

CORPORATE GOVERNANCE

The Bank operates in a highly regulated environment. Business is conducted within a well-developed control and risk management framework, underpinned by policy statements, written procedures and control manuals.

The Board of Directors is responsible for the overall governance of National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain regulations with regard to Corporate Governance. The Board recognizes that good corporate governance practice is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. The Board's remit covers charting the strategic direction of the Bank, participating in formulating strategy, setting objectives, establishing and communicating corporate values and policy guidelines.

The Board is also responsible for monitoring the Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank.

The Board currently comprises of nine Non-Executive Directors and one Executive Director who is designated as the Chief Executive Officer and Director. The Chairman is mainly responsible for the leadership of the Board and ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The members of the Board of Directors are elected by secret ballot in the general (ordinary) meeting of the shareholders by a simple majority of valid votes. The members of the Board of Directors remain in office for a term not exceeding three years, which

may be renewed. In order to be eligible for being nominated for directorship, the individuals should meet the 'fit and proper' criteria established by the Central Bank of Bahrain.

An Executive Committee comprising of five members of the Board is empowered to approve specific credits, personnel policies and compensation; the Executive Committee also reviews budgets, plans and major organisational changes for eventual submission to the Board for approval.

A separate Audit Committee exists with a mandate for oversight of internal control and the risk management framework and for reinforcing internal and external audit activities. The Audit Committee is responsible for overseeing the selection of the external auditors for appointment and approval at the shareholders' meeting, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Insiders' Trading Committee is responsible for overseeing the insider trading activities and ensuring the Bank's compliance with Central Bank of Bahrain and Bahrain Stock Exchange rules and regulations in this regard.

The Bank operates in a highly regulated environment. Business is conducted within a well-developed control and risk management framework, underpinned by policy statements, written procedures and control manuals. The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

The Bank believes that complying with the high standards of corporate governance has effectively contributed to enhancing value to our shareholders over the long-term.

In its role as the primary governing body, the Board of Directors provides oversight of the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends and performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with the International Financial Reporting Standards as promulgated by the International Accounting Standards Board, and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Management Internal Control Division monitors the system of internal controls regularly. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising there from are reported to the Audit Committee on a regular basis. The external auditors review the system of internal controls to the extent necessary for them to form an opinion on the financial statements. In addition to the annual audit, the external auditors conduct quarterly reviews on the systemic process and procedures on which the Bank's quarterly financial statements are based. These statements are subsequently published in newspapers and posted on the Bank's website in accordance with regulatory requirements. The processes, structures and policies help ensure compliance with laws and regulations and provide clear lines of sight for decision-making and accountability. The Board has established a management structure that clearly defines roles, responsibilities and reporting lines.

Within the management structure there are eight committees, chaired by the Chief Executive Officer and responsible for the following activities: Business Development, Planning, Credit, Risk Management, Asset/Liability Management, Information Technology, Human Resources and Donations & Charities.

The Bank believes that the ways and means of achieving the results are equally important as the results. Our commitment to this principle is the key to sustaining public trust and confidence in the Bank. The Bank continuously strives for higher standards in everything it does - for our customers, our stakeholders, our society and nation, upon which the future prosperity of our institution rests.

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements as set out in legislation and in the rules and regulations of the CBB, BSE and other applicable laws in order to facilitate efficient capital market activities. The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. The annual report including all the notes for the current financial year and a minimum of three preceding financial years are provided on the Bank's website. The quarterly financial highlights are also provided on the Bank's website.

The Bank believes that complying with the high standards of corporate governance has effectively contributed to enhancing value to our shareholders over the long-term. It has provided the Bank's customers, counterparts, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short term objectives, created a sound portfolio of assets, stable customer base, income diversity and the wherewithal to face economic cycles and uncertainties. The Board has set the moral tone with a high degree of intolerance to any instances of malpractice, fraud and unethical behaviour, and ensured the highest degree of adherence to laws, rules and regulations.

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