



وزارة الصناعة والتجارة والسجلات

Ministry of Industry,  
Commerce and Tourism

# Corporate Governance Code

2018

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## Chapter One

### Definitions and General Provisions

#### Section One

#### Definitions

In the implementation of the provisions of this Code, the following words, expressions and terms shall have the meanings assigned to each of them, unless the context states otherwise:

**Ministry:** The ministry of commercial affairs.

**Board of Directors or Board “BoD”:** The board of directors of the company.

**BoD Chairman or Chairman:** The Chairman of the BoD.

**Secretary:** The secretary of the BoD.

**Executive Management:** The executive management of the company.

**Commercial Companies Law:** The Commercial Companies Law promulgated by Legislative Decree No. 21 of 2001.

**Concerned Department:** The concerned Department of Corporate Governance at the Ministry.

**Code:** The Corporate Governance Code.

**Corporate Governance:** A methodology to lead, guide and control the company’s business. It includes mechanisms to regulate the various relationships between the BoD, executives, shareholders and stakeholders by establishing special rules and procedures to facilitate decision making as well as follow-up foundations to evaluate and monitor performance and to ensure transparency and credibility, for the purpose of protecting the rights of shareholders and stakeholders and achieving justice, competitiveness and transparency.

**Shareholder:** Any individual or company, which holds shares in the company.

**Controlling Shareholder:** Any shareholder, which holds 10% or more of the share capital or is able to exercise or control the exercise of 10% or more of the voting power of the company.

**Stakeholders:** Individuals and groups affected by the company's business, such as workers, employees, suppliers, customers, banks, society and government.

**Chief Executive Officer:** The highest authority in the executive management of the company who is responsible for management of the company before the BoD. The Board shall determine the job title of such person, who may be called "Chief Executive Officer", "President" or "General Manager" or any other name.

**Executive Director:** A member of the BoD who is a member of the company's executive management, participates in the day-to-day management of the company, and receives a stipend in return.

**Non-Executive Director:** A member of the BoD who is not fully involved in the management of the company (i.e. not an employee therein) or does not receive a monthly or annual salary, except for the remuneration for the directorship on the board of directors and committees.

**Independent Director:** A non-executive director who is fully independent in his position and decisions, and none of the independence invalidity cases mentioned in paragraph (3) of Annex 1 of the Code apply to him.

**Remuneration:** Amounts, allowances, profits and equivalents, performance-related periodic or annual bonuses, short or long-term incentive schemes, and any other in-kind benefits. The reasonable expenses incurred by the company for a director for the purpose of performing his work duties shall not be considered as remuneration.

**Cumulative Voting:** A voting method for the selection of directors. Each shareholder shall be granted voting power in proportion to number of shares he holds, so that he shall be entitled to using it to vote for one candidate or to divide it among his preferred candidates without repetition.

**Comply or Explain Principle:** The principle stated in paragraph 7 of Section Two of this chapter, which means that the company shall comply with the provisions of the Code or explain why it does not.

**Parent Company:** An entity that holds more than 50% of the company's share capital.

**Subsidiary:** An entity in which the company holds more than 50% of the share capital.

**Associate:** An entity in which the company holds 20% of the share capital.

**Audit Committee:** The Committee provided for in Chapter Two, Section Three, Paragraph "First", of the Code.

**Governance Committee:** The Committee provided for in Chapter Two, Section Eight, Item "F", of the Code.

**Nomination Committee:** The Committee provided for in Chapter Two, Section Four, Paragraph "First", of the Code.

**Remuneration Committee:** The Committee provided for in Chapter Two, Section Five, Paragraph "First", of the Code.

**Company's Overall Management Framework:** All or any of the following: the company's Memorandum of Association, Articles of Association, its internal rules and regulations and other decisions.

**Relatives:** Father, mother, brother, sister, sons, spouse, father-in-law, mother-in-law and spouse's sons.

## Section Two

### General Provisions

#### **First: Purpose of the Code:**

The Code aims to provide guidance to companies on the best ways to manage, lead, organize and monitor their businesses through a series of transparent, clearly defined policies, processes and procedures.

#### **Second: Purpose of Governance:**

Governance aims to establish a system that governs and controls the companies' businesses and practices in order to create efficient institutions which contribute to building a strong, transparent and competitive national economy for the purpose of reducing any adverse effects on the national economy, acting parties and local community due to not committing to the best practices in managing joint stock companies.

#### **Third: Key Pillars of Governance:**

The key pillars of corporate governance are:

- a- Ensuring that the information required by regulators, shareholders and investors, as well as related parties is provided in a timely and appropriate manner to enable these parties to take decisions and run their businesses property, while the matters of interest to shareholders and various related parties are transparently disclosed by the company and its BoD, which would help attract more businesses to the company, including various investors from within the Kingdom of Bahrain.
- b- Accountability, which means that the directors are aware that they are responsible for their decisions and actions in managing and leading the company before the shareholders and are held accountable to them, and they shall subject themselves to evaluation in accordance with best practices.
- c- Justice, which means that all shareholders, employees and related parties shall enjoy fair and equitable treatment by the directors and Executive Management, without bias or any concealed interests.
- d- Responsibility, which means that the directors shall perform their duties with honor, integrity, impartiality and sincerity towards the economy and society in general, and the company in particular, exercise caution, care and due diligence in the performance of their duties, put the company's best interest ahead of their own self-interests and take into account the corporate social responsibility.

**Fourth: The companies which apply this code:**

The Code is applicable to all joint stock companies incorporated in the Kingdom of Bahrain and registered pursuant to the Commercial Companies Law.

In the implementation of this Code to the joint stock companies of a family nature, the provisions thereof that suit to their financial, administrative conditions and capacities shall be observed, in order to achieve the results which this code is aiming for.

**Fifth: Role of Shareholders:**

The rules of governance emphasize the duty of shareholders to carry out their roles by communicating with the company, discussing the strategic objectives which are set by the BoD and have affect on their interests, and expressing their views through active attendance at the meetings of the general assemblies. This help strengthen the response of the company and BOD for being aware that their performance is being monitored by shareholders.

**Sixth: Structure of the Code:**

The Code, in addition to its general provisions and definitions, contains eleven fundamental principles of corporate governance, each of which contains several guidelines and directives to be applied and considered by every company when declaring its compliance with the provisions of the Code pursuant to the Comply or Explain Principle.

**Seventh: Comply or Explain Principle:**

- a- The implantation of the Code shall be based on the “Comply or Explain” Principle, meaning that the company shall comply with the provisions of the Code or provide an explanation in the case of non-compliance. An acceptable reason for non-compliance is the different actions taken by the company due to its market size or being newly listed or incorporated, noting the importance of ultimately achieving an effective and good governance. It is also important to clarify these reasons in the company's annual corporate governance report and discuss them with the shareholders in the general assembly meetings. It is also important to note that the implementation of the Comply or Explain Principle cannot prevail over any mandatory legal provisions of the Law whether in the Commercial Companies Law or other.
- b- Principle (8) of the Corporate Governance Principles stated in Chapter Two, Section Eight, of the Code, entitled "Disclosure of Governance", calls companies to adopt the written guidelines which cover the matters stated in this Code, to issue annual reports for the shareholders about their compliance with those guidelines, and to justify to the shareholders in case of breach or non-compliance.
- c- In all cases, each company is expected to either comply with the provisions of the Code or justify for not complying with it. The “Comply or Explain” approach has been adopted in a large number of countries around the world, and the flexibility of this approach has been accepted by both companies’ boards and investors.
- d- By applying to the Comply or Explain Principle, rigid rules may be avoided which may not take into consideration the circumstances of the companies, such as the size and nature



of its business, its shareholding structure, activities, its exposure to risks, management structure, or other circumstances. Given the wide diversity of companies, it is not desirable to impose identical laws and rules on all companies, which is the basis of the Comply or Explain Principle.

**Eighth: Ministry's Requirements for Governance:**

The Ministry is the primary government authority responsible for implementing the Commercial Companies Law as well as this Code if the company applies its provisions. The Ministry exercises its supervisory and penal powers effectively under the Commercial Companies Law, in addition to working and co-ordinating closely with the Central Bank of Bahrain.

**a- A corporate governance officer shall be appointed.**

The company shall adhere to appoint one of its employees as the company's corporate governance officer to carry out the tasks of verifying the company's compliance with corporate governance rules, the laws, regulations and resolutions issued to implement them. The company shall also provide the Concerned Department with the name, contact and address details of the company's corporate governance officer and inform the Concerned Department in case of replacement.

The corporate governance officer shall have the authority to contact or request information from the BoD, its committees or the executive management. It is preferable if the corporate governance officer is familiar with national laws, regulations, trade legislation and other corporate governance principles, rules, regulations and guidelines, including those of the Organization for Economic Co-operation and Development (OECD).

