

# Corporate Governance Framework.

## Background

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Corporate governance is central to the effective and efficient running of any organization. It shapes everything from long-term direction to everyday operations and plays an important part in long-term success of the bank. The Board of Directors, Senior Management and all employees of Gulf International Bank B.S.C. are committed to ensuring effective governance and observing a high standard of behavior and conduct to maintain the corporate governance and regulatory compliance.

Governance primarily ensures how firms are run and controlled and the decision-making process. The focus starts with the shareholders, the board, board committees and senior management. In return, this ensures that management and leadership at all levels are governed in an effective manner as a result of the governance oversight from the highest levels. Governance is also concerned with the structures of responsibility and the flows of information. Therefore, effective systems and controls to manage governance are vital. This holistic approach has a significant impact within the company's culture.

## Purpose

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Gulf International Bank B.S.C. ("GIB" or "the Bank") Manual ("Manual") outlines the corporate governance framework of and the main principles for promoting sound corporate governance practices at GIB, that reflect the corporate governance requirements of the Central Bank of Bahrain ("CBB"), to the extent that these requirements do not contradict with the provisions GIB's Agreement of Establishment.

This Manual has been articulated in accordance with:

- GIB's Agreement of Establishment approved by Decree Law No. (3) for the year 1975 which includes the Bank's Articles of Association, and its subsequent amendments ("Articles of Association").
- The Central Bank of Bahrain's Rulebook, as amended from time to time ("Rulebook").
- Bahrain Commercial Companies Law, as amended from time to time.

To the extent not covered in this Manual, the relevant provisions of GIB BSC's Articles of Association, the Bahrain Commercial Companies Law, the CBB Rulebook and any updates thereto which may come into effect from time to time shall be applied and deemed an integral part of this Manual.

## Scope

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This Manual applies to GIB BSC's Board of Directors, and the regulatory mandated Management Committees. Reference to the Shariah Supervisory Board is included for transparency purposes only, as matters pertinent to the Shariah Supervisory Board shall be governed and regulated by virtue of the Bank's Shariah Governance framework which includes the Shariah Board's Charter.

# Board Governance Model

## GIB Corporate Structure

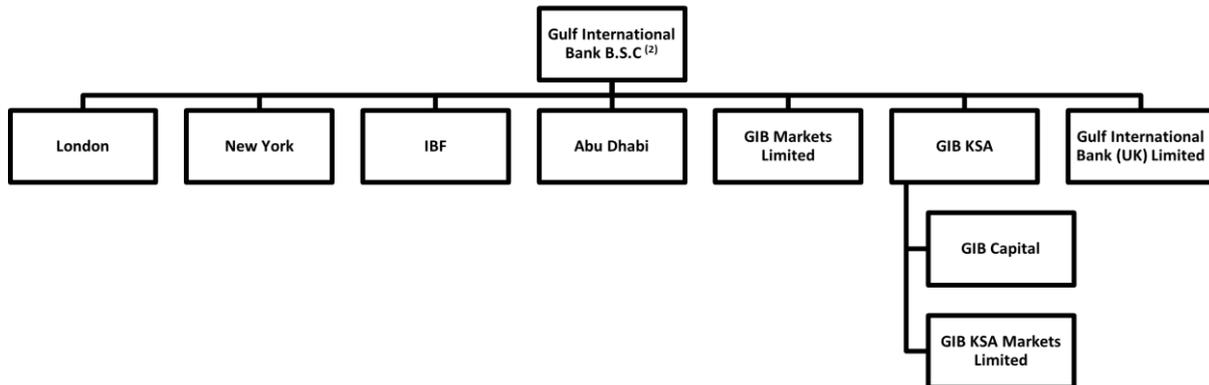
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The Corporate Governance Manual has been developed to promote the appropriate functioning of the Board of Directors and its Board Committees and Management Committees to ensure effective and efficient governance of the Bank.

The Board of Directors (“Board”) of GIB is ultimately responsible for ensuring that adequate, effective, comprehensive and transparent corporate governance process is in place.

