



**ARAB FINANCIAL SERVICES COMPANY B.S.C. (CLOSED)**

**CORPORATE GOVERNANCE CHARTER**

**adopted by virtue of  
a Board Resolution dated 28 January 2013**



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**SECTION – 1**  
**EFFECTIVE DATE AND DEFINED TERMS**

**1.1. EFFECTIVE DATE**

This Charter shall become effective on 28 January 2013.

**1.2. DEFINED TERMS**

In this Charter the following capitalized terms have the following meanings:

**“Board”** means of the Company.

**“CBB”** means the Central Bank of Bahrain.

**“CEO”** means the Company’s Chief Executive Officer.

**“Head of Finance”** means the Company’s Head of Finance.

**“Chairman”** means the chairman of the Board.

**“Company”** means Arab Financial Services B.S.C.(closed).

**“Company Law”** means the Commercial Companies Law (Decree Law No. 21, issued 20<sup>th</sup> June 2001).

**“Controlling Shareholder”** means any shareholder of the Company who either alone or with associates 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 in the Company.

**“Director”** means a member of the Board.

**“Executive Director”** means a Director who is an officer or employee, or is otherwise involved in day-to-day management, of either:

- (a) the Company;
- (b) another company which is a controlling shareholder of the Company;
- (c) another company of which the Company is a controlling shareholder; or
- (d) another company which is controlled by a controlling shareholder of the Company.

**“HC Module”** means the CBB Rulebook, Volume 1 (*Conventional Banks*), High-Level Controls Module.

**“HC Module”** means High Level Controls Module of CBB Rulebook.

**“Independent Director”** means a Director that satisfies the criteria specified in Appendix A (*Definition of Independent Director*).

**“MOIC”** means the Ministry of Industry and Commerce of Bahrain.

**“Non-executive Director”** means any Director who is not an Executive Director.

**“Secretary of the Board”** means the corporate secretary to the Board as determined by the Board.

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**SECTION – 2  
THE BOARD**

**2.1 THE BOARD’S ROLE AND RESPONSIBILITIES**

**2.1.1 The role of the Board** – Each Director acknowledges and agrees to the Board’s role and responsibilities under the Company Law, in particular:

- (a) the Board’s role as distinct from the role of the shareholders (who elect the Board and whose interests the Board serves) and the role of the officers (whom the Board appoints and oversees), and
- (b) the Board’s fiduciary duties of care and loyalty to the Company and the shareholders.

**2.1.2 Responsibilities of the Board** – The Board’s responsibilities include (but are not limited to):

- (a) those responsibilities assigned to the Board by the Articles of Association of the Company;
- (b) establishing the objectives of the Company;
- (c) the overall business performance of the Company;
- (d) monitoring management performance;
- (e) the adoption and annual review of strategy;
- (f) monitoring the implementation of strategy by management;
- (g) causing financial statements to be prepared which accurately disclose the Company’s financial position;
- (h) convening and preparing the agenda for shareholder meetings;
- (i) monitoring conflicts of interest and preventing abusive related party transactions;
- (j) assuring equitable treatment of shareholders including minority shareholders;
- (k) the adoption and review of management structure and responsibilities; and
- (l) the adoption and review of the systems and controls framework.

**2.1.3 Responsibilities of the Board with regard to risk recognition and assessment** – The Board is responsible for ensuring that the systems and controls framework, including the Board structure and organizational structure of the Company, is appropriate for the Company’s business and associated risks. The Board shall ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the Company is exposed in its business activities.

The Board shall regularly assess the systems and controls framework of the Company. In its assessments, the Board must demonstrate to the CBB that:

- (a) The Company’s operations, individually and collectively, are measured, monitored and controlled by appropriate, effective and prudent risk management systems, commensurate with the scope of the Company’s activities.
- (b) The Company’s operations are supported by an appropriate control environment. The compliance, risk management and financial reporting functions are adequately resourced,

independent of business lines and are run by individuals not involved with the day-to-day running of the various business areas. The Board shall additionally ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice (with particular regard to anti-money laundering measures). The control environment maintains necessary client confidentiality and ensures that the privacy of the Company is not violated, and ensures that clients' rights and assets are properly safeguarded; and

- (c) Where the Board identifies any significant issues related to the Company's adopted governance framework, appropriate and timely action will be taken to address any identified adverse deviations from the requirements of the HC Module.

**2.1.4 Strategy Review Process** – In its strategy review process under Sections 2.1.2 (e) and 2.1.2 (f), the Board shall:

- (a) review the Company's business plans and the inherent level of risk in these plans;
- (b) assess the adequacy of capital to support the business risks of the Company;
- (c) set performance objectives; and
- (d) oversee major capital expenditures, divestitures and acquisitions.

The Board shall ensure that the Company notifies the CBB in writing of all major proposed changes to the Company's strategy and/or corporate plan prior to the implementation of such major changes.