The corporate governance officer shall:

1. Coordinate and follow up with the Concerned Department on the regulatory requirements for Corporate Governance.
2. Ensure that the policies and implementation of the company's Corporate Governance are consonant with the regulatory and legal requirements to which the company is pursuant.
3. Ensure the availability of internal control systems which guarantees the implementation of the principles stated in this code.
4. Work and coordinate with the BoD and the corporate governance committee on a permanent basis to improve the implementation performance in the company.
5. Review the annual report of governance, which is part of the company's annual financial report, to assure its contents and conformity with the company's internal and control requirements.
6. The Concerned Department at the Ministry may object to the appointment of any person as a corporate governance officer when it has justifications for such objection. It may also propose deletion of any corporate governance officer from its records and

request appointing another person in case the corporate governance officer fails to fulfill any of his obligations stated in this Code.

**b- A written guide and procedures for corporate governance shall be in place.**

The company shall have written corporate governance procedures and policies within the company which are documented in a guide. All policies and procedures shall be subject to approval by the BoD and the general assembly and periodically reviewed for any amendments or updates. All employees of the company should be informed of the corporate governance guide's contents through awareness programs, after which each employee will sign an acknowledgment that the necessary governance awareness programs have been already provided. In addition, the employees shall be briefed, each within his field of competence, on any future developments of governance requirements issued by the Ministry.

**c- An independent corporate governance report shall be included in the company's annual report.**

The company shall prepare an independent annual corporate governance report, to be included in the annual report in accordance with the form prepared by the Ministry and in conformity with the form prepared by the Ministry and in accordance with the appendix 5 of this Code.

The BoD shall submit the independent annual corporate governance report electronically to the Concerned Department in accordance with the form prepared by the Ministry. The report shall be submitted within six months from the date of the end of the company's financial year along with the annual report of the company.

**d- A separated item for governance shall be included in the company's general assembly agenda.**

The company shall, on an annual basis, include a separated item in the general assembly agenda in respect of discussing and approving the company's corporate governance report.

**Ninth: What's New in this Version of the Code:**

The Ministry has worked on developing and updating the Corporate Governance Code in a way that attributes comprehension and generality to its new version and enables it to contain the latest international and regional developments in the field of corporate governance, addressing all joint stock companies in the Kingdom of Bahrain according to each nature and size in a way which allows them to apply the appropriate rules of governance and enables them to develop future plans to cover the lack of rules in the medium and long term in order to complete the implementation of these rules in accordance with the company's size growth rate.

The following is an overview of what has been updated and developed in this version of the Code:

- a- This Code clarifies the purpose of governance in a unique way and highlighted the fundamental elements of governance principles.
- b- The Code clearly defines the scope of implementation of these rules and their degree of compatibility with the nature and size of each company.

- c- The Code gives particular attention to the “Comply or Explain” Principle as an essential principle that paves the way for the mandatory imposition of its rules.
- d- The Code further extended the definition of the independent director and clearly identifies the independence invalidity cases.
- e- The definitions, concepts and terminology used in the Code have been formulated to promote the users’ understanding and realization of its contents.
- f- The Code emphasized the role of the shareholders’ general assembly in selecting an efficient BoD through the cumulative voting method to achieve the objectives of the company and increase the opportunity for the minority shareholders to be represented in the BoD through the cumulative voting.
- g- The Code gives greater importance to the role of the BoD considering it the most important element in the management and direction of the company, in addition to its primary responsibility in implementing governance; consequently, the code outlines the optimal composition of the directors in terms of their quality and responsibilities. The code also views number of the committees emerging from the BoD to assist in its performance.
- h- The Code focuses more on the components of the internal control environment and their importance within any company, starting from the internal control system, internal audit management, risk management and compliance management, and recommends that a governance system should take place within each company.
- i- The Code highlights the importance of appointing a corporate governance officer and determining his obligations.
- j- The Code gives particular importance to auditors in the light of their important role in the audit process, in particular, their role in disclosing the adequacy of internal control and governance systems within the company and the extent to which they comply with the regulatory requirements of governance.
- k- The Code deals with different means and tools of disclosure and enhancement of the importance of non-financial disclosure, clarifying the essential information to be disclosed through various periodic reports.
- l- The Code gives particular attention to the social responsibility through which the company should strive to exercise its role as a good citizen and limit any negative impact of its activities on the national economy, surrounding society or the environment in general.
- m- The Code deals with the standards and determinants of professional conduct and ethical values in order to strengthen the ethical concepts and values of the company.
- n- The Code outlines all the policies, codes, manuals and regulations that each company shall formulate and implement to regulate its internal governance. The Code aims to support all companies willing to understand and apply governance as an integrated approach towards growth and sustainability to benefit the companies and the national economy in general.

## Chapter Two

### Corporate Governance Principles

#### Section One

#### PRINCIPLE 1: THE COMPANY SHALL BE HEADED BY AN EFFECTIVE, QUALIFIED AND EXPERT BOARD

##### **First: The BoD's Composition, Responsibilities and Duties:**

##### **a- The BoD's Composition.**

1. The company shall have a BoD consisting of at least five (5) directors for public joint stock companies and three directors for closed joint stock companies. The directors shall include persons with experience so that the rest of the directors can benefit from their expertise and experience. In all cases, the BoD shall have no more than fifteen (15) members.
2. The company's articles of association shall specify the requirements for executive, non-executive and independent directors whereas at least half of the directors shall be non-executive directors and at least three of whom shall be independent directors who meet the requirements set forth in Appendix 1 to the Code, without prejudice to the provisions of Item (b) of Paragraph (Fifth) of this Section for companies with controlling shareholders. In all cases, the BoD shall have one independent director. The annual corporate governance report shall determine whether each director is an executive, non-executive or independent.
3. The Chairman shall be an independent director and shall not, himself or his deputy, in any case be the company's chief executive officer, in order to have a proper balance of powers and authorities and have greater substantive capacity for the BoD to take decisions independently.
4. The BoD shall regularly review the number and composition of its members to ensure that its size is sufficient to make effective decisions and to enrich the BoD with various views and perspectives from various competencies. The BoD shall also make a recommendation to the shareholders for changes in its size when the needed change requires an amendment to the company's articles of association or memorandum of association. The rules of the BoD provides that the director shall resign if not actively involved in the meetings of the BoD.
5. When a new director is inducted, the company (represented by the Chairman) with the assistance of the legal counsel or the company's corporate governance officer shall follow a system to provide the new director with an introduction to the company's business and BoD's duties and responsibilities, particularly in the legal as well as regulatory aspects and the code requirements.
6. The company shall have a written appointment agreement with each director to clarify the duties, powers, authorities and other matters of directorship, including the directorship term, work time commitment, duties of the committees, remuneration and entitlement to expense reimbursement, and accessibility to independent professional technical advices when necessary.

7. Potential non-executive directors shall be made aware of their duties and responsibilities prior to their nomination, in particular with regard to work time commitment required for them. The nomination committee shall regularly review the required obligations of each non-executive director, and shall inform each of them the necessity of notifying the committee before accepting any directorship on any other company's BoD.
8. No director may have directorship of more than five (5) Public Joint Stock Companies in the Kingdom of Bahrain, provided that no conflict of interest may exist. The Board may not propose the election or re-election of any director who participates in more than five companies' BoDs.
9. The BoD shall review the independence of each director at least once a year in light of the interests disclosed by such directors in accordance with the criteria set forth in Appendix 1 if the Code. Each independent director shall provide the updated information necessary for this purpose.
10. The BoD shall issue internal regulations specifying the Board's duties and responsibilities, including the requirements and responsibilities of the directors.

**b- The BoD's Responsibilities and Duties:**

The directors shall be responsible, both individually and collectively, before the shareholders for achieving the company's objectives and purposes. They shall be primarily concerned with the interests of the company, which shall take precedence over any other interests, including the interests of the shareholders represented by them.

The Board shall represent all shareholders, and shall perform the duty of devotion and loyalty in managing of the company and everything that would safeguard and promote the interests of the company and maximize its value.

The BoD's roles and responsibilities shall include, but not be limited to, the following:

- 1- Adopting the commercial and financial policies associated with the company's business performance and achievement of its objectives.
- 2- Drawing, overseeing and periodically reviewing the company's plans, policies, strategies and key objectives.
- 3- Setting and generally supervising the regulations and systems of the company's internal control.
- 4- Determining the company's optimal capital structure, strategies and financial objectives and approving annual budgets.
- 5- Monitoring the company's major capital expenditures, and possessing and disposing assets.
- 6- Approving the company's quarterly and annual financial statements and presenting them to the general assembly.
- 7- Monitoring the executive management's activities, and ensuring that the operations run smoothly to achieve the company's objectives and that they do not conflict with the applicable Laws and Regulations.