**Figure 1: GIB Corporate Structure**

The following chart shows the organisation of the GIB Group's principal subsidiaries and branches(1):



(1) Excludes special purpose companies and non-principal subsidiaries.

(2) Gulf International Bank B.S.C. operates four international branches; London (UK), Abu Dhabi (UAE), New York (U.S.) and IBF (International Bank Facility) (U.S.) as well as a representative office in Dubai (UAE).

GIB’s Subsidiary Corporate Governance Policy outlines the corporate governance framework of the GIB Group Subsidiaries and the main principles for promoting sound corporate governance practices across the GIB Group. The Subsidiary Corporate Governance Policy is to be read in conjunction with this Policy, and shall govern how corporate governance principles and practices can be cascaded, consistently and effectively, from GIB BSC down to the level of its subsidiaries, to the extent that such principles and practices do not conflict with the relevant rules and regulations in the jurisdiction where the subsidiaries operate.

## Corporate Governance Code Principles

- **Principle 1 The Bank Shall be Headed by an Effective, Collegial and Informed Board**
- **Principle 2 The Directors and Officers Shall have Full Loyalty to the Bank**
- **Principle 3 The Board Shall Have Rigorous Controls for Financial Audit and Reporting, Internal Control, and Compliance with Law**
- **Principle 4 The Bank Shall have Rigorous Procedures for Appointment, Training, and Evaluation of the Board**
- **Principle 5 The Bank Shall Remunerate Directors and Officers Fairly and Responsibly**
- **Principle 6 The Board Shall Establish a Clear and Efficient Management Structure**
- **Principle 7 The Bank Shall Communicate with Shareholders, Encourage Their Participation, and Respect Their Rights**
- **Principle 8 The Bank Shall Disclose its Corporate Governance**

The Formal Board Charter as reviewed and approved annually by the Board of Director’s identifies the parameters of applying the afore mentioned principles within the corporate governance structure of the Bank.

## Board Governance Model

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### Board of Directors

#### Composition

Members shall be appointed for a term of three years, in accordance with the Articles of Association and in line with CBB regulations pertaining to the Board's composition.

The membership of the Board shall include less than half of the members classified as executive directors and no less than one third of the members classified as independent directors.

#### Role and Responsibilities of the Board

The Board sets the strategic direction of GIB and is ultimately accountable and responsible for the performance and affairs of the Bank. In general, it has the power of supervision of the affairs of GIB. It approves the implementation of appropriate strategic decisions, determines key policies and processes to ensure the integrity of GIB's risk management and internet controls, oversees the performance by the management of established goals, monitoring conflicts of interest and preventing abusive related party transactions and assuring equitable treatment of shareholders including minority shareholders.

Amongst other things, the Board:

- a. Sets the tone for a culture of integrity and compliance throughout the Bank by ensuring that the Board, Management and staff conduct their affairs with a high level of personal and professional integrity and in accordance with all applicable laws and regulations, as well as with the Code of Conduct of the Bank.
- b. Makes effective use of internal and external auditors as independent monitors of the Bank's affairs.
- c. As appropriate and when needed by the Board, ensures that independent professional advice be taken, at the Bank's expense.
- d. Reviews and endorses the Bank's succession plan, ensures appropriate resources are available, and minimizes reliance on key individuals.
- e. Ensure GIB has a robust finance function responsible for accounting and financial data.
- f. Ensure that sufficient time, budget and other resources are allocated annually for the Board members' induction programmes.
- g. Understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the Bank.
- h. Establish an adequate organisational structure that promotes accountability and transparency and facilitates effective decision-making and good governance throughout the Bank. This includes a clarity on the role, authority and responsibility of the various positions within senior management, including that of the CEO.
- i. Maintain and periodically update its governance structure, organisational rules, by-laws and other similar documents setting out its organisation, rights, responsibilities and key activities.
- j. Have the overall responsibility for the group and exercise adequate oversight over subsidiaries and overseas branches while respecting the independent legal and governance responsibilities that might apply to subsidiary Boards;

The Board has the widest authority in managing the affairs of the Bank. The Board can delegate some of its decision-making authority and responsibilities to the CEO, other executive members or to one or more of its Committees. However, this doesn't relieve the Board of its full accountability, as it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

The responsibilities of the Board, as well as of those of the Directors, the Chairman, and the Board Committees, are more fully set out in detailed Charter and Mandates approved by the Board that reflect to the extent possible the corporate governance requirements of the CBB.

