Corporate Governance Guidelines

Bahrain

Licensed by CBB as a conventional retail bank

Principle 1 (HC - 1.1)

The Bank must be headed by an effective, collegial and informed Board of Directors ("The Board").

Role and Responsibilities (HC - 1.2.1)

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 as 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;
    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 the 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 organisational 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

    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 includes but need not be 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.

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).

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.

19. 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.

20. At least half of the Board meetings of the Bank in any twelve-month period must be held in the Kingdom of Bahrain.

21. 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.

22. 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.

23. 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.

24. Potential non-executive Directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The Nomination, Remuneration and Governance 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.

25. No Board member may have more than one Directorship of a Retail Bank or a 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 the CBB. The Bank may approach the CBB for exemption from this limit where the Directorships concern Banks or financial institutions within the same group.

26. 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 re-election of any Director who does.

Independence of Judgment (HC-1.4)

27. 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.

28. 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.

29. Non-executive Directors must be fully independent of management and must constructively scrutinize and challenge management including the management performance of executive Directors.

30. 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.

31. At least half of the Bank's Board should be non-executive Directors and at least three of those persons should be independent Directors. For so long as the Bank has a controller, at least a third of its Directors 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.

32. The Chairman and/or Deputy Chairman must not be the same person as the Chief Executive Officer.

33. The Chairman must not be an Executive Director.

34. 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.

35. 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.

36. Where an independent Director has served three consecutive terms on the Board, such Director will lose his/her independence status and must not be classified as an independent Director if reappointed.

37. Where a Chief Executive Officer of a bank, who is also a Board member, no longer occupies the CEO position, whether due to resignation, retirement or termination, his/her Board Membership must also be immediately terminated.

Representation of all Shareholders (HC-1.5)

38. 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 controllers 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.

39. 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.

40. 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)

41. 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.

42. 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.

43. 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 such that any dissent from a Board action is noted or delivered in writing.

44. 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 43.

Director's Communication with Management (HC-1.7)

45. 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.

46. 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)

47. The Board must create specialized committees when and as such committees are needed. In addition to the Audit Committee, the Risk Committee and the Nomination, Remuneration and Governance Committee, these may include an executive committee to review and make recommendations to the whole Board on the Bank's actions.

48. 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 of the Bank is combined with the Nomination and Remuneration Committee.

49. 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.

50. 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.

51. Committees may be combined if no conflict of interest might arise between the duties of such committees, subject to CBB's prior approval.

52. Every committee must have a formal written charter.

53. 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)

54. 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,

    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.

55. 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.

56. 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)

57. 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.

Committee Corporate Ethics, Conflicts of Interest and Code of Conduct

58. Each Director must understand that under the Commercial Companies 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.

59. 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.

60. An internal code of conduct is separate from the business strategy of the Bank. A code of conduct should outline the practices that approved persons and staff should follow in performing their duties. Banks may wish to use procedures and policies to complement their codes of conduct. The suggested contents of a code of conduct are covered below:

   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) Employability practices. This would include 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 the 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 should be prohibited, except where disclosure is required by law.

61. The CBB expects that the Board and its Directors individually and collectively to:

   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 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) 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.

62. The duty of loyalty mentioned in paragraph 58 above includes a duty not to use property of the Bank for his personal needs as though it was his own property, not to disclose confidential information of the Bank or use it for his personal profit, not to take business opportunities of the Bank for himself, not to 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.

63. For the purposes of paragraph ,62 an approved person should be considered to have a "personal interest" in a transaction with a company if:

   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,

   is a party to the transaction or has a material financial interest in the transaction (excluding transactions and interests which are de minimis in value).

Avoidance of Conflict of Interest (HC-2.3)

64. Each approved person must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the Bank.

65. The Board must 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.

66. 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)

67. 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 Commercial Companies 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 Nomination, Remuneration and Governance Committee or Audit Committee) on an annual basis.

