codes and regulations.

Corporate Ethics, Conflicts of Interest and Code of Conduct

55. Each Director must understand that under the Company Law he is personally accountable to the Bank and the shareholders if he violates his legal duty of loyalty to the Bank, and that he can be personally sued by the Bank and the shareholders for violations.

56. The Board must establish corporate standards for approved persons and employees. This requirement should be met by way of a documented and published code of conduct or similar document. These standards must be communicated throughout the bank, so that the approved persons and staff understand the importance of conducting business based on good corporate governance values and understand their accountabilities to the various stakeholders of the licensee. Banks' approved persons and staff must be informed of and be required to fulfil their fiduciary responsibilities to the bank's stakeholders.

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57. The Code of Conduct outlines the practices that Approved persons and staff should follow in performing their duties and includes:

- a) Commitment by the Board and Management to the code: The code of conduct should be linked to the objectives of the Bank, and its responsibilities and undertakings to customers, shareholders, staff and the wider community. The code should give examples or expectations of honesty, integrity, leadership and professionalism;
- b) Commitment to the law and best practice standards: This commitment would include commitments to following accounting standards, industry best practice (such as ensuring that information to clients is clear, fair, and not misleading), transparency, and rules concerning potential conflicts of interest;
- c) Employment practices: This includes rules concerning health and safety of employees, training, policies on the acceptance and giving of business courtesies, prohibition on the offering and acceptance of bribes, and potential misuse of Bank's assets;
- d) How the Bank deals with disputes and complaints from clients and monitors compliance with the code; and
- e) Confidentiality: Disclosure of client or Bank information is prohibited, except where disclosure is required by law.

58. The central Bank expects that the Board and its members individually and collectively:

- a) Act with honesty, integrity and in good faith, with due diligence and care, with a view to the best interest of the Bank and its shareholders and other stakeholders;
- b) Act within the scope of their responsibilities (which should be clearly defined and not participate in the day-to-day management of the Bank;
- c) Have a proper understanding of, and competence to deal with the affairs and products of the Bank and devote sufficient time to their responsibilities; and
- d) To independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement. (i.e. to act as checks and balances on management).

59. The Directors and employees of the Bank should not use property of the Bank for their personal needs as though it was his own property, should not disclose confidential information of the Bank or use it for his personal profit, should not take business opportunities of the Bank for himself, should not compete in business with the Bank, and to serve the Bank's interest in any transactions with a company in which he has a personal interest.

60. An approved person should be considered to have a "personal interest" in a transaction with a company if:

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- a) He himself; or
- b) A member of his family (i.e. spouse, father, mother, sons, daughters, brother or sisters); or
- c) Another company of which he is a Director or controller.

AVOIDANCE OF CONFLICT OF INTEREST

(HC-2.3)

61. Each approved person must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the Bank.
62. The Board should establish and disseminate to its members and management, policies and procedures for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies. Rules concerning connected party transactions and potential conflicts of interest may be dealt with in the code of conduct.. In particular, any decisions to enter into transactions, under which approved persons would have conflicts of interest that are material, should be formally and unanimously approved by the full Board. An approved person must:
- a) Not enter into competition with the Bank;
 - b) Not demand or accept substantial gifts from the Bank for himself or connected persons;
 - c) Not misuse the Bank's assets;
 - d) Not use the Bank's privileged information or take advantage of business opportunities to which the Bank is entitled, for himself or his associates; and
 - e) Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice or which involves a subject or (proposed) transaction where a conflict of interest exists.
63. The Bank must have in place a board approved policy on the employment of relatives of approved persons and a summary of such policy must be disclosed in the annual report of the Bank.

DISCLOSURE OF CONFLICTS OF INTEREST

(HC-2.4)

64. Each approved person must inform the entire board of (potential) conflicts of interest in their activities with, and commitments to other organisations as they arise. Board members must abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. The approved persons must understand that any approval of a conflicted transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision. In any case, all approved persons must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Nominations or Audit Committees) on an annual basis.

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65. The Chief Executive/General Manager of the Bank must disclose to the board of directors on an annual basis relatives of any approved persons occupying controlled function within the Bank,
66. The Board should have formal Board approved procedures for:
- a) Periodic disclosure and updating of information by each approved person on his actual and potential conflicts of interest; and
 - b) Advance approval by Directors or shareholders who do not have an interest in the transactions in which Banks approved person have a personal interest. The Board should require such advance approval in every case.