**2.1.5 Delegation by the Board** – The Directors are responsible both individually and collectively for performing the responsibilities outlined in Sections 2.1.2 (*Responsibilities of the Board*). Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

## **2.2 THE BOARD'S DECISION-MAKING PROGRESS**

**2.2.1 Nature of Board meetings** – The Board shall be collegial and deliberative, to gain the benefit of each individual Director's judgment and experience. The Chairman shall take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

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

**2.2.3 Information for meetings** –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. All Directors shall receive the same Board information. At the same time, Directors shall have a legal duty to inform themselves and they shall ensure that they receive adequate and timely information and shall study it carefully.

**2.2.4 Membership** – The Board shall be comprised of 5 to 7 members, and shall regularly review its size and composition to assure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The Board shall recommend changes in Board size to the shareholders when a needed change requires amendment of the Company's

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Memorandum of Association.

**2.2.5 Duties of Non-executive Directors** – Potential Non-executive Directors shall be made aware of their duties before their nomination, particularly as to the time commitment required. The Nominations and Compensation Committee shall regularly review the time commitment required from each Non-executive Director and shall require each Non-executive Director to inform the Committee before he accepts any Board appointments to another Company.

**2.2.6 Maximum number of other directorships** – A Director shall not hold:

(a) more than one directorship of any category of a CBB licensed bank in Bahrain (such as a "Wholesale Bank" or "Retail Bank" as defined by the CBB) unless otherwise permitted by the CBB; or

(b) more than three Directorships in public companies in Bahrain,

and with the provision that no conflict of interest may exist, and the Board shall not propose the election or re-election of any Director who does.

## **2.3 DIRECTOR'S INDEPENDENCE OF JUDGEMENT**

**2.3.1 Independent judgment** – Every Director shall bring independent judgment to bear in decision-making. No individual or group of Directors shall dominate the Board's decision-making and no one individual shall have unfettered powers of decision.

**2.3.2 Information from Executive Directors** – Executive Directors shall provide the Board with all relevant business and financial information within their cognizance, and shall recognize that their role as a Director is different from their role as an officer of the Company.

**2.3.3 Independence of Non-executive Directors** – Non-executive Directors shall be fully independent of management and shall constructively scrutinize and challenge management including the management performance of Executive Directors.

**2.3.4 Number of Non-executive Directors and Independent Directors** – At least half of the Company's Board shall be Non-executive Directors. So long as the Company has a Controlling Shareholder, at least one-third of the Board shall be Independent Directors.

**2.3.5 Review of independence** – The Board shall review the independence of each Independent Director at least annually in light of interests disclosed by them and the criteria in Appendix A (*Definition of Independent Director*). Each Independent Director shall provide the Board with all necessary and updated information for this purpose.

**2.3.6 Meeting of Independent Directors** – To facilitate free and open communication among Independent Directors, each Board meeting shall be preceded or followed with a session at which only Independent Directors are present, except as may otherwise be determined by the Independent Directors themselves.

## **2.4 THE BOARD'S REPRESENTATION OF ALL SHAREHOLDERS OF THE COMPANY**

**2.4.1 Shareholder representation** – Each Director shall consider themselves as representing all shareholders and shall act accordingly. The Board shall avoid having representatives of specific groups or interests within its membership and shall not allow itself to become a battleground of vested interests. If the Company has a controlling shareholder (or a controlling group of shareholders acting in concert), the latter shall recognize its or their specific responsibility to the other shareholders, which is direct and is

separate from that of the Board. Minority shareholders shall generally look to Independent Directors' diligent regard for their interests, in preference to seeking specific representation on the Board.

**2.4.2 Controlling Shareholders' responsibilities** – To the extent the Company has a controlling shareholder, both controlling and non-controlling shareholders shall be aware of controlling shareholders' specific responsibilities regarding their duty of loyalty to the Company and conflicts of interest and also of rights that minority shareholders may have to elect specific Directors under the Company Law or if the Company has adopted cumulative voting for Directors. The Chairman or other individual delegated by the Chairman shall take the lead in explaining this with the help of Company's lawyers.

## **2.5 DIRECTORS' ACCESS TO INDEPENDENT ADVICE**

**2.5.1 Independent advice** – The Board shall ensure that individual Directors have access to independent legal or other professional advice at the Company's expense whenever they judge this necessary to discharge their responsibilities as Directors and this shall be in accordance with the Company's policy approved by the Board.

**2.5.2 Access to Secretary of the Board** – Individual Directors shall also have access to the Secretary of the Board, who shall have responsibility for reporting to the Board on Board procedures. Both the appointment and removal of the Secretary of the Board shall be a matter for the Board as a whole.

**2.5.3 Recording dissent** – Whenever a Director has serious concerns which cannot be resolved concerning the running of the Company or a proposed action, he shall consider seeking independent advice and shall ensure that the concerns are recorded in the Board minutes and that any dissent from a Board action is noted or delivered in writing. Upon resignation, a Non-executive Director shall provide a written statement to the Chairman, for circulation to the Board, if he has any such concerns.

## **2.6 DIRECTORS' COMMUNICATION WITH MANAGEMENT**

**2.6.1 Management participation** – While management members are not entitled by right to attend Board meetings, the Board encourages participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes shall have exposure to the Directors.

**2.6.2 Access to management** – Non-executive Directors shall have free access to the Company's management beyond that provided in Board meetings. Such access shall be through the chairman of the Audit Committee or the CEO.