68. The Chief Executive/General Manager of the Bank must disclose to the Board on an annual basis relatives of any approved persons occupying controlled function within the Bank.

69. 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.

Disclose of Conflicts of Interest to Shareholders (HC-2.5)

70. 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 authorisation of a conflict of interest contract or transaction in accordance with the Commercial Companies 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)

71. 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.

72. 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

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.

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

74. The CEO must not be a member of the Audit Committee.

Audit Committee Charter (HC-3.3)

75. The Audit Committee must adopt a formal written charter, which states the duties outlined in paragraph 71 above.

76. 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. Technical expertise means that members must have recent and relevant financial ability and experience, which includes:

a) An ability to read and understand corporate financial statements including the Bank's balance sheet, income statement and cash flow statement and changes in shareholders' equity;

b) An understanding of the accounting principles applicable to the Bank's financial statements;

c) Experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the Bank's business;

d) An understanding of the internal controls and procedures for financial reporting; and

e) An understanding of the Audit Committee's controls and procedures for financial reporting.

77. The Audit Committee shall elect one member as its chair.

78. The Audit Committee shall meet at least four times a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the Board.

79. The Audit Committee may meet without any other Director or any officer of the Bank present. Only the Audit Committee may decide if a non-member of the Audit Committee should attend a particular meeting or a particular agenda item. Non-members who are not Directors may attend to provide their expertise, but may not vote.

80. The Audit Committee must meet with the external auditor at least twice per year, and at least once per year in the absence of any members of executive management.

81. The Audit Committee shall report regularly to the Board on its activities.

82. The Board should adopt a "whistleblower" programme under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the programme, 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.

Committee Resources and Authority

83. The Audit Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the Board or management. The Bank shall provide appropriate compensation for such advisors.

Committee Performance Evaluation

84. The Audit Committee shall be responsible for the preparation and review with the Board of an annual performance evaluation of the Audit Committee, which shall compare the Audit Committee's performance with the above requirements and responsibilities and shall recommend to the Board any improvements deemed necessary or desirable to the Audit Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

CEO and CFO Certification of Financial Statements (HC-3.4)(BR 1.1.2A)

85. 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.

86. The Bank is required to submit to the CBB its draft year-end financial statements and must attend a meeting at the CBB with its supervisory point of contact (SPOC) and its external auditor to discuss such statements. 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 Board for its approval and to the shareholders at the annual general meeting for ratification.

Principles 4 and 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 and material risk-takers fairly and responsibly (HC-5.1.1) in line with the duties set out in HC-5.2.1.

Nomination, Remuneration and Governance Committee (HC-4.2)

87. The Board has established a Nomination, Remuneration and Governance 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 Bank considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee;

    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;

    d) Oversee and coordinate the implementation of the Bank's Corporate Governance Guidelines;

    e) Review and recommend from time to time changes in the Corporate Governance Guidelines of the Bank, if and when required, based on regulatory requirement or industry best practices; and

    f) The Nomination, Remuneration and Governance Committee shall develop and recommend to the Board the Corporate Governance Guidelines, and review those guidelines at least once a year.

88. The Nomination, Remuneration and Governance 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.

89. The Nomination, Remuneration and Governance Committee must include only independent Directors. The chairman of this committee must be elected by the committee itself.

Nomination, Remuneration and Governance Committee Charter (HC-4.3)

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

91. Please refer to Appendices B and C of the High Level Controls (HC) Module of CBB Rulebook (Volume 1) for some of the Nomination, Remuneration and Governance Committee's duties and responsibilities.

Committee Resources and Authority

92. The Nomination, Remuneration and Governance Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or search firms used to identify candidates, without seeking the approval of the Board or management. The Bank shall provide appropriate compensation for such firms.