Where the Board has serious reservations about the performance or integrity of a Board member, or he ceases to be qualified, the Board must take appropriate action and inform the CBB accordingly.

### **Role and Responsibilities of the Directors**

Each director must:

- (a) Understand the Board's role and responsibilities pursuant to the CBB Rulebook, the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time;
- (b) Consider themselves as representing all shareholders and must act accordingly; and
- (c) Ensure that they receive adequate and timely information before each meeting and must study the same carefully.

One of the key roles of a Director is to independently assess and question policies, processes and procedures, with the intent to initiate management action on issues requiring improvement.

Each Director has the obligation to act with honesty, integrity and in good faith with due diligence and care, with a view to the best interests of GIB, its shareholders and other stakeholders.

The Board Charter, as approved by the Board, requires each Director to exercise independence in his decision-making, and sets out in more detail the other responsibilities of Directors.

In addition, each Director receives upon his/her appointment as a member of the Board a Letter of Appointment reminding the Director that:

- e. Directors are responsible for contributing to the oversight of the Bank's affairs with the professionalism and integrity with the aim of achieving the strategic and financial objectives adopted by the Board;
- f. A key responsibility of the Board is to fill the gap between stakeholders (shareholders, employees, creditors, depositors, investment account holders, etc.) to whom the Board owes a duty of care, and Management, by monitoring Management closely on behalf of stakeholders;
- g. A detailed description of Directors' responsibilities is outlined in the Board Charter and in the Mandates of Board Committees, as adopted by the Board; and
- h. These responsibilities are to be carried out in line with the standards of the Code of Conduct adopted by the Board, the Principle of Business issued by the CBB, as well as this manual.

Executive directors must provide the Board with all relevant business and financial information within their knowledge and must recognise that their role as a director is different from their role as a member of management.

Pursuant to the CBB Rulebook, the CBB may call upon each independent director at its discretion to have a general discussion on the affairs of the Bank.

Directors are required to step down if they are not actively participating in Board meetings.

### **Role and Responsibilities of the Chairman**

The Chairman presides at the meetings of the Board and ensures that the Board and its Committees function effectively and independently of management.

The Chairman is responsible for the leadership of the Board and for the efficient functioning of the Board.

The Chairman shall ensure that all Directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each Board meeting and when necessary between meetings.

In terms of the Board decision making process, the Chairman shall take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

The Chairman shall maintain continuing personal contact with Controlling 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 controlling Shareholders (defined hereto as Controller). The Board shall encourage investors, particularly institutional investors, to help in evaluating the Bank's corporate governance.

## **Meetings, attendance, quorum, voting mechanisms and reporting**

### **Meetings**

The Board shall meet frequently to enable it to discharge its responsibilities effectively and at least once every three months at the invitation of the Chairman. No less than three of its members may request that a meeting of the Board be held. All Directors shall attend the Board meetings whenever possible and the Directors shall maintain informal communication between Board meetings.

Independent directors should meet separately, both among themselves and with the relevant control functions, on a regular basis to ensure frank and timely dialogue.

### **Attendance**

Directors should attend at least 75% of all board meetings in a given financial year, whether in-person or virtually, to enable the board to discharge its responsibilities effectively.

In the event of a director not attending at least 75% of Board meetings in any given financial year, the Bank must immediately notify the CBB indicating which Director has failed to satisfy this requirement, his/her level of attendance and any mitigating circumstances affecting his/her non-attendance.

Participation in Board Meetings or via teleconference or any electronic or virtual means of communication that permits all Directors present to be heard by all others present, is regarded as attendance and may be recorded as such. The Chairman may consider, for purposes of determining a quorum, that any Director participating by telephonic or electronic means is present during the entire meeting.