## **2.7 COMMITTEE OF THE BOARD**

**2.7.1 Creation of committees** – The Board may, from time to time, create specialised committees when and as such committees are needed. The Board has established the following specialised committees.

- (a) **Audit Committee** – The Audit Committee, which is responsible to the Board for ensuring the integrity and effectiveness of the Company's system of financial, accounting and risk management controls and practices and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Company operates. The Audit Committee is also responsible for recommending the appointment, compensation and oversight of the external auditors and the appointment of the internal auditor.

The Audit Committee shall also assist the Board in shaping and monitoring the corporate governance policies and practices of the Company and evaluating compliance with policies and procedures; and shall also review and assess the adequacy of the Company's policies and practices on corporate governance.

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The formal mandate of the Audit Committee is set out in Appendix B (*Audit Committee Charter*).

(b) ***Nominations and Compensation Committee*** – The Nominations and Compensation Committee is responsible for the formulation of the Company’s executive and staff remuneration policy as well as senior management appointments. The formal mandate of the Nomination and Compensation Committee is set out in Appendix C (*Nominations and Compensation Committee Charter*).

**2.7.2 Non-directors on committees** – The Board or a committee may invite non-Directors to participate in a committee’s meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas.

**2.7.3 Mandate of committees** – Committees must act only within their formal written mandates (as approved by the Board) and, therefore, the Board may not allow any committee to dominate or effectively replace the whole Board in its decision-making responsibility.

## **2.8 ATTENDANCE AT BOARD / COMMITTEE MEETINGS**

**2.8.1 Minimum attendance** – Individual Directors should attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Notwithstanding the Articles, voting and attendance proxies for Board meetings are prohibited at all times.

**2.8.2 Recording of attendance record** – The absence of Directors at Board and committee meetings will be noted in the meeting minutes. In addition, Board attendance percentage will be reported during annual general meeting when Directors stand for re-election.

**2.8.3 Notification to CBB of non-attendance** – In the event that a Director has not attended at least 75% of Board meetings in any given financial year, the Company is required by the HC Module to notify the CBB indicating which Director has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance.



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**SECTION – 3**  
**LOYALTY TO THE COMPANY**

**3.1 PERSONAL ACCOUNTABILITY**

**3.1.1 Acknowledgment of personal accountability** – Each Director and officer shall understand that under the Company Law he is personally accountable to the Company and the shareholders if he violates his legal duty of loyalty to the Company, and that he can be personally sued by the Company or the shareholders for such violations.

**3.1.2 Duty of loyalty** – The duty of loyalty described in Section 3.1.1 (*Acknowledgment of personal accountability*) includes a duty not to use property of the Company for his personal needs as though it was his own property, not to disclose confidential information of the Company or use it for his personal profit, not to take business opportunities of the Company for himself, not to compete in business with the Company, and to serve the Company’s interest in any transactions with the Company in which he has a personal interest.

**3.1.3 "Personal interest"** – A Director shall be considered to have a “personal interest” in a transaction with the Company if:

- (a) he himself, or
- (b) a member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters), or
- (c) another Company of which he is a Director or controlling shareholder,

is a party to the transaction or has a material financial interest in the transaction. Transactions and interests which are de minimis in value shall not be included.

**3.1.4 Code of Conduct** – The Board has established corporate standards for Directors and employees of the Company, which are set out in this Charter and the Code of Conduct. The Code of Conduct shall be communicated throughout the Company.

**3.2 AVOIDANCE OF CONFLICTS OF INTEREST**

Each Director shall make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the Company.

**3.3 DISCLOSURE OF CONFLICTS OF INTEREST**

**3.3.1 Disclosure to the Board** – Each Director shall inform the entire Board of conflicts of interest (and potential conflicts of interest) in their activities with and commitments to, other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure shall include all material facts in the case of a contract or transaction involving the Director. The Directors must understand that any approval of a conflict transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision.

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

**3.3.2 Unanimous Board approval for material conflicts** – Any decision to enter into transactions under which a Director would have conflicts of interest or personal interests that are material, shall be formally and unanimously approved by the full Board.



**3.3.3 Material conflicts of interest** – Subject to Section 3.3.3 (*Unanimous Board approval for material conflicts*) Directors shall:

- (a) not enter into competition with the Company;
- (b) not demand or accept substantial gifts from the Company for himself or his connected persons;
- (c) not misuse the Company's assets;
- (d) not use the Company's privileged information or take advantage of business opportunities to which the Company is entitled, for himself or his associates; and
- (e) absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.

**3.4 DISCLOSURE OF CONFLICTS OF INTEREST TO SHAREHOLDERS**

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

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**SECTION – 4**  
**APPOINTMENT, TRAINING AND EVALUATION OF THE BOARD**

**4.1 BOARD NOMINATIONS TO SHAREHOLDERS**

**4.1.1 Proposed Directors** – Each proposal by the Board to the shareholders for election or re-election of a Director shall be accompanied by a recommendation from the Board, a summary of the advice of the Nomination and Compensation Committee, and the following specific information:

- (a) the term to be served, which may not exceed three years (but there is no limit on re-election for further terms);
- (b) biographical details and professional qualifications;
- (c) in the case of an Independent Director, a statement that the Board has determined that the criteria in Appendix A (*Definition of Independent Director*) have been met;
- (d) any other directorships held;
- (e) particulars of other positions which involve significant time commitments; and
- (f) details of relationships between:
  - (i) the candidate and the Company; and
  - (ii) the candidate and other Directors of the Company.