Performance evaluation

93. The Nomination, Remuneration and Governance Committee shall preview and review with the Board an annual performance evaluation of the Nomination, Remuneration and Governance Committee, which shall compare the Nomination, Remuneration and Governance Committee's performance with the requirements and responsibilities referred to in paragraphs 87 to 91, and shall recommend to the Board any improvements deemed necessary or desirable to the Nomination, Remuneration and Governance Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

Board nomination to shareholders (HC-4.4)

94. Each proposal by the Board to the shareholders for election or re-election of a Director must be accompanied by a recommendation from the Board, a summary of the advice of the Nomination, Remuneration and Governance 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 re-election 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 for the independence of the 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.

95. The Chairman of the Board should confirm to shareholders when proposing re-election 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)

96. 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 programmes, its internal and external auditors and legal counsel.

97. 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.

98. Management, in consultation with the Chairman of the Board, should hold programmes and presentations to Directors respecting the Bank's business and industry, which may include periodic attendance at conferences and management meetings. The Nomination, Remuneration and Governance Committee shall oversee Directors' corporate governance educational activities.

99. For detailed rules and guidance on HC-5 and 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 Bank's HR policy.

Principle 6

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

Establishment of Management Structure (HC-6.2)

100. The Board must appoint senior management whose authority includes management and operation of current activities of the Bank, reporting to and under the direction and oversight 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 Nomination, Remuneration and Governance 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; and
   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 as a review of the adequacy and effectiveness of the Bank's risk management, control, and governance processes.

101. 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.

102. 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.

103. 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)

104. 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 a 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, directives, directions, reporting requirements, standards and codes of conduct applicable to its activities including internal codes of conduct, rather than compliance with a Bank's internal limits or procedures.

105. The structure, powers, responsibilities, policies, and procedures relating to the compliance function of the Bank are dulyelaborated in the Compliance Manual of the Bank and is approved by the Board of Directors.

106. The Bank must establish an effective compliance framework which is appropriate for the size and complexity of the Bank's operations, for managing the Banks's compliance risk.

107. The Board is responsible for overseeing the management of the Bank's compliance risk. The Board must establish a permanent and effective compliance function and approve the Bank's compliance policies for identifying, assessing, monitoring, reporting, and advising on compliance risk. At least a year, the Board or a designated Board member must assess the extent to which the Bank is managing its compliance risk effectively. The Board must also ensure that the agenda for the meetings of the Board or the designed Board committee includes compliance as a topic at least every quarter.

108. Senior management is responsible for the effective management of the Bank's compliance risk.

109. Senior management is responsible for establishing the operating framework and the processes to support a permanent and an effective compliance function. It is responsible for establishing and communicating a written compliance policy through all levels of the Bank for ensuring that it is adhered to in practice. It is responsible also for approving the Bank's compliance procedures for identifying, assessing, monitoring, reporting, and advising on compliance risk.

110. The compliance policy must be approved by the Board and must address the following:

a) The role and responsibilities of the compliance function;

b) Measures to ensure its independence;

c) Its relationship with other risk management functions within the bank and with the internal audit function;

d) In cases where compliance responsibilities are carried out by staff in different departments, how these responsibilities are to be allocated among the departments;

e) Its right to obtain access to information necessary to carry out its responsibilities, and the corresponding duty of bank staff to co-operate in supplying this information;

f) Its right to conduct investigations of possible breaches of the relevant laws and regulations and the compliance policy and to appoint outside experts to perform this task if appropriate;

g) Its right to be able freely to express and disclose its findings to the Board or to the designated Board committee, e.g., the Audit Committee or the Governance committee of the Board; and

h) The basic principles to be followed by management and staff describing the main processes by which compliance risks are to be identified and managed through all levels of the organization.

111. The Board and the designated Board committee must ensure that all compliance findings and recommendations are resolved within six months for high risk/critical issues and 9 months for any other issues from the issue date of the subject compliance report unless otherwise agreed with the CBB taking into consideration time required for specific issues that may require substantive changes to technology, systems and/or processes.

112. The Bank must organise their compliance function and set priorities for the management of their compliance risk in a way that is consistent with their own risk management strategy and structures.