### **Quorum**

In accordance with Article (21) of the Bank's By-Laws, the quorum of a meeting of the Board requires the attendance of the majority of the Directors or their representatives. Resolutions of the Board shall be passed by a majority of votes of the Directors present. In case of an equality of votes, the side with whom the Chairman votes shall prevail.

In accordance with Article (20) of the Bank's By-Laws, where any of the Director's is unable to attend any of the Board meetings, he/she shall have the right to deputize one of the other Members to represent him/her, provided a written proxy is issued for such representation. No member of the Board may represent more than one member in addition to attending in his/her personal capacity as director.

The discussions, resolutions, voting records (including approvals, objections, and abstentions), and attendance records shall be recorded in meeting minutes.

### **Resolutions by Circulation**

A resolution by circulation is passed when such approval is urgent in nature and cannot be kept on hold for passing such resolution in the ensuing Board meeting.

A resolution by circulation shall be circulated, together with the substantiating proposals and/or relevant documentation -if any- to all the directors, at their addresses registered with the Bank through electronic means (emails, scanned documents, board web portal or facsimiles).

For resolutions by circulation to take effect, they should be approved by the majority of directors entitled to vote on the resolution (not being less than the number required for a quorum at a

meeting of the Board). “All directors”, for these purposes, does not include a director who would not be entitled to vote on the resolution due to a conflict of interest. The Chairman shall have a casting vote.

Resolutions by circulation shall be ratified during a subsequent meeting of the Board and recorded as part of the minutes of the said meeting. Any abstentions or votes not in favour will also be documented in the Minutes of Meeting.

## Internal Board Management

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### **Election of Board Members**

The Board shall inform the shareholders of the appropriate skill criteria and any applicable regulatory requirements to be considered in the shareholders’ assessment of new candidates for directorships. Such criteria may include judgment, specific skills, experience with other comparable businesses, the relation of a candidate's experience with that of the other Directors and other factors.

### **Appointment Agreement**

The Bank must have a written appointment agreement with each director which recites the directors’ powers, duties, responsibilities and accountabilities and other matters relating to his/her appointment including his/her term, the time commitment envisaged, the committee assignment if any, his/her remuneration and expense reimbursement entitlement, and his/her access to independent professional advice when that is needed.

### **Induction and Training of Directors**

When a new Director is inducted, the Chairman, Corporate Secretary, legal counsel, compliance officer or other individual delegated by the Chairman shall review the Board’s role and duties with that person, particularly covering legal and regulatory requirements of this Charter and CBB HC Module.

The Chairman shall ensure that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction shall include meetings with senior management, visits to Bank facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

### **Independence of Directors**

On an annual basis, the Board is required to make an affirmative determination with respect to each Director’s classification and independence as guided by applicable requirements.

### **Board Secretary**

The overall role of the Board Secretary is to assist the Board and its Chairperson in running Board affairs including but not limited to:

- Ensuring timely development of Board , Executive Committee and shareholder meetings’ agendas in conjunction with the Chairman and CEO.
- Coordinating, Organizing and attending Board and shareholder meetings.
- Drafting and maintaining minutes of Board, Executive Committee and shareholder meetings, and accurately recording Board/Shareholder attendance under the minutes.
- Carrying out any instructions of the Board , Executive Committee and those issued during shareholder meetings.
- Ensuring compliance with all statutory requirements in relation to Board affairs.
- Keeping logs of all decisions, minutes and other discussed documents in a special register.

## Evaluation

At least annually, the Board shall conduct an evaluation of its performance and the performance of each committee and each individual Director.

The Board is to at least annually review and assess its performance and the performance of its individual directors and Committees. The committee's evaluation must be communicated to the Board through the Corporate Governance Committee.

The Board of Directors and Board Committee Evaluation Policy and Procedure sets out the policy for adopting and implementing a formal process for the annual performance review of the Bank's

Board of Directors and Board Committees effectiveness, governance duties and responsibilities and in relation to conducting the affairs of the Bank.