**4.1.2 Term Limits** – There are no limits on the number of terms that can be served by a Director.

**4.1.3 Chairman Confirmation** – The Chairman shall confirm to shareholders when proposing re-election of a Director that, following a formal performance evaluation, the person’s performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a Director shall be subject to particularly rigorous review, and shall take into account the need for progressive refreshing of the Board.

**4.2 INDUCTION AND TRAINING OF DIRECTORS**

**4.2.1 Induction of new Directors** – When a new Director is inducted, the Chairman, assisted by the CEO 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, the Code and the 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 Company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

**4.2.2 Induction open to continuing Directors** – All continuing Directors shall be invited to attend orientation meetings and all Directors shall continually educate themselves as to the Company’s business and corporate governance.

**4.2.3 Management programs and presentations** – Management, in consultation with the Chairman, shall hold programs and presentations to Directors respecting the Company’s business and industry, which may include periodic attendance at conferences and management meetings.

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**4.2.4 Directors' Appointment Agreements** – The Company shall have a written appointment agreement with each Director which recites the Directors' powers, duties, responsibilities and accountabilities and other matters relating to their appointment including their term, the time commitment envisaged, the committee assignment (if any), their remuneration and expense reimbursement entitlement, and their access to independent professional advice when that is needed.

### **4.3 EVALUATION OF THE BOARD AND EACH COMMITTEE**

**4.3.1 Annual evaluation** – At least annually the Board shall conduct an evaluation of its performance and the performance of each committee and each individual Director. The evaluation process shall include:

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

**4.3.2 Administration of evaluation** – While the evaluation is a responsibility of the entire Board, it shall be organized and assisted by an internal Board committee and, when appropriate, with the help of external experts.

**4.3.3 Reporting to shareholders** – The Board shall report to the shareholders, at each annual shareholder meeting that evaluations have been done.

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**SECTION – 5  
REMUNERATION**

**5.1 STANDARD FOR ALL REMUNERATION**

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.

**5.2 OFFICERS' REMUNERATION**

**5.2.1 Elements of remuneration** – Remuneration of senior management shall be structured so that a portion of the total is linked to Company's and individual's performance and aligns their interests with the interests of the shareholders.

If an officer is also a Director, his remuneration as an officer shall take into account compensation received in his capacity as a Director.

**5.2.2 Performance-based Incentives** – All performance-based incentives shall be awarded under written objective performance standards which have been approved by the Board and are designed to enhance shareholder and Company value, and under which shares shall not vest and options shall not be exercisable within less than two years of the date of award of the incentive.

**5.2.3 Shareholder approval not for grants to specific individuals** – All policies for performance-based incentives (other than a policy which is in effect as at the date of this Charter) shall be approved by the shareholders, but the approval shall be only of the plan itself and not of the grant to specific individuals of benefits under the plan.

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**SECTION – 6**  
**THE BOARD MANAGEMENT STRUCTURE**

**6.1 ESTABLISHMENT OF MANAGEMENT STRUCTURE.**

**6.1.1 Senior Officers** – The Board shall appoint officers whose authority shall include management and operation of current activities of the Company, reporting to and under the direction of the Board. The officers shall include at a minimum:

- (a) The CEO
- (b) The Head of Finance;
- (c) The Head of Audit;

and shall also include such other officers as the Board considers appropriate, or as required by a relevant licensing or listing requirement.

**6.2 TITLES, AUTHORITIES, DUTIES AND REPORTING RESPONSIBILITIES**

**6.2.1 Appointment of management** – The Board shall adopt by-laws prescribing each senior officer’s title, authorities, duties and internal reporting responsibilities. This shall be done with the advice of the Nominations and Compensation Committee and in consultation with the CEO, to whom the other officers shall normally report. These provisions shall include but shall not be limited to the following:

- (a) The CEO 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 officers and Company employees;
- (b) the Head of Finance shall be responsible and accountable:
  - (i) for the complete, timely, reliable and accurate preparation of the Company’s financial statements, in accordance with the accounting standards and policies of the Company; and
  - (ii) for presenting the Board with a balanced and understandable assessment of the Company’s financial situation;
- (c) the Secretary of the Board’s duties shall include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose; and
- (d) the internal auditor’s duties shall include providing an independent and objective review of the efficiency of the Company’s operations including 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.

**6.2.2 Limitations on authority** – The Board shall specify limits which it wishes to set on the authority of the CEO or other officers, such as monetary maximums for transactions which they may authorize without separate Board approval.

**6.2.3 Secretary of the Board** – The Secretary of the Board shall be given general responsibility for reviewing the Company’s procedures and advising the Board directly on such matters. Whenever practical, the Secretary of the Board shall be a person with legal or similar professional experience and training.