113. The Compliance Function must be independent and effective. It must be headed by an executive or senior staff member with overall responsibility for co-ordinating the identification and management of the bank’s compliance risk and for supervising the activities of other compliance function staff.

114. Senior management mustensure that the compliance risk management framework is subject to an independent review by a third party consultant, other than the external auditor, every three years and when there are material changes to the business. The results of the independent review and action must be provided to the CBB by 30th September of the relevant year.

115. The Compliance Function or its activities must not be outsourced.

Internal Audit (HC-6.5)

116. The Bank establish and implement an effective internal audit function which provides an independent and objective assurance to the Board and senior management on the quality and effectiveness of the Bank’s internal control, risk management and governance systems and processes, to protect the Bank and its reputation.

117. The internal audit function must develop an independent and informed view of the risks faced by the Bank based on its access to all Bank records and data, its enquiries, and its professional competence. The internal audit function must discuss its views, findings, and conclusions directly with the Audit Committee and, if necessary, with the Board at their routine quarterly meetings, thereby helping the Board to oversee senior management.

118. The Bank must have an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the Bank in a manner that promotes an effective internal audit function as described in HC-6.5.

119. The internal audit charter must be drawn up and reviewed annually by the head of internal audit and approved by the Board or Audit Committee. It must be available to all internal stakeholders and, in certain circumstances, such as listed entities, to external stakeholders.

120. The internal audit charter shall contain as a minimum such matters as detailed in HC-6.5.26.

Risk Management (HC-6.6)

121. The Bank must establish a sound risk management framework commensurate with the Bank's size, complexity and risk profile. A risk management framework must have the following key features:

a) active Board and senior management oversight;

b) independent risk management function;

c) a Board driven sound risk management culture that is established throughout the Bank;

d) appropriate policy, procedures and limits;

e) comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;

f) appropriate management information systems ('MIS') at a business and bank-wide level; and

g) comprehensive internal controls.

122. More specifically, the risk management framework should detail how the Bank will:

a) develop and implement the enterprise-wide risk governance framework, (subject to the review and approval of the Board). This will include the Bank's risk culture, risk appetite and risk limits;

b) identify key risks including material individual, aggregate and emerging risks;

c) assess the key risks and measure the Bank's exposures to them;

d) monitor and assess the risk taking activities, decisions and risk exposures in line with the Board-approved risk strategy, risk appetite, risk limits and determining the corresponding capital or liquidity needs (i.e. capital planning) on an ongoing basis;

e) report to senior management, and the Board or Risk Committee as appropriate, on all the items noted in this paragraph including but not limited to proposing appropriate risk-mitigating actions;

f) establish an early warning or trigger system for breaches of the Bank's risk appetite or limits; and

g) influence and, when necessary, challenge decisions that give rise to material risk.

123. The senior management shall establish a risk management process that incorporates all material risks. This includes reputational and strategic risks, as well as risks that do not appear to be significant in isolation, but when combined with other risks, could lead to material losses.

Independent Risk Management Function and Chief Risk Officer (HC 6.6.4)

124. The Bank shall also establish an independent risk management function and appoint a head of risk management function, referred to as Chief Risk Officer ('CRO') or any equivalent title. The role of the CRO shall be independent and distinct from other executive functions and business line responsibilities, and cannot be fulfilled by any person serving in any other senior management position. The CRO's performance, compensation and budget shall be reviewed and agreed by the Nomination, Remuneration and Governance Committee.

125. Interaction between the CRO and the Board shall occur regularly. Non-executive Board members shall also have the right to meet regularly - in the absence of senior management – with the CRO. The CRO, together with management, must be actively engaged in monitoring performance relative to risk-taking and risk limit adherence.

126. The CRO has primary responsibility for overseeing the development and implementation of the Bank's risk management framework, including the ongoing strengthening of risk management staff skills and enhancements to risk management systems. The CRO is also responsible for supporting the Board and the Risk Committee, as appropriate, in its engagement with and oversight of the development of the Bank's risk strategy, risk appetite statement ('RAS') and for translating the risk appetite into a risk limits structure. The CRO's responsibilities also include participating in key decision-making processes (e.g. strategic planning, capital and liquidity planning, new products and services development and compensation design and operation).