- 8- Forming specialized committees emerging from the BoD as required by the nature of the company's activity as provided in the regulatory requirements, and issuing the regulations of these committees.
- 9- Determining the types of remunerations for senior executives and directors, subject to the approval of the shareholders' general assembly, taking into consideration the provision of Article (188) of the Commercial Companies Law.
- 10- Setting a mechanism to regulate transactions with related parties in order to minimize conflicts of interest.
- 11- Setting standards and values governing the company's business.
- 12- Ensuring the application of an appropriate control and risk management systems by setting framework of the risks that the company might face, creating an environment that is aware of risk management knowledge at the company level, and transparently presenting it to company's related parties and stakeholders.
- 13- Assuring equitable treatment of shareholders, including the minority shareholders.
- 14- Setting internal regulations which determine the Board's duties and responsibilities, including the obligations and responsibilities of the directors, which the Board shall not be exempt therefrom even if it forms committees or delegates certain duties to other bodies or individuals. The BoD shall avoid issuance of general authorizations or authorizations with an unlimited duration.

The Board shall adopt a reasonable policy in delegating the authorities to the executive management, and the delegation of authority regulations shall cover various financial, administrative, employees' affairs and other functions necessary to operate and manage the company efficiently.

**c- The Chairman's Responsibilities and Duties:**

- a- Without prejudice to the BoD's role, the Chairman shall:
  - 1- Represent the company before others.
  - 2- Ensure that the directors have access to the complete and accurate information in a timely manner.
  - 3- Ensure that the Board discusses all information and items stated in the agendas for each meeting.
  - 4- Encourage the directors to effectively exercise their roles in the best interest of the company.
  - 5- Ensure effective communication between the company's shareholders and BoD.
  - 6- Prepare agendas for the Board meetings and general assembly meetings (annual general meetings / extraordinary general meetings).
  - 7- Hold meetings with non-executive and independent directors, without the attendance of the executives, to take their views on matters related to the company's activity.
- b- The Chairman shall create an environment that encourages constructive criticism on issues in which there is a divergence of views among directors, and develop and promote constructive

relationships between the Board and executive management, without prejudice to the provisions of this Code.

**Second: The Secretary:**

The Board shall have a secretary who may be appointed or removed by a resolution from the BoD. The secretary shall be selected from among the directors or outside the Board. He shall assist the Chairman and directors in carrying out their duties. The secretary competences shall involve:

- a- Facilitating the implementation of the BoD's activities and decisions.
- b- Coordinating the BoD's meetings, records, books and documents.
- c- Recording minutes of meetings and sending them to the BoD.
- d- Managing the corporate governance requirements related to the BoD.
- e- Coordinating among the directors regarding attendance, documents circulation, and other matters.
- f- Ensuring access to the committees' minutes of meetings and including them within the Board's meeting papers.
- g- Coordinating all logistics related to shareholders' meetings (General Assembly Meeting / Extraordinary General Meeting) with the Chairman.
- h- Keeping records and documents relevant to the Board's activities, such as the Commercial Companies Law, articles of association, memorandum of association, commercial register and updated corporate governance rules.
- i- The duties assigned to the secretary by the Board, or provided for elsewhere in the Code.

**Third: The BoD's Meetings, Decisions and Recommendations:**

- a- The BoD shall convene their meetings on a periodic and regular basis, but in no event less than four (4) meetings in the financial year. The BoD shall take its decisions and recommendations by a majority of the directors present. In the event of a tie, the Chairman shall cast the deciding vote. The director shall attend all meetings and contribute to the discussions effectively. If the director is unable to attend, the procedures prescribed by the Board shall be followed to obtain a permission for absence from the meeting.
- b- The Chairman shall ensure that all directors receive an agenda, minutes of previous meetings, and adequate information in writing as background of the meeting's subject matters before the meeting being held within an adequate time and when necessary during the meetings. All directors shall receive the same Board information, in due course, and they shall bear the legal responsibility for personal follow-up, ensure that they receive adequate and appropriate information and study it carefully.
- c- The BoD may hold its meetings or its committees' meetings by telephone or visual communication (video-conferencing) or accept any director's remote participation in the deliberations of its meetings, subject to the provisions of the Commercial Companies Law. The Board shall set controls on the use of modern means of communication in meetings and remote participation of directors.



- d- Except for decisions concerning the approval of the company's financial statements, the Board may adopt its decisions by circulation with the approval of all its directors and move forward for implementation. However, these decisions shall be included for approval in the agenda of the meeting immediately following the circulation. The Board may establish mechanisms, conditions and controls to circulate and manage its decisions. Circular decisions shall not be considered as a meeting, and the minimum number of BoD meetings specified in the articles of association shall therefore be adhered to.
- e- The cumulative secret ballot shall be used for the election of the directors.

**Fourth: Directors' Independence:**

The BoD shall be composed of individuals who have the competence and independence to be able to demonstrate judiciousness, experience, objectivity and impartiality in looking into the company's affairs and to ensure complete independence of the executive management and key shareholders. No director or small group of directors shall be allowed to dominate the decision-making and recommendation process in the Board, nor shall any director have absolute powers and authorities over the decision-making mechanism of the Board. The executive directors shall inform the Board of all business and financial information within their competence as officers. They shall recognize that their role as directors is different from their role as company's officials. The non-executive directors shall be fully independent of the executive management and shall objectively and constructively scrutinize and challenge it, including the administrative performance of executive members.

**Fifth: The Board's Representation of All Shareholders:**

- a- Each director shall consider himself as a representative of all shareholders and shall act accordingly. The Board shall avoid having representatives of specific groups or interests within its directorship. Further, the controlling shareholders shall be aware of their responsibilities to other shareholders, which are direct and separate from the responsibilities of the BoD.
- b- In companies with controlling shareholders, at least one-third of the Board shall consist of independent directors to secure the interests of the minority shareholders and ensure their representation in the BoD.
- c- In the companies that have a controlling shareholder, both controlling and non-controlling shareholders shall be aware of the controlling shareholder's specific responsibilities with regard to his duty of loyalty to the company and the conflict of interest, as explained in Section Two of this Chapter when addressing the conflict of interest and dealing with related parties, and also of the minority shareholders' rights to elect the BoD members in accordance with the provisions of the Commercial Companies Law. The Chairman shall take the lead in clarifying these matters with the assistance of the company's legal counsel.

**Sixth: Directors' Accessibility to External Consulting Opinions:**

- a- The Board shall ensure, whenever necessary, that its directors have access to external consulting opinions, whether legal or technical, in matters related to the company and its



expenses, provided that there is no conflict of interest when the directors decide the necessary of obtaining external consulting opinions, in order to carry out their duties and responsibilities as directors. Such act, shall be in accordance with the company's policy approved by the Board. Each director shall also have access to the company's secretary, who shall be responsible for reporting to the Board regarding the Board's procedures related to this matter.

- b- In case of any director having concerns or comments on serious matters related to the company's management or subject presented and not resolved at the BoD meeting, the director shall consider seeking advice from an external consultant, and shall ensure that these concerns or comments are recorded in the Board minutes, indicating any action taken or to be taken in response thereto. The non-executive director shall provide a written statement to the Chairman, for circulation to the board, if he has any special concerns of any serious matter that may have a material impact on the company.

**Seventh: Communications between Directors and Executive Management.**

- a- The BoD shall encourage the executive management to be involved in the subjects under consideration of the Board, as well as the administrative officers by virtue of their responsibilities or the individuals nominated to hold senior management positions in the company, who the chief executive office believes that they should have access to communicate with the directors.
- b- Non-executive directors shall have free access to the executive management beyond the scope of the BoD meetings. Such access shall be through the Chairman of the audit committee or chief executive officer. The Board shall explain this policy to the executive management in order to demonstrate the authorities of each director and executive management.

**Eighth: Committees of the Board:**

- a- The BoD shall set up specialized committees as required, in addition to the audit, remuneration, nomination and governance committees provided for in this Code, with the designation of a secretary for each committee.
- b- The BoD may also form an executive committee to submit its recommendations to the Board on the company's business, or a risk management committee to identify and minimize the risks associated with the company's business. The Board or the committee may invite non-directors to participate in the committee's meetings, so that the committee may benefit from their experience and expertise in the financial or other subject areas.
- c- The committees shall act only upon the authorizations granted to them by the Board, and the Board shall not allow any committee to replace the Board in the decision-making responsibility.
- d- The committees may be combined with each other, provided that there is no conflict between the duties and responsibilities of these committees. The committees may seek assistance from in-house or external experts and specialists as it deems appropriate after obtaining an approval from the Board. The committee's report shall include the expert name and his relationship with the company or executive management.

- e- Each committee shall have internal regulations similar in form to the model of internal regulations within Appendices 2, 3 and 4 to this Code for the audit, nomination and remuneration committees.

**Ninth: Evaluation of the Board and its Committees.**

The BoD shall conduct an evaluation of its performance and the performance of all committees and directors at least once a year. The Ministry may issue non-mandatory templates to assist in this evaluation.