**6.2.4 Succession planning** – At least annually the Board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan shall include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.

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**SECTION – 7**  
**COMMUNICATIONS WITH SHAREHOLDERS**

**7.1 SHAREHOLDERS’ MEETINGS.**

**7.1.1 Conduct of shareholders’ meetings** - The Board shall observe both the letter and the intent of the Company Law’s requirements for shareholder meetings including the following.

- (a) Notices of meetings must be honest, accurate and not misleading. They shall clearly state and, where necessary, explain the nature of the business of the meeting.
- (b) Meetings shall be held during normal business hours and at a place convenient for the greatest number of shareholders to attend.
- (c) Notices of meetings shall encourage shareholders to participate by proxy and shall refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement shall list the agenda items and shall specify the vote (such as “yes,” “no” or “abstain”).
- (d) Notices shall ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of Directors.
- (e) The Board shall propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not “bundled” together.
- (f) In meetings where Directors are to be elected or removed the Board shall ensure that each person is voted on separately, so that the shareholders can evaluate each person individually.
- (g) The Chairman of the meeting shall encourage questions from shareholders, including questions regarding the Company’s corporate governance guidelines.
- (h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting.
- (i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.

**7.1.2 Director Attendance at Shareholder Meetings** – The Company shall require all Directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the respective chairmen of the Audit Committee and Nominations and Compensation Committee are ready to answer appropriate questions regarding matters within their committee’s responsibility (it being understood that confidential and proprietary business information may be kept confidential).

**7.1.3 Attendance of external auditor at shareholder meetings** – The Company shall require its external auditor to attend the annual shareholders’ meeting and be available to answer shareholders’ questions concerning the conduct and conclusions of the audit.

**7.1.4 Notices of shareholder meetings** – In notices of meetings at which Directors are to be elected or removed the Company shall ensure that:

- (a) where the number of candidates exceeds the number of available seats, the notice of the meeting shall explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes, and



- (b) the notice of the meeting shall present a factual and objective view of the candidates so that shareholders may make an informed decision on any appointment to the Board.

## **7.2 DIRECT SHAREHOLDER COMMUNICATION**

The Chairman (and other Directors as appropriate) 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. The Board shall encourage investors, particularly institutional investors, to help in evaluating the Company's corporate governance.

## **7.3 CONTROLLING SHAREHOLDERS**

So long as the Company has one or more controlling shareholders, the Chairman and other Directors shall actively encourage the controlling shareholders to make a considered use of their position and to fully respect the rights of minority shareholders.



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**SECTION – 8**  
**DISCLOSURE OF CORPORATE GOVERNANCE**

**8.1 DISCLOSURE UNDER THE COMPANY LAW**

**8.1.1 Website** – The Company shall publish this Charter on its website.

**8.1.2 Compliance** – At each annual shareholders’ meeting the Board shall report on the Company’s compliance with this Charter and the Code, and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified.

**8.1.3 Reporting** – At each annual shareholders’ meeting the Board shall report on further items listed in Appendix D (*Corporate Governance Disclosure*). Such information shall be maintained on the Company’s website or held at the Company’s premises on behalf of the shareholders.

**8.1.4 Board Responsibility for Disclosure** – The Board shall oversee the processes of disclosure and communications with internal and external shareholders. The Board shall ensure that disclosures made by the Company are fair, transparent, comprehensive and timely and reflect the character of the Company and the nature, complexity and risks inherent in the Company’s business activities.

**SECTION – 9  
MISCELLANEOUS**

**9.1 MISCELLANEOUS PROVISIONS**

- 9.1.1 Relationship with the articles** – In the event of any conflict between the terms of this Charter and the articles of association of the Company, the terms of the articles of association of the Company shall prevail.
- 9.1.2 Retention policy** – Once the official minutes of a meeting of the Board have been approved, all prior drafts of such minutes and related notes shall be destroyed.
- 9.1.3 Interaction with third parties** – Without prejudice to Section 7.2 (*Direct Shareholder Communication*), individual Directors may, at the request of the management of the Company (but not otherwise), from time to time meet or otherwise communicate with various interested third parties with regard to the affairs of the Company. Such communications should generally be effected by, or with the concurrence of, the Chairman. However, as a general rule, Directors should maintain any information relating to the Company that they acquired in the course of their duties in strict confidence.

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**APPENDIX A**  
**DEFINITION OF INDEPENDENT DIRECTOR**

**1. Determination by the Board**

Under this Charter an “Independent Director” is a Director whom the Board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The Board shall consider that, although a particular Director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the Company, ownership structure of the Company, or for any other reason. The Board’s determination shall be a good faith finding after diligent review and full discussion.

**2. Formal Requirements**

“**Independent Director**” means a Non-executive Director of the Company who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the Company (not counting Director’s remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) was not an employee of the Company;
- (b) did not:
  - (i) make to, or receive from, the Company payments of more than BD 31,000 or equivalent (not counting Director’s remuneration);
  - (ii) own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the Company payments of more than such amount;
  - (iii) act as a general partner, manager, director or officer of a partnership or company that made to or received from the Company payments of more than such amount;
  - (iv) have any significant contractual or business relationship with the Company which could be seen to materially interfere with the person’s capacity to act in an independent manner;
- (c) did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the Company;
- (d) was not engaged directly or indirectly as an auditor or professional advisor for the Company; and
- (e) was not an associate of a Director or a member of senior management of the Company.