127. The risk management function must have access to all business lines that have the potential to generate material risk to the Bank as well as to relevant risk-bearing subsidiaries.

128. The CRO must consistently remind staff, through a regular process, under the sponsorship of the CEO, of the risk management requirements and enhance a common understanding of these requirements across the Bank in order to create a culture of risk awareness.

129. The approval, dismissal or any decision affecting the CRO position must be approved by the Board or the Risk Committee or Audit Committee. In the event the CRO is removed for any reason, the Bank must disclose this publicly and discuss the reasons for removal with the CBB.

Risk Committee (HC 6.6.14)

130. The Bank must establish a Board Risk Committee (the "Risk Committee") of at least three independent Directors. The committee must be responsible for supporting the Board in its oversight and decisions related to the Bank's risk management framework.

131. The Risk Committee must:

a) be chaired by an independent Director;

b) include a majority of members who are independent of day to day risk taking activities;

c) include members who have experience in risk management issues and practices;

d) develop a committee charter which among other matters include its role in the discussions of risk strategies, both at an aggregated basis and by type of risk;

e) make recommendations to the Board in respect of the Risk Committee charter, and on the risk appetite and risk limits for the Bank;

f) review and revise as may be required, the Bank's policies from a risk management perspective, at least every three years, unless there are material changes in the relevant Rulebook requirements or to the business conducted by the Bank and / or its risk profile;

g) review and recommend the appointment or removal of the Chief Risk Officer; and

h) oversee that the Bank has in place processes to promote the Bank's adherence to the approved risk policies.

Role of Board and Senior Management

132. The Board's role in respect of risk management is to define the Bank's risk appetite and ensure that the Bank's risk management framework is aligned with the Bank's strategic, capital strategies, financial plans and compensation practices. This includes the preparation of a detailed policy that sets specific bank-wide prudential limits on the Bank's activities. The Bank's risk appetite must be clearly conveyed through the RAS which can be easily understood by all relevant parties, including the Board itself, senior management and Bank employees.

133. The RAS must specifically:

a) include both quantitative and qualitative considerations;

b) establish the individual and aggregate level and types of risk that the Bank is willing to assume in advance of and in order to achieve its business activities within its risk capacity;

c) define the boundaries and business considerations in accordance with which the Bank is expected to operate when pursuing the business strategy; and

d) be communicated effectively throughout the Bank, linking it to daily operational decision-making and establishing the means to raise risk issues and strategic concerns across the Bank.

134. The risk governance framework adopted by the Bank should outline actions to be taken when stated risk limits are breached, including disciplinary actions for excessive risk-taking, escalation procedures and Board notifications.

135. The development of an effective RAS should be driven by both top-down Board leadership and bottom-up management involvement. While the definition of risk appetite may be initiated by senior management, successful implementation depends upon effective interactions between the Board, senior management, risk management and operating businesses, including the Chief Financial Officer.

136. The Board must ensure that:

a) a sound risk management culture is established throughout the Bank;

b) appropriate limits are established that are consistent with the Bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff;

c) policy and processes are developed for risk-taking, that are consistent with the Risk Management Strategy and the established risk appetite;

d) uncertainties attached to risk measurement are recognised; and

e) senior management is taking all necessary steps to monitor and control all material risks consistent with the approved strategies and risk appetite.

137. The Board and senior management must possess sufficient knowledge of all major business lines to ensure that appropriate policy, controls and risk monitoring systems are implemented effectively. The Board must ensure collectively that it has the necessary expertise to understand the activities in which the Bank is involved and the associated risks. The Board and senior management must remain informed, on an on-going basis, about these risks as financial markets, risk management practices and the Bank's activities evolve. In addition, the Board and senior management must ensure that accountability and lines of authority are clearly delineated.