The evaluation process shall include:

- a- Evaluating the Board's method of operation, especially in light of Principle 1 of this code, which is the subject of this Section.
- b- Evaluating the performance of each committee, in light of its specific objectives and responsibilities, which shall include the self-evaluation conducted by each committee.
- c- Reviewing each director's performance, attendance at the Board's and committees' meetings, and the effectiveness of the director's participation in the discussions and decision-making process.
- d- Reviewing the current composition of the Board in comparison with the required composition, taking into consideration maintaining an appropriate balance of skills and experiences related to the activities of the company, and moving forward towards gradual change and continuous updating of the Board and its directors.
- e- Evaluations shall be organized and carried out with the assistance of an internal committee under the Board and, where necessary, external experts. The BoD shall be responsible for the evaluation.
- f- The BoD shall report to the shareholders participating in the general assembly meetings that the required performance evaluation has been conducted.

## **Section Two**

### **PRINCIPLE 2: THE DIRECTORS AND EXECUTIVE MANAGEMENT SHALL HAVE FULL LOYALTY TO THE COMPANY**

**First: Personal Accountability:**

- a- The directors and executive management shall possess knowledge of the legal and regulatory frameworks within which the Company operates and shall understand that they personally accountable to the company and shareholders in case of breach of duty of loyalty to the company. The duty of loyalty to the company shall include that the directors and executive management shall exercise their duties with honesty and integrity towards the economy and society in general and the company in particular, put the company's interest ahead of their own

self-interests, not use their positions to achieve personal interests, maintain the confidentiality of information, not disclose it to any person or party, and avoid using it for personal gains.

- b- The directors shall disclose to the company their directorship in any other company, any acts they perform directly or indirectly that compete with the company, names of the companies and entities in which they are engaged or exercise any other tasks, time allotted thereto, and any change as soon as it occurs.

**Second: Dealing with Related Parties:**

The company shall pursue the maximum transparency and clarity with regard to dealing with related parties. The related-party transactions are intended to transfer resources, services or obligations between the company and its related parties, whether or not for consideration.

- a- The person is a related party if:

- 1- He is a director in the company, parent company, subsidiaries or associates during the last 12 months.
- 2- He has a significant impact on the company and its performance.
- 3- He is a member of the company's or parent company's key management personnel, including the chief executive officer, general manager, or any employee who reports directly to the company's BoD.
- 4- He owns or controls 10% or more of the voting rights in the company, parent company, subsidiaries or associates.
- 5- He is a first-degree relative of any person mentioned in items (1, 2, 3 and 4) of this paragraph (Second).
- 6- He is affiliated with any of the entities listed below and any entity in which he solely holds at least 25% of the voting rights.

- b- The entity is a related party if:

1. It is a member of the same business group, that is, a parent company, subsidiary or associate.
2. It is a joint venture of the company or its associates.
3. It represents fund or post services benefits project for the company's employees of the company or its associates.
4. The persons referred to above, individually or jointly, hold at least 25% of the voting rights or the rights to direct or control its decisions.

- c- All transactions with related parties shall be reviewed by the company's corporate governance officer and audit committee prior to implementation.
- d- In the case of transactions to which the company enters into an agreement with the related parties, shall be approved by the BoD prior to implementation.

**Third: Avoidance of Conflicts of Interest:**

- a- The directors, key shareholders, senior executives and other employees of the company shall avoid cases that lead to conflicts of interest with the company and deal with such cases in accordance with the provisions of the Commercial Companies Law and the Code.
- b- The BoD's internal regulations shall state that any director or member of the executive management who enters into a transaction involving a conflict of interest shall need the approval of the BoD.

**Fourth: Disclosure of Conflicts of Interest.**

- a- Each officer or director in the company who, himself or the party he represents in the BoD, have a joint or conflicting interest in a transaction presented to the board for a decision shall disclose it to the Board and prove it in the minutes of meeting. He shall not be entitled to participate in the deliberation, discussion and voting of the decision on these transactions. The disclosure shall include the essence of the transaction and its impact on the integrity of the company's decisions and transactions, rather than the legal form.
- b- The Chairman shall report to the general assembly the results of the related-party transactions approved by the Board at the first meeting following the implementation of the transaction, and the reporting shall be on a case-by-case basis (i.e according to transaction and related parties) and accompanied by a report from the external auditor.
- c- In the company's annual report, the details of the related-party transactions and the classification of the amounts due to these parties and the receivables therefrom shall be disclosed to the shareholders. The company's auditors - in the following year - shall ensure that the related parties perform all their obligations relating to these transactions and any transactions to which they were a party. Reference shall be made to international standards and other laws relevant to financial reporting to calibrate and disclose such transactions.
- d- The BoD shall establish a written and clear policy to deal with the existing or potential conflicts of interest which may affect the performance of the company's directors, executive management members or other employees when dealing with the company or other stakeholders, and the directors shall be requested to make an annual declaration confirming the absence of any conflict of interest.

**Fifth: Criteria and Determinants of Professional Conduct and Ethical Values.**

The company shall develop a code of ethics that includes the criteria and determinants of professional conduct and ethical values to consolidate the ethical concepts and values of the company, and to contribute to the proper performance of the tasks entrusted to the BoD, executive management and all employees. The code shall include a set of criteria and determinants that address, at a minimum, the following:

- a- Each director and executive management member shall be committed to all laws and regulations, represent all shareholders, and only serve the interests of the company, shareholders and other stakeholders, rather than the interest of a specific group only.

- b- The directors and executive management members shall not use their official power to achieve their own self-interests or interests of others.
- c- The company's assets and resources shall not be used to achieve personal interests. Instead, they shall be used optimally to achieve the company's objectives.
- d- A well-organized system and clear mechanism shall be established to prevent directors and employees from using their positions to exploit the information they have accessed to for their personal interests, and to prohibit the disclosure of information and data concerning the company, except in cases where disclosure is allowed or in response to legal requirements.
- e- Procedures shall be established to govern operations with related parties in order to minimize conflicts of interest.
- f- Procedures shall be established to govern the relationship with the stakeholders so as to ensure that the company's obligations towards them are fulfilled, their rights are preserved, the necessary information is provided thereto and good relationships are established therewith, particularly mechanisms to compensate stakeholders in the event of violation of their rights that are recognized by the regulations and protected by contracts as well as mechanisms to settle dispute and disagreements which may arise between the company and its stakeholders, and to maintain the confidentiality of their information.
- g- There shall be a clear segregation between the company's interests and directors' interests, through establishment of mechanisms to put the company's over the directors' interests.
- h- The director shall disclose to the Board any direct or indirect common interests with the company.
- i- The director shall be prohibited from participating in the discussion, expressing opinion or voting on any subjects presented to the Board, in which he has a direct or indirect common interest with the company.
- j- A system of recruitment practices shall be established, especially the employment of relatives.
- k- A whistleblowing program shall be developed to report violation and guarantee confidentiality of reporting, as set out in Principle 3 of the Corporate Governance Principles.
- l- A policy shall be set in regards to the benefits received by the directors or the employees or the gifts offered to the clients.

### **Section Three**

#### **PRINCIPLE 3: THE BOARD SHALL HAVE RIGOROUS CONTROLS FOR FINANCIAL AUDIT AND REPORTING, INTERNAL CONTROL, AND COMPLIANCE WITH LAW**

This is achieved through establishment of an audit committee, development of a whistleblowing of program, and chief executive officer's and chief financial officer's certification of the financial statements.

**First: Audit Committee:**

The BoD shall form an audit committee consisting of at least three directors, the majority of whom shall be independent, and the Chairman of the committee shall be an independent director. One director or more may be appointed from outside the company in case of insufficient number of non-executive directors.

**a- Competences of Audit Committee:**

The Audit Committee shall exercise the following functions and responsibilities :

- 1- Review the company's accounting and financial practices.
- 2- Review the credibility of the company's financial control, internal control and financial statements.
- 3- Review the company's compliance with legal requirements.
- 4- Recommend the appointment of an external auditor, determine the audit fees and compensations and oversee the auditor's work.

The majority of the audit committee's members shall have the accounting literacy qualifications stated in Appendix 2 to the Code.

**b- Membership Controls:**

It is prohibited to combine the Chairmanship of the audit committee with any other Chairmanship of another committee established by the BoD. The committee Chairman position and BoD Chairman position shall also not be combined. The Chairman of the audit committee shall not participate as a member of any other committee. The chief executive officer shall not be a member of the audit committee.

The committee shall adopt a written internal regulations which regulates at least the requirements set forth in (First) of this Principle as well as the purposes and tasks set forth in Appendix 2 to the Code.

**Second: Whistleblowing Program:**

The BoD shall establish a whistleblowing program that allows the company's employees to report internally their concerns about any improper or suspicious practices in financial reports, internal control systems or any other matters, and make appropriate arrangements for an independent and fair investigation of such practices, while ensuring the confidentiality of such reporting in order to protect them against any adverse reaction or damage that may result from the reporting of such practices. Under the program, concerns the observation can be communicated directly to any audit committee member, or to an identified officer or employee who will report directly to the audit committee.