For purposes of this definition, the 'payments' referred to in paragraph (b)(i), (b)(ii) and (b)(iii) do not include monies received from dividends, deposits, investments and credit facilities arising from the Company’s normal business activities, but instead ordinarily refer to monies received (and/or payable during the period in question) for services rendered to the Company by the director or company concerned, or paid (or payable) by the concerned director or company to the Company for services provided by the Company.

Dividends, deposits, investment accounts and credit facilities are to be considered under item (b)(iv) of this definition.



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For the purpose of the definition of "independent director":

- (a) where the term "family" or "family member or related persons" is used reference is made to: spouse, father, mother, son(s) or daughter(s); and
- (b) where the term "associate" is used reference is made to:
  - (i) spouse, father, mother, son(s) or daughter(s); or
  - (ii) a person who is an employee or partner of the Director or of the firm represented or owned by the Director.

**APPENDIX B  
AUDIT COMMITTEE CHARTER**

*(Subject to final ratification by the Board)*

**1. PURPOSE**

To assist the Board of Directors of Arab Financial Services B.S.C. (Closed) (the “**Board**”) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations, the code of conduct and act as the Corporate Governance Committee.

**2. AUTHORITY**

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- (a) Appoint, compensate, and oversee the work of any employee in the internal audit department, employed by the organization.
- (b) Resolve any disagreements between management and the auditor regarding financial and/or other reporting.
- (c) Pre-approve all auditing and non-audit services.
- (d) Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- (e) Seek any information it requires from employees—all of whom are directed to cooperate with the committee's requests—or external parties.
- (f) Meet with company officers, external auditors, or outside counsel, as necessary.

**3. COMPOSITION, QUORUM AND PROXY**

The Audit Committee will consist of three non-executive members of the Board. The Board or its nominating committee will appoint committee members and the Board will elect a Chairman. Each committee member will be both independent and financially literate.

The quorum for the meetings shall be a minimum of two members.

**4. CHAIRMAN**

The Chairman of the committee will be appointed by the Board. In the physical absence of the Chairman from the meeting, the Chairman has the option to preside over the meeting over tele/video-conferencing facilities. In the absence of the Board elected Chairman, the members present at the meeting will unanimously elect a member present at the meeting as the Chairman for that meeting. The member will have all the normal powers of the Board appointed Chairman.

**5. MEETINGS**

The committee will meet at least four times a year with at least one meeting in each quarter, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors and executive sessions. Committee meetings can be called by the Chairman or jointly by the two members. Meeting agendas will be prepared by the Chairman of the Audit Committee in consultation with the other committee member and provided in advance to members by the Secretary of the Audit Committee, along with appropriate briefing materials. Minutes will be prepared and maintained by the Secretary to the Audit Committee who will be appointed by the Audit Committee. The minutes of the meeting will be approved in the subsequent Audit Committee meeting.

## 6. RESPONSIBILITIES

The primary responsibilities of the Audit Committee should involve assisting the Board in carrying out its responsibilities as they relate to the organization's accounting policies, internal control, and financial reporting practices. The Audit Committee should establish and maintain lines of communication between the board and the company's independent auditors, internal auditors, and financial management.

The committee will carry out the following responsibilities in particular:

### (a) *Financial Statements*

- (i) Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- (ii) Review with management and the external auditors the results of the audit, its implications including any difficulties encountered.
- (iii) Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- (iv) Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- (v) Review with management and the external auditors all matters required to be communicated to the committee under International Financial Reporting Standards, CBB regulations, Bahrain Commercial Companies Law and other relevant regulations.
- (vi) Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

### (b) *Internal Control*

- (i) Consider the effectiveness of the company's internal control system, including information technology security and control.

- (ii) Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

**(c) Internal Audit**

- (i) Review with management and the internal audit manager the charter, audit plans and audit programs, activities, staffing, and organizational structure of the internal audit function, including IT audit function.
- (ii) Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the head of internal audit and other internal audit department staff as applicable.
- (iii) On a regular basis, meet separately with the internal audit manager to discuss any matters that the committee or internal audit believes should be discussed privately.

**(d) Statutory Audit**

- (i) Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- (ii) Review the performance of the external auditors, and provide recommendations to the board as necessary.
- (iii) Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- (iv) Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

**(e) Risk Management**

- (i) Review the adequacy and effectiveness of risk management framework.
- (ii) Review risk reports and risk mitigation measures.
- (iii) Meet with risk manager periodically to review performance of risk management department.

(AFS's Risk Management department currently focuses on Operational Risks only. The other risk types like financial, legal and compliance risks are managed by Finance and Compliance teams respectively)

**(f) Compliance**

- (i) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.



- (ii) Review the findings of any examinations by regulatory agencies, such as Visa, MasterCard, CBB and any auditor observations, including observations by Shareholding companies.
- (iii) Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- (iv) Obtain regular updates from management and company legal counsel regarding compliance matters.