DISCLOSURE OF CONFLICTS OF INTEREST TO SHAREHOLDERS (HC-2.5)

67. The Bank must disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and must disclose to its shareholders any authorization of a conflict of interest contract or transaction, in accordance with the Company Law.

PRINCIPLE 3

The Board must have rigorous controls for financial audit and reporting, internal control, and compliance with law. **(HC-3.1)**

AUDIT COMMITTEE

(HC-3.2)

68. The Board must establish an audit committee of at least three Directors of which the majority must be independent including the Chairman. The committee must:
- a) Review the Bank's accounting and financial practices;
 - b) Review the integrity of the Bank's financial and internal controls and financial statements. The information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Audit Committee;
 - c) Review the Bank's compliance with legal requirements;
 - d) Recommend the appointment, compensation and oversight of the Bank's external auditor; and
 - e) Recommend the appointment of the internal auditor
69. In its review of the systems and controls framework in above Paragraph, the audit committee must:
- a) Make effective use of the work of external and internal auditors: The audit committee must ensure the integrity of the Bank's accounting and financial reporting systems through regular independent review (by internal and external audit). Audit findings must be used as an independent check on the information received from management about the Bank's operations and performance and the effectiveness of internal controls; and

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- b) Make use of self-assessments, stress/scenario tests, and/or independent judgments made by external advisors. The Board should appoint supporting committees, and engage senior management to assist the audit committee in the oversight of risk management; and
- c) Ensure that senior management have put in place appropriate systems of control for the business of the Bank and the information needs of the Board; in particular, there must be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of the Bank, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.

70. The Bank must set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.

71. The CEO must not be a member of the audit committee.

AUDIT COMMITTEE CHARTER

(HC-3.3)

72. The Audit Committee must adopt a formal written charter, which states the duties outlined in paragraphs above.

73. A majority of the Audit Committee must have the financial literacy qualifications such that there should be sufficient technical expertise to enable the committee to perform its functions effectively, which includes ability to read and understand corporate financial statements, ability to understand accounting principles applicable to the Bank's financial statements, ability to evaluate financial statements of level of complexity as that of the Bank's financial statements and understanding of the internal controls and procedures and the audit committee's controls and procedures for financial reporting. Only the committee may decide if a non-member of the committee should attend a particular meeting or a particular agenda item. Non-members who are not directors of the Bank may attend to provide their expertise, but may not vote.

74. The Board should adopt a "whistleblower" program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the program, concerns may be communicated directly to any Audit Committee member or, alternatively, to an identified officer or employee who will report directly to the Audit Committee on this point.

CEO AND CFO CERTIFICATION OF FINANCIAL STATEMENTS (HC-3.4) (BR 1.1.2A)

75. To encourage management accountability for the financial statements required by the Directors, the Bank's CEO and Chief Financial Officer must state in writing to the audit committee and the Board as a whole that the Bank's interim and annual financial statements present a true and fair view, in all material respects, of the Bank's financial condition and results of operations in accordance with applicable accounting standards.

76. The bank must obtain their audit committee's prior approval of the draft annual financial statements before submitting these to the CBB. Subsequent to the meeting with the CBB, the financial statements (subject to any adjustments) must be submitted to the

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Board for its approval and to the shareholders at the annual general meeting for ratification.

PRINCIPLE 4 & 5

The Bank must have rigorous and transparent procedures for appointment, training and evaluation of The Board. (HC-4.1)

The Bank must remunerate Directors fairly and responsibly. (HC-5.2)

NOMINATION AND REMUNERATION COMMITTEE (HC-4.2)

77. The Board has established a Nomination and Remuneration Committee of at least three Directors which will:

- a) Identify persons qualified to become members of the Board of Directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the conventional Bank licensee considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee; and
- b) Make recommendations to the whole Board of Directors including recommendations of candidates for Board membership to be included by the Board of Directors on the agenda for the next annual shareholder meeting.
- c) Make recommendation to the board from time to time as to changes the committee believes to be desirable in the structure and job descriptions of the officers including the CEO, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters including integrity, technical and managerial competence, and experience.

The Committee should establish a reasonable timeframe to be included in its terms of reference sufficient for it to be able to perform its necessary due diligence in respect of the recommendations prior to such nominations being tabled at any shareholders meeting.