**Third: Chief Executive Officer's, Chief Financial Officer's or Financial Controller's Certification of the Financial Statements:**

For the purpose of encouraging executive management to carry out their obligations for the financial statements required by the directors, chief executive officer and chief financial officer/financial controller shall state in writing to the audit committee and the board as a whole that the company's interim and annual financial statements present fairly, in all material respects, the company's financial position and results of operations in accordance with applicable accounting standards.

**Section Four**

**PRINCIPLE 4: THE COMPANY SHALL HAVE EFFECTIVE PROCEDURES FOR APPOINTMENT, TRAINING, AND EVALUATION OF THE DIRECTORS**

This shall be achieved through establishment of a nomination committee and adoption of specific controls for Board nominations to shareholders for the election, re-election, training and evaluation of directors.

**First: Nomination Committee:**

**a- Composition of Nomination Committee:**

The BoD shall establish a nomination committee of at least three members.

This committee shall include independent directors or non-executive directors, the majority of whom shall be independent, and the Chairman of the committee shall be an independent director.

This composition shall be in line with international best practices under which the nomination committee can exercise its powers without any conflict between personal and functional interests.

**b- Competences of Nomination Committee:**

The nomination committee shall exercise the following functions and responsibilities :

- 1- Nominate the persons eligible for directorship or chief executive officer, chief financial officer or secretary position, except for the internal auditor who is nominated by the audit committee pursuant to Paragraph (f) of Appendix (2) to the Code.
- 2- Make recommendations to all directors, including recommendations for potential directorship candidates to be included in the shareholders' next meeting agenda.
- 3- Review the structure of the Board, periodically evaluate the directors' performance and make recommendations to the Board on the necessary changes that should be made to address weaknesses to achieve the company's interests.



4- Ensure, on an annual basis, the independence of the independent directors.

**c- The Nomination Committee's Working System:**

The nomination committee shall draw up a written internal regulations which shall, at a minimum, govern the requirements set out in (First) of this Principle and state the purposes and duties set out in Appendix 3 to the Code.

**Second: BoD Nominations to Shareholders:**

a- Nominations proposed by the Board to the shareholders for the election or re-election of directors shall be accompanied by a recommendation of the Board, a summary of the nomination committee's report on these nominations, and the following information:

1. The term of directorship, which shall not exceed three years and it is not required to limit the re-election for further term.
2. Personal details and professional qualifications.
3. In the case of an independent director, a statement shall be prepared that the Board has determined that the criteria in Appendix 1 to the Code have been met.
4. Any other board membership held in other companies.
5. Details of other positions which involve significant time commitments.
6. Details of the relationships between the candidate and the company, and between the candidate and other directors.

b- When proposing the re-election of any director, the Chairman shall confirm to the shareholders that, following the formal performance evaluation, the director's performance continues to be effective and to demonstrate a clear commitment to the role. Any term beyond six years (e.g. two three-year terms) for a director shall be subject to particularly rigorous review, and shall take into account the need for progressive refreshing of the Board. Serving more than six years shall be sufficient or appropriate to assess the independency of non-executive directors, as stated in Appendix 1 to the Code.

**Third: Induction and Training of Directors:**

The Chairman shall ensure that each new director receives a formal and tailored induction to ensure effective participation in the Board's activities from the beginning of his term. This induction shall include meetings with senior management, visits to the company's facilities, knowledge of strategic plans and financial management, accounting and risk management-related matters, compliance programs, and access to the reports of the internal auditor, independent external auditor and legal counsel. All directors shall be responsible for continuous access and further learning about the company's business and governance. The executive management shall consult with the Chairman to organize programs and presentations for directors regarding the company's activities, which may include the attendance of relevant specialized conferences and management meetings on a regular basis. The nomination committee shall oversee the training activities of directors on corporate governance issues, commercial laws and relevant regulations.



## Section Five

### PRINCIPLE 5: THE COMPANY SHALL REMUNERATE DIRECTORS AND SENIOR OFFICERS FAIRLY AND RESPONSIBLY

This shall be achieved through establishment of a remuneration committee and adoption of fair remuneration criteria for the company's directors and various employees.

#### **First: Remuneration Committee:**

##### **a- First: Composition of Remuneration Committee:**

The BoD, from among its directors, shall establish a remuneration committee consisting of three independent directors or non-executive directors, the majority of whom shall be independent. The Chairman of the committee shall be an independent director. This shall be in line with international best practice under which the committee can exercise its powers without conflict between personal and functional interests.

##### **b- Competences of Remuneration Committee:**

The remuneration committee shall:

1. Review the company's policies relating to the remuneration of directors and senior executives, which shall be approved by the shareholders.
2. Make recommendations to the Board on remuneration policies and amounts allocated to each person, taking into consideration the total remuneration, including salaries, fees, expenses and employee benefits, subject to the rules and provisions of the Commercial Companies Law concerning the payment of remunerations and other benefits as well as the company's articles of association.
3. Remunerate directors based on their attendance and performance.

The BoD may merge the remuneration committee with the nomination committee.

##### **c- Remuneration Committee's Work System:**

The remunerations committee shall draw up a written internal regulations stating its work system and procedures, in addition to the other matters listed in Appendix 4 to this Code.

#### **Second: Common Standards for All Remunerations:**

The remuneration of both directors and officers shall be sufficient enough to attract, retain and motivate persons of the quality needed to run the company successfully, but the company shall avoid paying more than is necessary for that purpose.

**Third: Non-Executive Directors' Remunerations:**

Remuneration of non-executive directors shall not include performance-related elements such as bonus shares, share options or other stock-related incentive schemes, bonuses, or end-of-service benefits.

**Fourth: Senior Officers' Remunerations:**

Remuneration of senior officers shall be structured so that a portion thereof is linked to the company and individual performance and the employees' interests are aligned with the shareholders' interests. Such remuneration may include bonus shares, share options or any other deferred benefits under the incentive schemes, bonuses savings, and pension benefits which are not based on salary. If an officer is also a director, his remuneration as an officer shall be in accordance with the specific remunerations of the directors. All share incentive schemes shall be approved by the shareholders.

**Fifth: Performance-Based Incentive Regulations:**

All performance-based incentives shall be awarded under written objective performance criteria which have been approved by the Board and designed to enhance the shareholder's and company's value. Under these criteria, shares shall be held and options shall be exercisable only two years after the award date and after achievement of the results based on which such incentives are awarded.

All schemes of performance-based incentives shall be approved by the shareholders. However, this approval shall be granted only for the scheme itself, not for the incentives awarded to specific individuals under the scheme.

**Section Six**

**PRINCIPLE 6: THE BOARD SHALL ESTABLISH A CLEAR AND EFFICIENT MANAGEMENT STRUCTURE FOR THE COMPANY AND DEFINE THE JOB TITLES, POWERS, ROLES AND RESPONSIBILITIES.**

**First: Establishment of Management Structure:**

The Board shall appoint and supervise executives whose authorities shall include management and operation of the company's day-to-day activities and reporting to the Board. These officers shall include at a minimum:

- a- Chief executive officer.
- b- Chief financial officer.
- c- Secretary.
- d- Internal auditor.

- e- Any other officer, as the Board considers appropriate.

**Second: Job Titles, Authorities, Roles and Responsibilities:**

The Board shall adopt internal regulations prescribing each senior officer's job title, authorities, roles and internal reporting responsibilities, in consultation with the nomination committee and in coordination with the chief executive officer, to whom the other officers shall normally report. These internal regulations shall include but not be limited to the following:

- a. The chief executive officer shall have authority to act generally in the company's name, representing the company's interests in concluding transactions on the company's behalf and giving instructions to other company's officers and employees.
- b. The chief financial officer shall be responsible and accountable for the timely preparation of the company's financial statements, in accordance with the accounting standards and policies of the company; and for realistically and clearly reporting to the BoD on the company's financial position.
- c. The internal auditor's duties shall include providing an independent and objective review of the efficiency of the company's operations. This shall include a review of the accuracy and reliability of the company's accounting records and financial reports as well as a review of the adequacy and effectiveness of the company's risk management, control, and governance processes.
- d. In addition to the competencies set out in Section One, Paragraph (Two), of this Code, the secretary shall arrange, record and follow up on the actions, decisions and meetings of the Board and of the shareholders (both at annual ordinary and extraordinary meetings) in books to be kept for that purpose.

The secretary shall also be given general responsibility for reviewing the company's procedures and advising the board directly on such matters. Whenever practical, the secretary shall be a person with legal or similar professional experience and training.

