

Corporate Governance Guidelines

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1. Introduction

Bahrain Development Bank B.S.C. (c) (“**BDB**” or the “**Bank**”) aligns with top-tier corporate governance standards, incorporating global standards and the Central Bank of Bahrain’s (CBB) guidelines.

The Corporate Governance Policy, alongside the Bank's Memorandum and Articles of Association, define the Bank’s governance structure, emphasizing the Board, management, and shareholders’ collaboration for the Bank’s sustainable success.

2. Corporate Governance Framework

The Corporate Governance Framework ensures organizational objectives are set and achieved, risk is effectively managed, and performance is optimized.

The Board provides strategic oversight and is accountable to the shareholders for sound management. Management, in turn, adheres to the policies and legal mandates approved by the Board.

BDB’s Corporate Governance Framework comprises the Board and the Board Committees, the Management reporting structure and the Management Committees, the Control functions such as Risk Management, Compliance, Anti-Money Laundering (AML), and Internal Audit (IA), the Corporate Governance Policy, the Board and its Committee Charters, Code of Business Conduct, operational policies and procedures, internal controls and risk management systems, compliance procedures, external audits, effective communications and transparent disclosure, and measurement and accountability.

The Board has appointed a Corporate Governance Officer and Board Secretary (the “**Board Secretary**”), in charge of the overall guidance and oversight of the Corporate Governance Framework of the Bank.

3. Corporate Governance Principles

The principles focus on effective Board operations by prioritizing strategic contributions, fostering a positive corporate culture, performance monitoring, and ensuring responsible stakeholder stewardship. The principles emphasize the importance of the Board's role in strategy, culture setting, and accountability.

4. Shareholders’ Oversight and Responsibilities

Shareholders, defined as individuals, groups, or organizations holding one or more shares in the Bank and named on the share certificate, have the right to participate and vote in General Meetings. The Bank must ensure that no procedures impede these voting rights. Additionally, the Bank is obligated to provide shareholders with sufficient, accurate, and regularly updated information necessary for exercising their rights. This information should be consistently presented to all shareholders without preference. Effective communication methods are implemented to ensure equality in information dissemination. A key responsibility of shareholders is to vote on resolutions at General Meetings, a duty critical for exerting their ultimate control over the Bank’s management.

5. Shareholders' Meetings

a. Ordinary Annual General Meeting (AGM)

- The AGM is convened by the Board Chairperson or upon request by the Bank's external auditors or shareholders holding a minimum of 10% of the Bank's share capital.
- The quorum requires the attendance of shareholders representing more than one half of the total issued and paid-up capital.
- Agenda preparation is the Board's responsibility, except when initiated by others (shareholders, auditors), in which case the responsibility of preparing the agenda falls on them. The Board Secretary coordinates the finalization and distribution of the agenda.
- The Board, in coordination with the Board Secretary, ensures that:
 - The draft agenda is submitted to the CBB for review five (5) days before communication with shareholders.
 - Obtain CBB approval for any regulated items before the meeting.
 - Invite a CBB representative to attend the meetings, informed five (5) days in advance.
 - Send meeting minutes to the CBB within fifteen (15) days post-meeting.
- Some of the matters that can be discussed and passed during the AGM are as follows:
 - Appointment/dismissal of Directors and their remuneration.
 - Directors' liability absolution.
 - Appointment of external auditors and their remuneration.
 - Review and approval of financial statements, Board report, and dividends.
 - Compliance with Shari'ah principles in Islamic transactions.

b. Extraordinary General Meeting (EGM)

- EGM is held upon the Board's invitation or upon request by shareholders holding a minimum of 25% of the Bank's share capital.
- Agenda preparation is the Board's responsibility, except when initiated by others (shareholders, auditors), in which case the responsibility of preparing the agenda falls on them. The Board Secretary coordinates the finalization and distribution of the agenda.
- Some of the matters that can be discussed and passed during the EGM are as follows:
 - Amending the Memorandum or Articles of Association.
 - Decisions on share capital increase or reduction.
 - Disposing of the business undertaken by the Bank.
 - Decisions on dissolution, conversion, mergers, or other structural changes.