78. The committee must include only independent Directors or, alternatively, only Non-Executive Directors of whom a majority must be independent Directors, and the chairman of the Committee must be an independent Director. The Committee must exercise judgment free from personal career conflicts of interest.

NOMINATION AND REMUNERATION COMMITTEE CHARTER (HC-4.3)

79. The Nomination and Remuneration Committee must adopt a formal written charter, which states the duties outlined above and related matter included in CBB Guidelines.

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BOARD NOMINATION TO SHAREHOLDERS

(HC-4.4)

80. Each proposal by the Board to the shareholders for election or reelection of a Director must be accompanied by a recommendation from the Board, a summary of the advice of the Nomination and Remuneration Committee, and the following specific information:
- a) The term to be served, which may not exceed three years (but there need not be a limit on reelection for further terms);
 - b) Biographical details and professional qualifications;
 - c) In the case of an independent Director, a statement that the Board has determined that the criteria of independent Director have been met;
 - d) Any other Directorships held;
 - e) Particulars of other positions which involve significant time commitments, and
 - f) Details of relationships between:
 - i. The candidate and the Bank, and
 - ii. The candidate and other Directors of the Bank.
81. The Chairman of the Board should confirm to shareholders when proposing reelection of a Director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a Director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board. Serving more than six years is relevant to the determination of a non-executive Director's independence.

INDUCTION AND TRAINING OF DIRECTORS

(HC-4.5)

82. The Chairman of the Board must ensure that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction must include meetings with senior management, visits to the Bank's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel.
83. All continuing Directors must be invited to attend orientation meetings and all Directors must continually educate themselves as to the Bank's business and corporate governance.
84. Management, in consultation with the Chairman of the Board, should hold programs and presentations to Directors respecting the Bank's business and industry, which may include periodic attendance at conferences and management meetings. The Nomination and Remuneration Committee shall oversee Directors corporate governance educational activities.

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85. For detailed rules and guidance on HC-5 & PD-1.3.8 (new requirements on Remuneration of approved persons and material risk-takers), please refer to the Bank's Remuneration policy chapter which is covered as part of the HR policy.

PRINCIPLE 6

The Board must establish a clear and efficient management structure. (HC-6.1)

ESTABLISHMENT OF MANAGEMENT STRUCTURE (HC-6.2)

86.A) The Board must appoint senior management authority includes management and operation of current activities of the Bank, reporting to and under the direction of the Board. The senior management must include at a minimum:

- a) A CEO;
- b) A chief financial officer;
- c) A corporate secretary; and
- d) An internal auditor,

and must also include other approved persons as the Board considers appropriate.

TITLES, AUTHORITIES, DUTIES AND RESPONSIBILITIES (HC-6.3)

The board must adopt by-laws prescribing each senior manager's title, authorities, duties, accountabilities and internal reporting responsibilities. This must be done with the advice of the Nominating Committee and in consultation with the CEO, to whom the other senior managers should normally report. These provisions must include but should not be limited to the following:

- a) The CEO must have authority to act generally in the Bank's name, representing the Bank's interests in concluding transactions on the Bank's behalf and giving instructions to other senior managers and Bank employees;
- b) The chief financial officer must be responsible and accountable for:
 - i. The complete, timely, reliable and accurate preparation of the Bank's financial statements, in accordance with the accounting standards and policies of the Bank;
 - ii. Presenting the Board with a balanced and understandable assessment of the Bank's financial situation
- c) The corporate secretary's duties must include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose; and
- d) The internal auditor's duties must include providing an independent and objective review of the efficiency of the Bank's operations. This would include a review of the accuracy and reliability of the Bank's accounting records and financial reports as well

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as a review of the adequacy and effectiveness of the Bank's risk management, control, and governance processes.

87. The Board should also specify any limits that it wishes to set on the authority of the CEO or other senior managers, including monetary maximums for transactions that they may authorize without separate Board approval.
88. The corporate secretary should be given general responsibility for reviewing the Bank's procedures and advising the Board directly on such matters. Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.
89. At least annually, the Board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.