**Third: BoD's Additional Authorities and Duties:**

- a- The BoD shall review, at least once a year, and approve the succession plan which involves the policies and principles for selecting the successor of the chief executive officer, both in emergencies and in the ordinary course of business. The succession plan shall include an assessment of the experience, performance, skills and career paths of potential candidates for the chief executive officer position.
- b- The BoD may also place any limits it deems appropriate on the authorities of the chief executive officer or any other officer, such as the maximum financial limit for transactions authorized to be carried out without the Board approval.

## Section Seven

### PRINCIPLE 7: THE COMPANY SHALL COMMUNICATE WITH SHAREHOLDERS, ENCOURAGE THEIR PARTICIPATION, AND RESPECT THEIR RIGHTS.

#### **First: Shareholder Empowerment:**

The company's general management framework shall create an appropriate environment for shareholders to participate effectively in the company's general assemblies, access to the information that allows them to exercise their rights and respond to inquiries, and enable them to contribute to the election of the appropriate directors.

#### **Second: Conduct of Shareholders' Meetings:**

The BoD shall observe the requirements of the Commercial Companies Law in respect of the shareholders' general assemblies. In organizing such meetings, the company shall observe the following:

- a- The invitations to shareholders' ordinary and extraordinary general assembly meetings shall be clear and not misleading, and shall include an explanation of the items to be discussed at these meetings.
- b- The BoD shall encourage the greatest possible number of shareholders to attend general assembly meetings by choosing the appropriate place and time for holding such meetings.
- c- The company shall give the shareholders the opportunity to vote without discrimination, keep them informed of all the rules governing the voting procedures and the information relating to the voting rights on a regular basis, and avoid any action that hinders the use of this right. The shareholder may appoint, in writing, a proxy who is not a director and not a member of the company to attend the general assembly meetings, provided that the proxy shall be treated as the principal in the discussion and voting. The proxy agreement shall list all agenda items and shall specify the shareholder's vote (such as, "yes", "no" or "abstain").
- d- Prior to the general assembly meeting, shareholders shall have adequate access to information on agenda items, particularly the BoD' report, auditor's report, financial statements and corporate governance report, to enable them to make informed decisions thereof.
- e- The BoD shall include each substantially separate topic in a separate agenda item to ensure that unrelated issues are not bundled together under one item, and shall not put the transactions and contracts in which directors have a direct or indirect interest in one item to ensure that each item is voted separately.
- f- In meetings where directors are to be elected or removed, the board shall ensure that each person has been voted for separately, so that the shareholders can evaluate each person individually.

- g- The shareholders shall have the right to discuss the issues on the agenda of the general assembly meeting, including corporate governance, and to ask questions thereon to the directors and external auditor. These questions shall be answered to the extent that they do not jeopardize the company's interest.
- h- The minutes of the general assembly meeting shall be made available to shareholders. The company shall provide the competent authority with a copy thereof within fifteen days from the date of the meeting.
- i- Disclosure of all material facts shall be made to the shareholders by the Chairman prior to any vote by the shareholders.
- j- The company shall require all directors to attend the meeting of the shareholders and answer all of their questions, in particular, ensure the attendance of the chairmen of the audit and remuneration committees and the fact that they are ready to answer appropriate questions regarding matters within their committee's responsibility and competence.
- k- The company shall create a company website and assign a specific section thereof to describe shareholders' rights to participate and vote at each shareholders' meeting, and shall post significant documents relating to meetings including invitations and minutes.
- l- The company shall work on considering the possibility of developing electronic means for shareholders' communications including appointment of proxies. For confidential proprietary information, the company shall grant a controlled access to such information to its shareholders.

**Third: Direct Shareholders' Communication:**

The Chairman and other directors (as appropriate) shall maintain ongoing personal contact with key shareholders to solicit their views and understand their concerns. The Chairman shall ensure that the views of shareholders are communicated to the Board as a whole. The Chairman shall discuss governance and strategy with key shareholders. Given the importance of market monitoring to enforce the "Comply or Explain" Principle, the Board shall encourage shareholders, particularly institutional investors, to help in evaluating the company's corporate governance.

**Four: Controlling Shareholders:**

In companies with one or more controlling shareholders, the Chairman and other directors shall actively encourage the controlling shareholders to use their position responsibly and to fully respect the rights of minority shareholders.

**Section Eight**

**PRINCIPLE 8: THE COMPANY SHALL DISCLOSE ITS CORPORATE GOVERNANCE**

This shall be achieved by fulfilling the following matters:

- a- The Board shall adopt written corporate governance guidelines covering the matters stated in this Code and other corporate governance matters deemed appropriate by the Board. Such guidelines shall include or refer to the principles and instruction of this Code.
- b- The company shall publish the guidelines and instruction mentioned in the preceding paragraph on its website, if any.
- c- At each annual shareholders' meeting, the Board shall report on the company's governance according to the form prepared by the Ministry and available on its website, which includes the topics listed in Appendix 5 to the Code, explaining the extent of its compliance with the guidelines and instruction of the Code, and explaining the reasons for non-compliance, if any.
- d- The Board shall establish a corporate governance committee of at least three independent directors which shall be responsible for developing and recommending changes from time to time in the company's corporate governance policy framework. The governance committee may be merged with the nomination and remuneration committee.
- e- The company shall appoint an employee as the company's corporate governance officer. He shall undertake the tasks of verifying the company's compliance with the corporate governance rules, laws, regulations and decisions issued to implement them. He shall coordinate with the corporate governance committee in relation to all corporate governance matters, follow up and coordinate with the Concerned Department on the corporate governance matters.

## **Section Nine**

### **PRINCIPLE 9: COMPANIES WHICH OFFER ISLAMIC SERVICES SHALL ADHERE TO THE PRINCIPLES OF ISLAMIC SHARI'A**

Companies that provide Islamic services shall be subject to the principles of Islamic Shari'a and shall be committed in their core systems to additional governance and disclosure requirements to provide assurance to shareholders that they are adhering to Islamic Shari'a principles. These additional requirements shall include:

#### **First: Establishment of Shari'a Supervisory Board:**

- a- The BoD shall establish a Shari'a supervisory board consisting of at least three Shari'a scholars who have reasonable experience in issuing Fatwas (legal / religious opinions concerning Islamic Law) on economic and financial matters in order to ensure compliance with Shari'a principles in the company's financial transactions and other transactions; and
- b- The audit committee shall, in addition to its duties in Paragraph (First) of Section Three of this Chapter, communicate and coordinate with the corporate governance committee and the Shari'a supervisory board when necessary to ensure that information on the company's transactions is consistent with the rules and principles of Islamic Shari'a. Such information shall be reported in a timely manner if there are any matters inconsistent with the rules and principles of Islamic Shari'a.

**Second: Establishment of Corporate Governance Committee:**

The BoD shall set up a corporate governance committee similar to the governance committee provided for in Section Eight of the Code.

**a- Composition of Corporate Governance Committee:**

The corporate governance committee is composed of at least three (3) members, as follows:

- 1- An independent director who chairs the committee and shall have the relevant skills, such as the ability to read and understand financial statements and shall also be able to coordinate and link the complementary roles and duties of the corporate governance committee and the audit committee;
- 2- One of the members of the company's Shari'a supervisory board who shall guide the company's corporate governance committee on Shari'a-related governance matters (if any), and also coordinate and link the complementary roles and duties of the corporate governance committee and Shari'a supervisory board; and
- 3- An independent director who shall have a different skill set that the committee can take advantage thereof, such as legal expertise and business proficiency, which are considered required by the Board to cultivate a good corporate governance culture.

**b- Competences of Corporate Governance Committee:**

- 1- The corporate governance committee shall be responsible for developing and making recommendations on the changes required under the company's corporate governance policy from time to time. The governance committee may be merged with the nomination and remuneration committee;
- 2- Monitoring and overseeing the implementation of the corporate governance framework by working together with the executive management, audit committee and Shari'a supervisory board;
- 3- Providing the Board with reports and recommendations based on its findings in the performance of its duties.

**Section Ten**

**PRINCIPLE 10: THE BOARD SHALL ENSURE THE INTEGRITY OF THE FINANCIAL STATEMENTS SUBMITTED TO SHAREHOLDERS THROUGH APPOINTMENT OF EXTERNAL AUDITORS**

**First: Selection of External Auditor:**

The general assembly meeting shall appoint one or more auditors for the company and determine their fees upon the proposal of the Board, while taking into consideration the following requirements:

- a- The auditor shall be nominated by an audit committee's recommendation to the Board. If the Board adopts this recommendation, it shall be included in the general assembly meeting's agenda;
- b- The auditor shall be recorded in the auditor register with the Ministry;
- c- The auditor shall be independent from the company and its Board;
- d- The auditor shall be well-qualified, competent, highly-reputed and professionally experienced;
- e- In public joint stock companies, the external auditor shall be appointed for a term of one financial year, to be renewed for similar periods not exceeding five (5) consecutive financial years. The external auditor may not be appointed thereafter except after the lapse of two consecutive financial years; and
- f- The partner responsible for auditing the company shall be rotated once every three years at a maximum.