138. Before embarking on new lines of business or activities, the Board and senior management must identify and review the changes in risk profile arising from these potential new activities and ensure that the infrastructure and internal controls necessary to manage any related risks, are in place.

139. Before embarking on new or complex products, senior management must identify and review the changes in risk profile arising from these potential new products and ensure that the infrastructure and internal controls necessary to manage any related risks, are in place.

140. For purposes of paragraphs 138 and 139, senior management must understand the underlying assumptions regarding accounting treatment, business models, valuation and risk management practices. In addition, senior management must evaluate the potential risk exposure if those assumptions fail.

141. As part of the Board members annual training programme, the Bank must include training to enable Board members to better analyse risk and question strategic decisions, policy and transactions. The Bank must also provide adequate training for all staff across the business units on risk management related matters.

Policy, Procedures, Limits and Controls (HC 6.6.26)

142. The Bank's policy and procedures must provide specific guidance for the implementation of broad risk management strategies and must establish, where appropriate, internal limits for the various types of risk to which the Bank may be exposed. These limits must consider the Bank's role in the financial system and be defined in relation to the Bank's capital, total assets, earnings or, where adequate measures exist, its overall risk level.

143. Specifically the Bank's policy, procedures and limits must:

a) provide for adequate and timely identification, measurement, monitoring, control and mitigation of all risks, including the risks posed by its lending, investing, trading, securitisation, off-balance sheet, fiduciary and other significant activities at the business line and Bank-wide levels;

b) ensure that the economic substance of a Bank's risk exposures, including reputational risk and valuation uncertainty, are fully recognised and incorporated into the Bank's risk management processes;

c) be consistent with the Bank's stated goals and objectives, as well as its overall financial strength;

d) clearly delineate accountability and lines of authority across the Bank's various business activities, and ensure there is a clear separation between business lines and the risk management function;

e) escalate and address breaches of internal position limits;

f) provide for the review of new businesses and products by bringing together all relevant risk management, control and business lines, to ensure that the Bank is able to manage and control the activity, prior to it being initiated; and

g) include a schedule and process for reviewing the policy, procedures and limits, and for updating them as appropriate.

Monitoring and Reporting of Risk

144. The Bank's MIS must provide the Board and senior management with timely and relevant information concerning their risk profile, in a clear and concise manner. This information must include all risk exposures, including those that are off-balance sheet. Senior management must be able to understand the assumptions behind, and limitations inherent in, specific risk measures.

145. The Bank must also establish appropriate risk management methodologies, tools and models and systems commensurate with the nature and complexity of the Bank's business.

146. If the Bank employs the use of models to measure components of risk, the Bank must establish model governance frameworks including regulatory validation and testing.

147. The information systems of the Bank must be adequate (both under normal circumstances and in periods of stress) for measuring, assessing and reporting on the size, composition and quality of exposures on a Bank-wide basis across all risk types, products, countries, region, etc. and counterparties. Reports generated must reflect the Bank's risk profile, capital and liquidity needs, and must be provided on a timely basis to the Board and senior management. The MIS must be capable of capturing limit breaches, and there must be procedures in place to promptly report such breaches to senior management, as well as to ensure that the appropriate follow-up actions are taken.

Independent Review (HC 6.6.33)

148. The Bank must ensure that the risk management framework is subject to independent review by a third party consultant, other than the external auditor, when there are material changes in the relevant Rulebook requirements or to the business conducted by the Bank and / or its risk profile. The review must cover, at a minimum, the following:

a) the appropriateness of risk appetite/tolerance levels and capital planning;

b) the strength of the internal control infrastructure, given the nature, scope and complexity of the Bank's business;

c) the appropriateness of third-party inputs or other tools used for management information purposes, such as risk measures and models;

d) the identification of large exposures and risk concentrations;

e) the accuracy and completeness of data input into the assessment process;

f) model governance and model validation procedures where models are used for computation of risk measures or estimates;

g) the reasonableness and validity of scenarios used in the assessment process; and

h) the use of stress-testing, including an analysis of the underlying assumptions and inputs.