COMPLIANCE

(HC-6.4)

90. For guidance on compliance risk and the compliance function, the Bank should refer to the Basel Committee publication, "Compliance and the compliance function in Banks". The Bank should carry out review of its compliance with the principles in this paper on a regular basis. The expression "Compliance Function" is used to describe staff carrying out compliance duties. The expression 'Compliance Risk' refers to the risk of legal or regulatory sanctions, material or financial loss, or loss to reputation a Bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to its activities, rather than compliance with a Bank's internal limits or procedures.
91. The structure, powers, responsibilities, policies and procedures relating to the compliance function of the Bank are duly elaborated in the Compliance Manual of the Bank and is approved by the Board of Directors.

PRINCIPLE 7

The Bank must communicate with shareholders, encourage their participation, and respect their rights.

(HC-7.1)

CONDUCT OF SHAREHOLDERS' MEETING

(HC-7.2)

92. The Board must observe both the letter and the intent of the Company Law's requirements for shareholder meetings. Among other things:

- a) Notices of meetings must be honest, accurate and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting;
- b) Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend;

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- c) Notices of meetings must encourage shareholders to attend shareholder meetings and, if not possible, to participate by proxy and must refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as “yes,” “no” or “abstain”);
 - d) Notices must ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of Directors;
 - e) The Board must propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not “bundled” together;
 - f) In meetings where Directors are to be elected or removed the Board must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually;
 - g) The Chairman of the meeting must encourage questions from shareholders, including questions regarding the Bank’s corporate governance guidelines;
 - h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting; and
 - i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.
93. The Bank should require all Directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, Nomination and Remuneration committees are ready to answer appropriate questions regarding matters within their committee’s responsibility (confidential and proprietary business information may be kept confidential).
94. The Bank should require its external auditor to attend the annual shareholders’ meeting and be available to answer shareholders’ questions concerning the conduct and conclusions of the audit.
95. The Bank must provide to the CBB, for its review and comment, at least 5 business days prior to publishing in the press, the draft agenda for any shareholders meetings.
96. The Bank must ensure that any agenda items to be discussed or presented during the course of meetings, which require the CBB’s prior approval, have received the necessary approval, prior to the meeting taking place.
97. The Bank must invite a representative of the CBB to attend any shareholders meetings (i.e. ordinary and extraordinary general assembly) taking place. The invitation must be provided to the CBB at least 5 business days prior to the meeting taking place.
98. Within a maximum of 15 calendar days of any shareholders meetings, the Bank must provide to the CBB a copy of the minutes of the meeting.

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99. The Bank should maintain a website. The Bank should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholder's meeting, and should post significant documents relating to meetings including the full text of notices and minutes.
100. In notices of meetings at which Directors are to be elected or removed the Bank should ensure that:
- a) Where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes; and
 - b) The notice of the meeting should present a factual and objective view of the candidates so that shareholders may make an informed decision on any appointment of the board.

DIRECT SHAREHOLDER COMMUNICATION

(HC-7.3)

101. The Chairman of the Board (and other Directors as appropriate) must maintain continuing personal contact with controllers to solicit their views and understand their concerns. The Chairman must ensure that the views of shareholders are communicated to the Board as a whole. The Chairman must discuss governance and strategy with controllers. The Board should encourage investors, particularly institutional investors, to help in evaluating the Bank's corporate governance.

CONTROLLERS

(HC-7.4)

102. The Chairman and other Directors must actively encourage the Controller nominated Directors to make a considered use of their position and to fully respect the rights of other shareholders.

PRINCIPLE 8

The Bank must disclose its corporate governance.

(HC-8.1)

DISCLOSURE UNDER THE COMPANY LAW AND CBB

(HC-8.2) (PD-1.3.)

103. In the Bank:
- a) The Board must adopt a written corporate governance guidelines covering the matters stated in relevant CBB Guidelines and other corporate governance matters deemed appropriate by the Board. Such guidelines must include the principles and rules of HC module.
 - b) The Bank must publish the guidelines on its website,
 - c) At each annual shareholders' meeting, the Board must report on the Bank's compliance with its guidelines and Module HC of CBB Rulebook, and explain the extent if any to which it has varied them or believes that any variance or non-compliance was justified; and

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- d) At each annual shareholder's meeting, the Board must also report on further items listed in Module PD (Public Disclosure). Such information should be maintained on the conventional bank licensee's website or held at the conventional bank licensee's premises on behalf of the shareholders.