**Second: External Auditor's Obligations:**

- a- Obligations related to the auditor's disclosures in the financial statements:

During the audit of its clients' accounts, the auditor shall:

- 1- Examine the administrative, financial, internal control and governance systems within the company to ensure that they are suitable for the proper and effective functioning of the company and the preservation of its funds; and
- 2- Ensure that the company complies with the regulatory governance requirements, taking into consideration the "Comply or Explain" principle.

The auditor shall prove the fulfilment of the above-mentioned obligations in a special paragraph in its professional opinion in all financial reports or solvency letters issued thereby, as the case may be.

- b- Obligations related to the audit-related activities:

The auditor shall:

- 1- Monitor the company's business, give an opinion on the validity of the company's financial statements and request to adjust them if there is any impact on their validity;
- 2- Verify the company's ownership of assets and legality of obligations;
- 3- Attend the general assembly meetings, read its report to the shareholders and answer their questions and queries regarding the financial statements for the year end;
- 4- Notify the Board of the violations discovered or suspected. In the event that the detected or suspected breach is serious, it shall provide the regulatory authorities with a copy of the report prepared for this purpose without the permission of the company or the Board;
- 5- Refrain from carrying out additional non-audit activities which may affect its impartiality or independence; and
- 6- Carry out the duties assigned thereto independently and impartially.



## Section Eleven

### PRINCIPLE 11: THE COMPANY SHALL SEEK THROUGH SOCIAL RESPONSIBILITY TO EXERCISE ITS ROLE AS A GOOD CITIZEN

This shall be achieved through formulation of a social responsibility policy and disclosure of social responsibility.

#### **First: Formulation of Social Responsibility Policy:**

The company - represented by the Board - shall draw up its own internal code to deal with the requirements of social responsibility. The Board may assign the executive management or external consultant to submit a policy proposal that the company should adopt in preparation for its adoption by the Board.

#### **Second: Disclosure of Social Responsibility:**

The Company shall provide, in its annual report, a report on corporate social responsibility activities. The report shall explain these activities and the amounts spent thereon, and measure their impact and sustainability.

#### **Third: An Annual Plan to Implement the Social Responsibility Philosophy:**

The company's executive management shall develop an annual strategy or plan to implement the corporate social responsibility philosophy, policies and principles towards the community. The strategy or plan shall, at a minimum, clarify the following:

- a- The budget allocated to social responsibility requirements;
- b- The available means of support and participation;
- c- The values and principles that the company seeks to bring to the hearts and minds through the various social responsibility activities it adopts or supports; and
- d- The community segments or social areas targeted by the company.

## Appendices

### Appendix (1)

#### Independence of the Board Member

##### **First: Intended Meaning of Director Independence:**

The director's independence means two things:

- a- Financial independence, as stated below; and
- b- Independence of judgment, which is supported by experience, competence or knowledge in the company's business or industry or any industry associated therewith, and enables the independent director to support the Board's decision-making process and manage the company in a way that serves its purposes and objectives.

##### **Second: Qualifications of Independent Director:**

- a- To be recognized for integrity; and
- b- Not to have physical, economic or financial relationship with the company or any of its associates, subsidiaries or affiliates.

##### **Third: Director's Independence Invalidation Cases:**

The director's independence shall become invalid in the following cases:

- a- If he holds 10% or more of the shares of the company, or the parent company or any of its subsidiaries or associates;
- b- If he is a representative of a legal person who holds 10% or more of the shares of the company, parent company or any of its subsidiaries or associates;
- c- If he has served for the two years preceding his nomination in an executive position in the company, or the parent company or any of its subsidiaries or associates;

- d- If he is a first-degree relative of any director of the company or any of the key executive management personnel of the company, parent company or any of its subsidiaries or associates;
- e- If he is a director of the parent company or any of its subsidiaries or any of the company's associates in which he is a nominee for directorship;
- f- If he, in the two years preceding his nomination, has been employed by any of the company's contracting parties (including external auditors, major suppliers, and community associations which have received substantial funding from the company or its subsidiaries);
- g- If he, in the two years preceding his nomination, has been employed by the parent company or any of its subsidiaries or associates;
- h- If he, during the year preceding the year in which his independence is reviewed, has paid to the company or received therefrom over BD 50,000 or the equivalent thereof (not counting the directors' remuneration for this purpose);
- i- If he or any of his relatives is a partner of the company's auditor or an employee thereof, or if he, during the two years preceding the date of his appointment to the BoD, has been a partner or an employee of the company or the company's auditor;
- j- If he is an employee or a partner in a company that provides consulting services to the company or any of its parent, subsidiary or associate companies; and
- k- The director's independence shall not be affected by his employment with the parent company or any of its subsidiaries if any of them is a government entity or a company that at least 75% of its share capital is owned by the government or any of its subsidiaries.

## Appendix (2)

### Audit Committee

#### **First: Committee's Purposes:**

The Committee's purposes shall include those stated in Item (a), Paragraph (one), Section (one), Chapter Two, of the Code.

#### **Second: Committee's Membership and Qualifications:**

The Committee shall have at least three members. Such members shall have no conflict of interest with any other obligations they have for the company. A majority of the committee's members including the Chairman shall be independent directors under the criteria stated in Appendix (1) to the Code and non-executives if the Board chooses to appoint non-board members (experts) in the committee.

The Board shall satisfy itself that a majority of the committee has relevant financial ability and experience, which include:

- a. An ability to read and understand the company's financial statements including the balance sheet, as well as the statements of income, cash flow, and changes in shareholders' equity;
- b. Understanding of the accounting principles applicable to the company's financial statements;
- c. An ability to assess financial statements that involve a level of accounting complexity in comparison with those which can be expected in the company's business;
- d. Understanding of internal control methods and financial reporting procedures; and
- e. Understanding of the audit committee's duties and importance.

**Third: Committee's Duties and Responsibilities:**

The audit committee shall:

- a. Examine and review the internal control system and submit a written report on its opinion and recommendations on an annual basis;
- b. Review internal audit reports and follow up the implementation of the corrective measures related to the comments contained therein;
- c. Review the details of all proposed deals and transactions to be made between the company and the related parties and make appropriate recommendations thereon to the BoD;
- d. Select, appoint and remunerate or, where appropriate, terminate an external auditor, subject to the approval of the BoD and shareholders. The external auditor shall report directly to the committee and shareholders;
- e. Examine the independence of the external auditor at least once a year through:
  - 1. Determining whether its performance of any non-audit services has compromised its independence (the committee may establish a policy specifying the types of the allowed non-audit services);
  - 2. Obtaining a report from the external auditor clarifying its relationship with the company, or with any other person or institution, which may affect its independence;
  - 3. Reviewing and discussing the audit scope and results with the external auditor, and clarifying any difficulties and obstacles that have prevented it from accessing to the required information or documents as well as any disputes or disagreements with the management; and
  - 4. Reviewing and discussing all the company's annual and interim financial statements, and the related judgments and estimates with the management and external auditor.
    - a. Review, discuss and make recommendations on the selection, appointment and termination of the head of the internal audit department, and the budget allocated to the internal audit and compliance control, and follow up the management response to the committee's recommendations and findings;
    - b. Review and discuss the efficiency of the internal audit staff, internal control procedures, compliance control, any risk management systems and any changes therein;
    - c. Coordinate the activities of the external auditor and internal auditor;

- d. Develop a risk management plan to be adopted by the Board and follow up on its implementation, provided that the plan includes, at a minimum, the following:
  1. Articulate the main risks that the company may face and the probability of its occurrence.
  2. The mechanisms to identify, measure and follow up these risks;
  3. The mechanisms to periodically detect and report risks (especially the new risks);
  4. The ways to mitigate, if not to avoid, the effects of risks;
  5. Development and review of the company's risk management policies periodically, taking into account the company's business, market variables, and investment and expansion directions;
  6. Development of an executive program for the company's risk management, and provision of training or guidance for the Board and the executive management thereon;
  7. Submission of periodic analytical reports as directed by the Board on risk status and management in the company;
  8. Monitoring of the company's compliance with legal and regulatory requirements;
  9. Review and discussion of the methods by which staff can confidentially raise their concerns about any errors in financial reporting or other matters, and ensuring that these methods are in place for independent investigation and follow-up on these matters; and
  10. Reviewing and oversight of the implementation and enforcement of the code of conduct on the criteria and determinants of professional conduct and ethical values in the company, mentioned in Chapter Two, Section Two, of this Code.

#### **Fourth: Committee's Structure and Operations:**

The committee shall elect one (1) member as its Chairman. The Chairman may appoint a member to chair the committee in case of his absence, provided that he is an independent director.

The committee shall meet at least four (4) times a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire Board. The committee shall meet with the external auditors at least twice a year. However, in absence of all executive directors, they shall meet once a year.