**(g) Corporate Governance responsibilities**

The primary purpose of the Corporate Governance responsibilities is to assist the Board in shaping and monitoring the Corporate Governance policies and practices of the Company and ensuring that Company's corporate governance practices are aligned with the recommendations of the Code of Corporate Governance of Bahrain and other standards.

The Corporate Governance responsibilities shall include the following:

- (a) Review and assess the adequacy of the Company's policies and practices on corporate governance, including the Corporate Governance Guidelines of the company and any Board meetings policies, and recommend any proposed changes to the Board for approval.
- (b) Review the Company's business practices, particularly as they relate to preserving the good reputation of the Company.
- (c) Review the appropriateness of the size of the Board relative to its various responsibilities and make recommendations to the Board as proper or necessary.
- (d) Develop appropriate criteria and make recommendations to the Board regarding the independence of Directors and nominees as may be necessary or proper.
- (e) Recommend to the Board the number, identity and responsibilities of Board Committees and the Chairman and members of each Committee. This shall include advising the Board on Committee appointments and removal from Committees and rotation of Committee members and Chairs.
- (f) Review the adequacy of the charters adopted by each committee of the Board, and recommend changes as necessary.
- (g) Assist the Board in developing criteria for identifying and selecting qualified individuals who may be nominated for election to serve on board of directors of subsidiaries of the Company.
- (h) Evaluate and recommend to the Board any changes or updates to the Board policy on nomination of Directors to boards of directors of subsidiaries of the Company.
- (i) Periodically review and recommend to the Board the compensation structure for Board or committee services and other applicable Directors related policies, including retirement and indemnification issues.
- (j) Periodically assess the effectiveness of the Board in meeting its responsibilities, representing the long-term interests of stockholders.

- (k) Report annually to the Board with an assessment of the Board's performance.
- (l) To review management succession plans.
- (m) Conduct an annual review of the Corporate Governance Committee's performance and report the results to the Board. Periodically assess the adequacy of its charter and recommend changes to the Board as needed.
- (n) Perform any other duties and responsibilities expressly delegated to the Corporate Governance Committee by the Board from time to time.
- (o) Receive notification by AFS directors of intention to serve on additional duties outside boards.
- (h) *Reporting Responsibilities***
  - (i) As and when required, report to the Board about committee activities, issues, and related recommendations.
  - (ii) Provide an open venue of communication between internal audit, the external auditors, and the Board.
  - (iii) Review any other reports the company issues that relate to committee responsibilities.
- (i) *Other Responsibilities***
  - (i) Perform other activities related to this charter as requested by the Board.
  - (ii) Institute and oversee special investigations as needed.
  - (iii) Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
  - (iv) Review annually, the responsibilities outlined in this Charter and evaluate requirement for any amendments of the Charter.

## **7. PERFORMANCE EVALUATION**

The Committee shall undertake an annual evaluation assessing its performance with respect to its purpose and its duties and tasks set forth in the charter, which evaluation shall be reported to the Board.

**APPENDIX C  
NOMINATIONS & REMUNERATION COMMITTEE CHARTER**

*(Subject to final ratification by the Board)*

**1. PURPOSE**

The purpose of the Nominating & Remuneration Committee (the “**Committee**”) of the Board of Directors of Arab Financial Services B.S.C. (Closed) (the “**Board**”) is to discharge the responsibilities of the Board relating to organization of the Board and compensation of executives and directors; to identify individuals qualified to become Board members, consistent with criteria approved by the Board; to provide general oversight of the Company’s compensation structure including performance based incentives and benefits program; and to perform such other duties and responsibilities as are enumerated in and consistent with this charter.

**2. COMPOSITION**

The Committee shall consist of at least three members who will be appointed by the Board. The quorum will be minimum 2 members.

**3. CHAIRMAN**

The Chairman of the Committee will be appointed by the Board. In the physical absence of the Chairman from the meeting, the Chairman has the option to preside over the meeting over tele/video-conferencing facilities. In the absence of the Board elected Chairman, the members present at the meeting will unanimously elect a member present at the meeting as the Chairman for that meeting. The member will have all the normal powers of the Board appointed Chairman.

**4. DELEGATION**

The Committee may, by resolution passed by a majority of the Committee, designate one or more subcommittees, each subcommittee to consist of at least two members of the Committee. Any such subcommittee, to the extent provided in the resolutions of the Committee and to the extent not limited by applicable law, shall have and may exercise all the powers and authority of the Committee. Each subcommittee shall have such name as may be determined from time to time by resolution adopted by the Committee. Each subcommittee shall keep regular minutes of its meetings and report the same to the Committee or the Board when required.

**5. AUTHORITY TO RETAIN ADVISORS**

The Committee will have the authority to retain at the expense of the Company such outside consultants, counsel, and other experts and advisors as it determines is appropriate to assist it in the full performance of its functions, including sole authority to retain and terminate any consultant used to assist the Committee in the evaluation of director, CEO or senior executive selection and compensation, and to approve the consultant’s fees and other retention terms.