Board's Responsibility for Disclosure

104. The Board must oversee the process of disclosure and communications with internal and external stakeholders. The Board must ensure that disclosures made by the Bank are fair, transparent, comprehensive and timely and reflect the character of the Bank and the nature, complexity and risks inherent in the Bank's business activities. Disclosure policies must be reviewed for compliance with the Central Bank's disclosure requirements.

Disclosure requirements in the annual report

105. The following information relating to corporate governance must be disclosed in the annual report:
- a) Information about the Board structure (e.g. the size of the Board, Board committees, function of committees and membership showing executive, non-executive and independent members, number and names of independent board members), and the basic organisational structure (lines of business structure and legal entity structure);
 - b) Information about the profession, business title, and experience in years of each Board member and the qualifications and experience in years of all senior managers;
 - c) Descriptive information on the managerial structure, including: (i) Committees (see w) below for detailed disclosure requirements relating to various types of committees); (ii) Segregation of duties; (iii) Reporting lines; and (iv) Responsibilities;
 - d) Descriptive information on the performance-linked incentive structure for approved persons (including but not limited to remuneration policies, executive compensation and stock options);
 - e) Nature and extent of transactions with related parties (as defined by IFRS – see also PD-1.3.23(d));
 - f) Approval process for related party transactions;
 - g) Information about any changes in the structures (as mentioned in Subparagraphs PD-1.3.8(a) to PD-1.3.8(c) above) from prior periods;
 - h) The communications strategy approved by the Board (including the use of the bank's website) which should undertake to perform at least the following: (i) The disclosure of all relevant information to stakeholders on a timely basis in a

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- timely manner; and (ii) The provision of at least the last five years of financial data on the bank's website;
- i) Distribution of ownership of shares by nationality;
 - j) Directors' and senior managers' trading of the bank's shares during the year, on an individual basis;
 - k) Distribution of ownership of shares by directors and senior managers, on an individual basis;
 - l) Distribution of ownership of shares by size of shareholder;
 - m) Ownership of shares by government;
 - n) The Board's functions – rather than a general statement (which could be disclosed simply as the Board's legal obligations under various laws) the 'mandate' of the Board should be set out;
 - o) The types of material transactions that require Board approval;
 - p) Board terms and start date for each term for each director;
 - q) What the board does to induct, educate and orient new directors;
 - r) Election system of directors and any termination arrangements;
 - s) Whether the board has adopted a written code of ethical business conduct, and if so the text of that code and a statement of how the board monitors compliance;
 - t) Minimum number of Board committee meetings compared with the actual dates and number of board and committee meetings, individual attendance of each director and the work of committees and any significant issues arising during the period;
 - u) Reference to Module HC and any amendments subsequently made by the CBB, including explanation and nature of any noncompliance with Module HC in accordance with Paragraph HCA.1.8;
 - v) Review of internal control processes and procedures;
 - w) Directors responsibility with regard to the preparation of financial statements;
 - x) Board of Directors – whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution;
 - y) The Bank must maintain a website. Overseas conventional bank licensees must provide a link on their website in Bahrain to the website of their parent bank;
 - z) Aggregate remuneration paid to board members; and

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- aa) Key features and objectives of the remuneration policy of the bank for approved persons and material risk takers as well as the frequency of review of the remuneration structure and the extent to which the policy is applicable to foreign subsidiaries and branches; and
- bb) Aggregate remuneration paid to senior management.

Disclosures to Shareholders

106. The Bank must also disclose to their shareholders the following information:

- a) Names of shareholders owning 5% or more and, if they act in concert, a description of the voting, shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the bank licensee or other shareholders;
- b) Information on the directorships held by the directors on other boards;
- c) Audit fees charged by the external auditor;
- d) Non-audit services provided by the external auditor and fees;
- e) Reasons for any switching of auditors and reappointing of auditors; and
- f) Conflict of Interest – any issues arising must be reported, in addition describe any steps the board takes to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

Principles of Business

107. The Bank strictly adheres to the 10 Principles of Business mandated by the CBB in the PB Module of the CBB Rule Book.

1. Integrity
2. Conflicts of Interest
3. Due Skill, Care and Diligence
4. Confidentiality
5. Market Conduct
6. Customer Assets
7. Customer Interests
8. Relations with Regulators/Supervisors
9. Adequate Resources
10. Management, Systems & Controls



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The Principles of Business must be covered as part of the Bank's approved persons and employee's code of conduct.