The committee may meet without any other director or any officer of the company present. Only the committee may decide if a non-member of the committee shall attend for a particular meeting or a particular agenda item. It is expected that the external auditor's lead representative will be invited to attend regularly but this shall always be subject to the committee's decision.

The committee shall report regularly to the full Board on its activities.

#### **Fifth: Committee's Resources and Authorities:**

The committee shall have the resources and the necessary authorities to perform their duties and responsibilities, including the authority to select, retain, terminate and approve the fees of external legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the Board or executive management. The company shall provide appropriate funding for the compensation of such persons.

**Sixth: Committee's Performance Evaluation:**

The committee shall prepare and review its annual performance evaluation with the Board, evaluate its performance against the requirements and make recommendations to the Board on any improvements it deems necessary or required to its internal regulations. The performance evaluation report may be in the form of a written report that will be presented orally during any regularly-scheduled Board meeting.

Appendix (3)

**Nomination Committee**

**First: Committee's Purposes:**

The committee shall endeavor to achieve its purposes in accordance with the Code, particularly the purposes set forth in Chapter Two, Section Four and Paragraph (one), of this Code.

**Second: Committee's Duties and Responsibilities in Serving the Purposes Related to the Board Directorship:**

- a- The committee shall, from time to time, make recommendations to the Board on changes that the committee believes to be desirable to the size of the Board or any of its committees;
- b- Whenever a vacancy arises, the committee shall recommend to the Board a person to fill the vacancy either through appointment by the Board or through shareholder election;
- c- In performing the above responsibilities, the committee shall consider any criteria approved by the Board and such other factors as it deems appropriate. These may include judgments, specific skills, experience with other comparable businesses, the extent to which the candidate's experience is consistent with that of other directors, and other factors;
- d- The committee shall also consider the suitability of all candidates for directorship recommended by the shareholders and any candidates proposed by the management;
- e- The committee shall identify and recommend to the Board the directors qualified to fill the vacancies on any Board committee; and
- f- The committee shall assure the existence of succession plans for the senior management.

**Third: Committee's Duties and Responsibilities in Serving the Purposes Related to the Company's Officers:**

For this purpose, the committee shall:

- a- Make recommendations to the Board from time to time on changes that the committee believes to be desirable in the management structure or officers' job descriptions, including the chief executive officer, and establish a scope of authorities for each vacancy to contain the necessary responsibilities, powers and qualifications, and other related matters;
- b- Make recommendations on persons nominated for vacancies, including the chief executive officer, taking into account the established criteria, including those referred to above;
- c- Develop an appropriate succession and replacement plan for officers. This shall include the replacement of officers in emergencies or when vacancies arise due to unexpected circumstances; and
- d- If the committee is assigned with responsibilities related to corporate governance guidelines and instructions, the committee shall develop and make recommendations to the Board on government guidelines and instructions, and review the same at least once a year.

**Fourth: Committee's Structure and Operations:**

The committee shall elect one (1) member as its Chairman. The committee shall meet at least twice a year, and its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire board.

**Fifth: Committee's Resources and Authority:**

The 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 external legal, consulting or candidate search firms, without seeking the approval of the Board or management. The company shall provide appropriate funding for the compensation of any such persons.

**Sixth: Committee's Performance Evaluation:**

The committee shall preview and review its annual performance evaluation with the board, evaluate the committee's performance against the requirements and recommend to the Board any improvements deemed necessary or desirable to the committee's internal regulations. The report may be in the form of an oral report that will be presented during any regularly-scheduled Board meeting.

Appendix (4)

**Remuneration Committee**

**First: Committee's Duties and Responsibilities:**

- a- The Remuneration Committee shall strive to fulfill its purposes as set forth in Chapter Two, Section Five and Paragraph (one), Item (b), of this Code. To fulfill its objectives, the committee shall consider and make specific recommendations to the Board on both the remuneration policy and the remuneration package for the chief executive officer and other senior officers. This policy shall cover the following minimum components:

- 1- The Salary;
- 2- The specific terms of performance-related schemes, including any stock compensations, stock options or other deferred-benefit compensations;
- 3- Pension schemes;
- 4- Fringe benefits such as non-salary allowances;
- 5- Termination policies, including any severance pay policies; and
- 6- Policy guidelines to be followed to determine remunerations in individual cases, including:
  - 1) The relative importance of each component; and
  - 2) Specific criteria to be used in evaluating the officer's performance.

The committee shall evaluate the chief executive officer's performance against the corporate goals and objectives as well as the annual performance plans and may benchmark the company's performance, shareholders' return, and chief executive officer's benefits against those of comparable companies.

The committee shall also be responsible for retaining and overseeing external consultants or firms for the purpose of determining directors' or officers' remuneration, implementing remuneration plans, and other related matters.

**Second: Committee's Structure and Operations:**

The Committee shall elect one (1) member as its chair. The committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire Board.

**Third: Committee's Resources and Authorities:**

The 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 external legal consulting firms and the compensation firms utilized to evaluate the compensations of directors, chief executive officers and other officers, without seeking the approval of the Board or management. The company shall provide appropriate funding for the compensation of any such persons.

**Fourth: Committee's Performance Evaluation:**

The committee shall preview and review its annual performance evaluation with the Board, evaluate its performance against the requirements and recommend to the Board any improvements deemed necessary or desirable to its internal regulations. The report may be in the form of an oral report that will be presented at any regularly-scheduled Board meeting.

The committee shall be responsible for proposing the remunerations of directors and committees. It shall also be responsible for conducting the annual evaluation of the performance of the Board, its directors, committees and their members.



## Appendix (5)

### Corporate Governance Disclosure

In addition to any disclosure required by the regulatory authorities, the company shall disclose the following matters:

#### **First: Shareholding:**

In this case, the disclosure shall focus on the following matters:

- a- Distribution of shareholding by nationality;
- b- Distribution of shareholding by shareholder size;
- c- Shareholding by the government, if any; and
- d- Names of the shareholders holding 5% or more, indicating the name of the natural person who holds the shares, the final beneficiary.

#### **Second: Company's Board, Directors and Management:**

In this case, the disclosure shall focus on the following matters:

- a- A precise description of the Board's duties;
- b- Types of material transactions that require the Board's approval;
- c- Directors' names, authorities, capacity of representation, detailed information, including directorships of other boards, positions, qualifications and experience, and whether each director is executive or non-executive;
- d- Independent directors' names and numbers;
- e- Board's term and the start date of each term;
- f- Board's activities to induct, educate, direct, orient and train new directors;
- g- Directors' shareholding;
- h- Directors' election system and any termination arrangements;
- i- Directors' trading of shares during the year;
- j- Dates of meetings (number of meetings during the year);
- k- Attendance of directors at each meeting;
- l- Total remunerations, sitting fees and bonuses paid to directors for the year;
- m- List of senior executives and a profile of each;
- n- Shareholding by senior managers;
- o- Total remunerations paid to the key executive officers (the top five employees), including salaries, benefits, allowances, increases, stock options, end-of-service benefits, pensions, etc.; and
- p- Whether the Board has adopted the company's code of conduct on the criteria and determinants of professional conduct and ethical values, mentioned in Chapter Two, Section Two, Paragraph (Fifth), of the Code.

#### **Third: Committees:**

In this case, the disclosure shall focus on the following matters:

- a- Names of the Board's committees;
- b- Duties of each committee;
- c- Members of each committee divided into independent and non-independent;
- d- Minimum number of meetings per year;
- e- Actual number of meetings;
- f- Attendance of committees' members;
- g- Members' remunerations (by member); and
- h- Activities of committees.

**Fourth: Corporate Governance:**

In this case, the disclosure shall focus on the following matters:

- a- A separate report on corporate governance in the annual report;
- b- Reference to the Corporate Governance Code and its principles; and
- c- Actions taken to complete the implementation of the Code.

**Fifth: Auditors:**

In this case, the disclosure shall focus on the following matters:

- a- Clarifications on the auditor and its professional performance;
- b- Audit fees, and the years of service as the company's external auditor; and
- c- Reasons for changing or re-appointing the auditors.

**Sixth: Other Matters:**

In this case, the disclosure shall focus on the following matters:

- a- Related-party transactions;
- b- Process of approval for related-party transactions;
- c- Means of communication with shareholders and investors;
- d- Review of internal control processes and procedures;
- e- The announcements of the company's results, financial statements, etc. in the press shall include at least the following:
  - 1- Balance sheet, as well as statements of income, cash flow, and changes in shareholders' equity;
  - 2- Auditors;
  - 3- Auditor's signature date; and
  - 4- Board's approval date.
- f- Statement on the BoD's responsibilities with regard to the preparation of the company's financial statements;

- g- Conflict of interest - any issues arising shall be reported, and any steps, taken by the Board to ensure that directors exercise independent judgment in considering transactions and agreements in which directors or officers have a material interest, shall be described; and
- h- The Board - whether or not the Board, its committees and individual directors are regularly assessed for their effectiveness and contributions.