## Declarations of Outside Interests

Members of the Board must declare to the Board any personal interest, whether direct or indirect, in any proposal that appears before the Board or before any Board committee. The interested Board member shall, without being excluded from the quorum necessary to validate the Board meeting, not participate in deliberations and vote taking place within the Board or committee on the relevant matter or proposal.

Each Director shall declare in writing all their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board on an annual basis.

Each Director should inform the Chairman and the Board Secretary before she/he accepts any board appointments to another company, to ensure that no conflicts of interest arise in relation to his/her role in GIB and the new entity.

## Board Committees

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### General provisions Board Committees

The Board establishes Board Committees, determines their powers and activities, and appoints their members. Objectivity and independence must be ensured by the selection of appropriate Board members in each committee.

Each of Board Committee must has a well-defined Board-approved Mandate that sets out the Committee's roles and responsibilities, composition criteria, minimum frequency of meetings per year and reporting obligations.

At a minimum, the Board must establish an Audit Committee, a n Executive Committee, a Nomination and Remuneration Committee, a Risk Policy Committee, and a Corporate Governance Committee.

The Board has formed the following standing Committees to increase the efficiency of their control over the Bank's key operations:

- **Executive Committee**
- **Audit Committee**
- **Risk Policy Committee**
- **Governance, Nomination & Remuneration Committee**
- **Innovation Committee**
- **Sustainability & Climate Change Committee (as of February 2023)**

Each Committee has a Mandate setting out its responsibilities, including:

- Membership
- Meetings & Reporting to the Board
- Responsibilities

- Performance
- Review of Mandates

## Shariah Supervisory Board

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The Bank's Shariah Supervisory Board ("SSB") is a separate and independent entity which is comprised of Shariah scholars. The SSB oversees Shariah compliant banking business of the Bank, in accordance with the GIB BSC's Shariah governance framework.

The SSB is responsible to advise the Bank on all Shariah compliant banking business of the Bank to ensure that it is in line with the Shariah rules and principles, and the CBB Rulebook.

The SSB is established to achieve the following objectives:

- To perform an advisory and oversight role on Shariah matters related to the Bank's Shariah compliant banking business operations and activities; and
- To be responsible and accountable for all its decisions, views and opinions related to Shariah matters.

The SSB members shall be appointed by a decision of the Board of Directors, based on the recommendations of the Board's Governance, Nomination and Remuneration Committee (GNRC).

The SSB Charter is part of the Bank's Shariah Framework which is reviewed annually by the SSB, the Board Risk Policy Committee, and subsequently the Board. As such, matters pertinent to the Shariah Supervisory Board shall be regulated by virtue of the said Framework which includes the Shariah Supervisory Board's Charter.

# Management Governance Model

## Oversight & Responsibilities of Senior Management

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### Oversight of Senior Management

The Board appoints a Chief Executive Officer ("CEO") with technical competency and banking experience for the Bank. Approval of the Board is also obtained prior to appointment of all senior management positions reporting to the CEO or the Chairman of the Board.

The Board oversees the Bank's senior management to ensure they carry out their assigned roles in line with the Bank's objectives and targets and the policies approved by the Board.

### Responsibilities of Senior Management

Senior Management must:

- Be selected through an appropriate promotion or recruitment process which considers the qualifications and competencies required for the position in question;
- Have the necessary experience, competencies, personal qualities and integrity to manage the businesses and employees under their supervision;
- Be subject to regular training to maintain and enhance their competencies and stay up to date on developments relevant to their areas of responsibility;
- Act within the scope of their responsibilities which must be clearly defined;
- Independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement;
- Not interfere in the independent duties of the risk management, compliance and internal audit functions;
- Carry out and manage the Bank's activities in compliance with all laws and regulations, and in a manner consistent with the business strategy, risk appetite, business plans and remuneration and other policies approved by the Board;

- h. Have a robust governance framework for all management committees;
- i. Not primarily control the remuneration system in the Bank; and
- j. Actively communicate and consult with the control functions on management’s major plans and activities so that the control functions can effectively discharge their responsibilities.
- K. Provide the Board and its committees with timely, complete, accurate and understandable information and documents so that they are equipped for upholding their responsibilities, and keep them adequately informed and updated on a timely basis about material issues including:
  - i. Changes in the implementation of business strategy, risk strategy and risk appetite;
  - ii. The Bank’s performance and financial condition;
  - iii. Breaches of risk limits or regulations;
  - iv. Internal control failures, frauds and cyber-security incidents;
  - v. Legal or regulatory concerns;
  - vi. Customer compliants; and
  - vii. Issues raised as a result of the Bank’s whistleblowing policy.