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)

149. The Board must observe both the letter and the intent of the Commercial Companies 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;

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.

150. 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 Committee and the Nomination, Remuneration and Governance Committee are ready to answer appropriate questions regarding matters within their committee's responsibility (confidential and proprietary business information may be kept confidential).

151. 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.

152. 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.

153. 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.

154. The Bank must invite a representative of the CBB to attend any shareholders' meetings taking place. The invitation must be provided to the CBB at least 5 business days prior to the meeting taking place.

155. Within a maximum of 15 calendar days of any shareholders' meetings referred to in paragraph 154, the Bank must provide to the CBB a copy of the minutes of the meeting.

156. 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 shareholders' meeting, and should post significant documents relating to meetings including the full text of notices and minutes. The Bank may also consider an electronic means for shareholders' communications including an appointment of proxies. For confidential information, the Bank should grant a controlled access to such information to its shareholders.

157. 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)

158. 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)

159. The Chairman and other Directors must actively encourage the controllers 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, THE CBB RULEBOOK AND THE LISTING RULES (HC-8.2) (PD-1.3.)

160. 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 Module HC of the CBB's Rulebook (Volume 1).

b) The Bank must publish the Corporate Governance 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 the CBB Rulebook, and explain the extent if any to which it has varied them or believes that any variance or non-compliance was justified;

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 Bank's website or held at the Bank premises on behalf of the shareholders; and

e) The bank must disclose its annual corporate governance report on the Bahrain Bourse's website at least 14 days prior to the date of the annual shareholder's meeting.

Board's Responsibility for Disclosure

161. 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 and implemented for compliance with the Central Bank's and Bahrain Bourse Listing Rules' disclosure requirements. The Board shall encourage and be responsible for the introduction of ESG reporting by the adoption of the voluntary Bahrain Bourse ESG Reporting Guide as part of the Bank's non-financial reporting to complement the annual financial reporting.

Disclosure Requirements in the Annual Report (PD-1.3.8)

162. 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 (t)) below for detailed disclosurerequirements 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)) 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 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 for 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 non-compliance with the HC Module of the CBB Rulebook in accordance with Paragraph HC-A.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;

z) Remuneration paid to Board members in accordance with the Commercial Companies Law and its executive regulation; and

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) Remuneration paid to senior management in accordance with the Commercial Companies Law and its executive regulation.

Disclosures to Shareholders (PD-6.1.1)

163. 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 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

164. The Bank strictly adheres to the 10 Principles of Business mandated by the CBB in the PB Module of the CBB Rule Book. These cover:

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; and
10. Management, Systems & Controls

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

Applicability of these Corporate Governance Guidelines

165. In accordance with Rule HC-B.2.1 of Module HC of the CBB Rulebook, the Bank must ensure that as a minimum the same or equivalent provisions set out in Module HC apply to its foreign branches located outside of the Kingdom of Bahrain such that this are also subject to effective high-level controls. The CBB also requires that where local jurisdiction requirements are more stringent than those applicable under Module HC, the local requirements are to be applied. Based on these requirements, these Corporate Governance Guidelines shall be applicable to:

a) the Bank;

b) the Bank's branches in the Kingdom of Saudi Arabia to the extent they are consistent with and/or more stringent than the laws, regulations and guidelines applicable to such branches in Saudi Arabia associated with corporate governance including, to the extent applicable, the Principles of Corporate Governance for Banks operating in Saudi Arabia published by the Saudi Arabian Monetary Agency as revised from time to time; and

c) the Bank's branches in the United Arab Emirates to the extent they are consistent with and/or more stringent than the laws, regulations and guidelines applicable to such branches in the United Arab Emirates associated with corporate governance including, to the extent applicable, The Central Bank of the United Arab Emirates' Corporate Governance Regulations and Corporate Governance Standards as may be revised from time to time.