6. The Board and Management

a. Board of Directors

- The Board is accountable to the shareholders for the Bank's prudent management.
- Members must be independent of Bank Management, knowledgeable about the Bank's business, and actively oversee Management.

- Directors are appointed through a Royal Decree and are non-executive and receive a written appointment letter outlining their roles and responsibilities.
- The Board is authorized to set up Committees and delegate duties without abdicating any responsibilities. It has an overarching responsibility for the Bank and its subsidiaries, ensuring proper oversight while respecting subsidiary governance.
- The Board's meetings, objectives, responsibilities, and requirements are outlined in the Board Charter. Furthermore, the Board adheres to the Bank's Code of Conduct, ensuring integrity and ethical conduct in all its endeavors.

b. Board Secretary:

- The Board Secretary, typically also the Secretary for the Board's committees, provides essential support, including advice, record maintenance, and document handling.
- The Board Secretary reports functionally to the Board and administratively to the CEO.
- The Board collectively decides the appointment or removal of the Board Secretary.

c. Board:

- Directors are appointed following a Royal Decree and in alignment with the CBB guidelines, all being non-executive.
- The Board, including the Chairperson, consists of eight (8) members possessing high-level professional skills and expertise.
- The Board periodically reviews its composition and the contributions of Directors and Committees.

d. Management:

- The Board oversees the Bank's organizational structure and performance measurement framework for Management.
- Management's responsibilities include operating the Bank effectively and ethically, setting a robust ethical tone, establishing a Code of Ethics, implementing strong internal controls, and ensuring accurate financial reporting.
- The Management also develops long-term objectives and strategies to ensure the Bank's growth and sustainability in line with its mission and vision. It further oversees the Bank's financial operations and compliance with all applicable laws and regulations.
- The Board ensures that a structure to independently verify and safeguard the integrity of the Bank's financial reporting is in place.

7. Charter and Authorities

a. Board of Directors

- The Board operates under a formal charter defining its roles, responsibilities, and powers. This includes decision-making authority, conflict of interest policies, and Board meeting procedures.

b. Board Committees

- The Board Audit and Governance Committee (BAGC) oversees financial audits, internal controls, legal compliance, and Corporate Governance guidelines.
- The Board Nomination and Remuneration Committee (BNRC) advises on director and officer appointments and their remuneration.
- The Board Executive Committee (ExCom) oversees the Bank's investment and credit strategy and proposals.
- The Board Risk Committee (BRC) supervises the enterprise risk management framework and advises on risk exposure, strategy, and capital strategies.

c. Authority Limits

- The Bank employs a Delegated Authorities Matrix, detailing the financial and operational authorities of the Board and Management, reviewed periodically by the Board.

d. Management Committees

- The Assets and Liabilities Committee (ALCO) manages the Bank's assets and liabilities.
- The Risk Executive Committee (REC) ensures adequate risk management processes.
- The Investment & Credit Committee (ICC) oversees investment and credit portfolio management.
- The Internal Procurement Committee (IPC) reviews procurement activities.
- The Cyber Security Committee (CSC) monitors cyber security controls.

8. Other Elements of the Corporate Governance Framework

- The Bank's assurance functions encompass several key areas such as internal and external audit, risk management, regulatory compliance, and Shari'ah compliance, ensuring a holistic approach to governance.
- Each function reports to its specific Board Committees for oversight.

9. Remuneration

a. BDB's Directors

- The Bank has established guidelines for remunerating its Board members, ensuring fairness and responsibility. The remuneration is designed to attract, retain, and motivate individuals capable of effectively running the Bank, while avoiding excessive compensation.
- The Board members receive a basic fee in line with market standards, reflecting the required qualifications, the Bank's complexity, and the extent of their responsibilities, including the number of Board meetings.
- The Board members do not receive performance-related incentives like share options, bonuses, or pension benefits, and no pension contributions are made on their received fees. The remuneration structure for each Director is formally agreed upon in their engagement contracts with BDB.
- Director's remuneration at BDB comprises several components:
 - Annual Remuneration: Subject to shareholders' approval at the AGM in alignment with the Commercial Companies Law of 2001 and all its subsequent amendments.