**6. PERFORMANCE ASSESSMENT**

The Committee shall undertake an annual evaluation assessing its performance with respect to its purpose and its duties and tasks set forth in the charter, which evaluation shall be reported to the Board. In addition, the Committee shall lead the Board in an annual self-evaluation process, including the self-evaluation of each Board committee, and report its conclusions and any further recommendations to the Board.



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**7. MEETINGS**

The Committee shall convene at least twice a year. The Committee shall report regularly to the full Board with respect to its activities.

**8. DUTIES AND RESPONSIBILITIES**

The following shall be the common recurring duties and responsibilities of the Committee in carrying out its oversight functions. These duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law.

- (a) Assess the size and composition of the Board in light of the operating requirements of the Company and existing attitudes and trends.
- (b) Develop membership qualifications for the Board and Board committees.
- (c) Monitor compliance with Board and Board committee membership criteria.
- (d) Review and recommend Directors for continued service as required based on evolving needs of the Company and existing attitudes and trends.
- (e) Coordinate and assist in recruiting new members to the Board. Investigate suggestions for candidates for membership on the Board, including shareowners nominations, and shall recommend prospective directors, as required, to provide an appropriate balance of knowledge, experience and capability on the Board.
- (f) Recommend Board committee assignments.
- (g) Assure that plans are in place for orderly succession of senior management.
- (h) Oversee and evaluate Company's overall structure, policies and programs, and assess whether these establish appropriate incentives and leadership development for management and other employees.
- (i) Review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer (and other executives if and when the Board requests), evaluate the performance in light of those goals and objectives and approve annual compensation levels including salaries, bonuses, and other incentives.
- (j) Perform such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee deems appropriate.

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**APPENDIX D  
CORPORATE GOVERNANCE DISCLOSURE**

The Company shall disclose the following items, in addition to any disclosures required by applicable industry regulatory bodies:

**1. Ownership of shares**

- (a) distribution of ownership by nationality;
- (b) distribution of ownership by size of shareholder;
- (c) ownership by governments;
- (d) names of shareholders owning 5% or more and, if they act in concert, a description of the voting,
- (e) shareholders' or other agreements among them relating to acting in concert, and of any other direct and indirect relationships among them or with the Company or other shareholders

**2. Board, Board Members and Management**

- (a) Board's functions — rather than a general statement (which could be disclosed simply as the Board's legal obligations under the law) the 'mandate' of the Board shall be set out;
- (b) the types of material transactions that require Board approval;
- (c) names, their capacity of representation and detailed information about the Directors, including directorships of other Boards, positions, qualifications and experience (shall describe each Director as an Executive Director or a Non-executive Director);
- (d) number and names of Independent Directors;
- (e) Board terms and the start date of each term;
- (f) what the Board does to induct/educate/orient new Directors;
- (g) Director's ownership of shares;
- (h) election system of Directors and any termination arrangements;
- (i) Director's trading of Company shares during the year;
- (j) meeting dates (number of meetings during the year);
- (k) attendance of Directors at each meeting;
- (l) aggregate remuneration paid to the Board;
- (m) list of senior managers and profile of each;
- (n) shareholding by senior managers;
- (o) remuneration policy of the Company for the Board and executive management;
- (p) aggregate remuneration paid to executive management;

- (q) details of stock options and performance-linked incentives available to executives;
- (r) whether the Board has adopted a written code of ethical business conduct, and if so the text of that code and a statement of how the Board monitors compliance;

**3. Board Committees**

- (a) names of the Board committees;
- (b) functions of each committee;
- (c) members of each committee divided into executive, non-executive and independent;
- (d) minimum number of meetings per year;
- (e) actual number of meetings;
- (f) attendance of committees' members;
- (g) work of committees and any significant issues arising during the period;

**4. Corporate Governance**

- (a) separate section in the Annual Report;
- (b) reference to the Code and its principles;
- (c) changes on the Code that took place during the year;
- (d) explanation and nature of any non-compliance with the HC Module in a manner consistent with the relevant CBB rules;

**5. Auditors**

- (a) the charters and a list of members of each of the Audit Committee, Nominations and Compensation Committee;
- (b) audit fees;
- (c) non-audit services provided by the external auditor and fees generated;
- (d) reasons for any switching of auditors and reappointing of auditors;

**6. Other**

- (a) related party transactions;
- (b) approval process for related party transactions;
- (c) means of communication with shareholders and investors;
- (d) identification and comment on the management of principal risks and uncertainties faced by the business to be set forth in the "*Management Discussion and Analysis*" section of the Annual Report;

- (e) review of internal control processes and procedures;
- (f) announcements of the results in the press shall include at least the followings:
  - (i) balance sheet, income statement, cash flow statement, statement of comprehensive income and changes in shareholders' equity;
  - (ii) identification of auditor;
  - (iii) auditor's signature date;
  - (iv) Board approval date;
  - (v) set out Directors' responsibility with regard to the preparation of financial statements;

**7. Conflicts of Interest**

any conflicts of interest issues that arose in addition to any steps the Board takes to ensure Directors exercise independent judgment in considering transactions and agreements in respect of which a Director or executive officer has a material interest; and

**8. Board of Directors**

whether or not the Board, its committees and individual Directors are regularly assessed with respect to their effectiveness and contribution.