### **Management Committees**

The Bank has in place committees which are formed in accordance with the CBB regulatory requirements, including the management committee, risk committee and asset liability committee.

The Group Chief Executive Officer and Deputy Group Chief Executive Officer have the authority to form and dissolve management level committees other than those listed hereto, as and when required during the Bank’s course of business.

### **Succession Plan**

The Board ensures that Human Resources has succession plans in place for the executive positions in the Bank and that such plans are effectively implemented within the Bank.

## **Risk and Corporate Control**

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The Board and the Risk Committee have established comprehensive policies on risk oversight and management. Such policies describe roles and responsibilities of the Board, the Risk Committee, the Chief Risk Officer (CRO), the management and the Internal Audit function.

### **Internal Controls System**

The Bank has established efficient and effective internal controls systems and risk management processes. The Board approves the Bank’s organization structure consistent with the Bank’s strategy and activities, job descriptions with detailed roles and responsibilities, and formal policies and procedures for all banking functions and processes, the implementation of which is monitored by Internal Audit. Such policies and procedures determine the duties and responsibilities of each function, the authorities and reporting lines on different management levels in a way that realizes dual control and segregation of duties in order to avoid conflict of functions.

The Bank conducts an annual Internal Audit Reviews through internal auditors other than the Bank’s external auditors to ensure the adequacy of the internal control systems.

Employees must be encouraged and be able to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable practices. This is facilitated through a well communicated and Board approved whistleblowing policy and adequate procedures and processes, consistent with applicable laws. This includes the escalation of material concerns to the CBB. The Bank has set a whistleblowing policy and adequate procedures and processes, enabling employees to contact the Group Chief Auditors to communicate their concerns regarding potential violations that may be carried out by any member of the Bank (“Whistle-blowing”). The Bank ensures that

whistleblowers can confidentially raise legitimate concerns about illegal, unethical or questionable practices without the risk of reprisal, and that action is taken immediately.

### **Internal Audit**

The Bank has in place an Internal Audit unit headed by the Group Chief Auditors reporting directly to the Chief Executive Officer (CEO) and the secretary of the Board Audit Committee. Internal Audit has access to any information or any staff at the Bank as well as the full authority to perform the tasks assigned to Internal Audit.

The key responsibilities of the Internal Audit function include the following:

- Verifying the sufficiency and effectiveness of internal control systems and ensure that the internal control systems pertinent to financial and administrative issues are comprehensive and are being reviewed on timely manner.
- Reviewing the Bank's compliance with the relevant laws, policies, regulations, and instructions.
- Reviewing the adequacy and effectiveness of the Bank's internal control systems, information security, and risk management procedures.

### **External Audit**

An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Bank, an external auditor shall be selected and appointed by the shareholders upon recommendation of the Audit Committee and the Board.

The external auditor shall provide the Audit Committee with a copy of the audit reports and will meet with the Audit Committee to discuss these reports and any other significant observations on the Bank's issues. The Audit Committee shall meet with the external auditor at least once a year.

The external auditor of the Bank shall not at the same time provide all services of an internal auditor to the Bank. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.

## **Corporate Social Responsibility**

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The Bank recognises the importance of good corporate social responsibility in promoting and strengthening the trust of all of its stakeholders. The Bank has an enduring commitment to the banking industry and the Bahraini community in which it operates, supporting a range of local initiatives. To manage the activities in a coordinated manner, the Bank has adopted a Corporate Social Responsibility Policy approved by the Board.