- Sitting Fee: Paid for attending Committee meetings, based on the number of meetings attended.
- Reimbursable Expenses: Directors are reimbursed for legitimate expenses incurred while attending meetings, in accordance with the Bank's expense policy. This includes costs like travel, accommodation, and food.

b. Nominee Directors (appointed on any of BDB's investee companies)

The Bank has established formal engagement contracts with its nominee directors, who may be part of BDB's Board or management. These contracts specify the remuneration terms, including handling of any compensation received from investee companies.

c. Employees

BDB's remuneration policy for employees follows a total compensation approach, aiming to attract and retain talent by offering competitive pay and aligning incentives with performance and risk outcomes.

As outlined in the Remuneration Policy approved by the shareholders, compensation for employees comprises fixed and variable components, exclusively in cash. Short term incentives, including those for approved persons, are intricately tied to the Bank's performance, departmental and individual performance, but in all cases, shall be made at the Bank's sole discretion. There is no separate policy for the Bank's business and controlling staff. As such, the need to "defer" variable remuneration does not apply. Consequently, there are no "claw-back" or "malus" stipulations as well. These exceptions have been approved by the CBB.

10. Board Performance Assessment Framework

The Directors of BDB, as members of the Board and its Committees, play a crucial role in overseeing the bank's performance and operations. The Board, while ultimately responsible for the Bank's affairs, delegates specific functions to its Committees and Management. This delegation is structured through defined monitoring and reporting systems, which include Charters for all Committees.

The Board has established a yearly review process to evaluate its own performance as well as that of its committees.

11. Directors' Induction and Training

Upon the appointment of new Directors to the Board, comprehensive information pertinent to the performance of their duties as members of the Board as well as other policies, are provided to them.

The Bank ensures on-going training to the Directors to assist them to remain abreast of changing regulations, reporting requirements, and other pertinent aspects. This training also fosters comprehension of the Bank's strategic and operational intricacies.

12. Ethical Policies and Guidelines

a. Code of Ethics and Business Conduct

- The Bank has established a Code of Ethics and Business Conduct, which is mandatory for all Directors and employees to adhere to. This code outlines high standards of integrity and ethical behavior.
- In accordance with Bahrain Labour Law No. 36 of 2012, the Bank is committed to taking necessary actions against any employee found violating these or any other Bank policies, potentially leading to immediate termination.
- Employees are strictly prohibited from engaging in or concealing any criminal or illegal activities. In cases of loss due to such actions, the Bank reserves the right to seek remedies against those responsible and will cooperate with legal authorities in instances of law violations.

b. Conflict of Interest Management Policy

- This policy outlines the conflict-of-interest policies for Directors, senior Management and approved persons at BDB. It mandates that these stakeholders must avoid conflicts of interest with the Bank. Such conflicts arise when private interests conflict or appear to conflict with the Bank's interests.
- Approved persons are held personally accountable to the Bank and its shareholders for any legal duty violations. They are required to annually disclose their interests in other entities or activities to the Board.
- A "personal interest" in a transaction is defined as involvement by the approved person, their family members, or another company under their control or where they have a material financial interest or expected to derive material personal benefit from a transaction. Situations potentially involving conflicts of interest must be promptly disclosed to the Board Chairperson and the BAGC Chairperson.
- Additionally, Executive Management, Managers, and employees are instructed to report any conflicts of interest to their direct supervisors.

c. Whistleblowing Policy

- This policy outlines BDB's commitment to maintaining high ethical standards in the workplace, emphasizing open communication and transparency. It provides a formal guideline to confidentially reporting misconduct or potential wrongdoing.
- Additionally, the Bank pledges to protect individuals who, in good faith, report activities they believe to be corrupt, illegal, or unethical, ensuring confidentiality and safeguarding them from reprisal, dismissal, or discrimination.

d. Gifts and Entertainment Policy

This policy outlines the procedures for both accepting and providing gifts or entertainment by the Directors / Shari'ah Supervisory Board (SSB) members and all employees of the Bank. The guidelines specify acceptable gifts/entertainment that may be accepted or provided and also lays down situations where prior approval is to be sought.

e. Related Party Transactions Policy

This policy is intended to set out guidance in defining who are related parties and how to transact with such related parties, which shall protect the Bank from conflicts of interest.