Bahrain National Holding Company B.S.C

Corporate Governance Guidelines

CONTENTS

INTRODUCTION

Corporate Governance is a system by which companies are directed and controlled by the management in the best interest of the stakeholders and others, ensuring greater transparency and better and timely financial reporting.

The Corporate Governance Guidelines is a framework for the way in which corporate governance is carried out within BAHRAIN NATIONAL HOLDING COMPANY BSC and its subsidiaries BAHRAIN NATIONAL INSURANCE COMPANY BSC and BAHRAIN NATIONAL LIFE ASSURANCE COMPANY BSC.

These guidelines adhere to the corporate philosophy of BNH GROUP to establish and maintain corporate governance policies and practices, which reflect both the requirements of the market and those who regulate the market and the expectations of shareholders and others who deal with organization. The Board of Directors works with the management team towards this goal, with a focus on maintaining and enhancing long-term shareholder value.

The corporate governance guidelines is intended to be a guide for the Board of directors, senior management and the departmental heads, and should help the management in adhering to the Corporate Governance Code for the Kingdom of Bahrain, the CBB Rulebook High Level Controls Module and best practices in disclosure.

The Board and Management believe that accuracy and transparency in reporting results, and maintaining full compliance with laws, rules, and regulations governing the Company's operations promote the interests of the Company's stakeholders and benefit the long- term interests of shareholders.

The Guidelines document the Company's commitment to maintaining sound corporate governance standards and continually seek to implement the best practices in this regard. Assessment of compliance with the Guidelines is carried out annually and reported to the shareholders in the Annual General Meeting.

PRINCIPLE 1

The Company must be headed by an effective, collegial and informed Board.

BOARD'S ROLE AND RESPONSIBILITIES (1.1)

1. All Directors must understand the Board's role and responsibilities under the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time.
2. The Board's role and responsibilities include but are not limited to:

   a) The overall business performance and strategy for the Company;

   b) Causing financial statements to be prepared which accurately disclose the Company's financial position;

   c) Monitoring management performance;

   d) Convening and preparing the agenda for shareholder meetings;

   e) Monitoring conflicts of interest and preventing abusive related party transactions;

   f) Assuring equitable treatment of shareholders including minority shareholders; and

   g) Establishing the objectives of the Company.

3. As a minimum, the Board must:

   a) Adopt and annually review strategy of the Company;

   b) Adopt and review of management structure and responsibilities;

   c) Adopt and review of the systems and controls framework; and

   d) Monitor the implementation of strategy by management.

4. The Directors are responsible both individually and collectively for performing the responsibilities outlined above. Although the Board may delegate certain functions to committees or management.

5. In its strategy review process as mentioned in (3) above the Board must:

   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.

6. The Company must notify the CBB in writing of all major proposed changes to the strategy and/or corporate plan of the Company prior to implementation.

7. The Board should have effective policies and processes in place for:

   a) Approving budgets and reviewing performance against those budgets and key performance indicators; and

   b) The management of the Company's compliance risk.

8. When a new Director is inducted, the Chairman of the Board, assisted by the Company's legal counsel or compliance officer, should review the Board's role and duties with that

person.

9. The Company should have a written appointment agreement with each Director, which recites the Directors' powers, duties, responsibilities and accountabilities and other matters relating to his appointment.

10. 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.

11. The Board has adopted a formal Board charter specifying matters, which are reserved to it, which includes the specific requirements and responsibilities of Directors.

DECISION MAKING PROCESS (1.2)

12. The Board should be collegial and deliberative, to gain the benefit of each individual Director's judgment and experience.

13. The Board must meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All Directors must attend the meetings whenever possible.

14. Individual Board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively.

15. The absence of Board members at Board and Committee meetings must be noted in the meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when Board members stand for re-election.

16. In the event that a Board member has not attended at least 75% of Board meetings in any given financial year, the Company must immediately notify the CBB indicating which member has failed to satisfy this requirement.

17. To meet its obligations under (13) above, the Board should meet once every quarter to address the Board's responsibilities for management oversight and performance monitoring. All Directors should contribute actively to the work of the Board in order to discharge their responsibilities.

18. The Chairman should be responsible for the leadership of the Board, and for the efficient functioning of the Board. The Chairman must 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.

19. Any Director should not hold more than three Directorships in public companies in Bahrain with the provision that no conflict of interest may exist.

INDEPENDENCE OF JUDGMENT (1.3)

20. Every Director must bring independent judgment to bear in decision-making.

21. Executive Directors must provide the Board with all relevant business and financial information within their cognizance, and must recognize that their role as a Director is different from their role as a member of management.

22. Non-executive Directors must be fully independent of management and must constructively scrutinize and challenge management including the management performance of executive Directors.

23. Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment.

24. At least half of the Company's Board should be non-executive Directors and at least three of those persons should be independent Directors.
25. The Chairman of The Board should be an independent Director.
26. The Chairman must not be the same person as the Chief Executive Officer.

27. The Chairman must not be an Executive Director.

28. The Board should review the independence of each Director at least annually in light of interests disclosed by them, and their conduct.

REPRESENTATION OF ALL SHAREHOLDERS (1.4)

29. Each Director must consider himself as representing all shareholders and must act accordingly. The Board should avoid having representatives of specific groups or interests within its membership and should not allow itself to become a battleground of vested interests.

30. If the Company has a controlling shareholder, at least one-third of the Board must be independent Directors.

31. If the Company has controlling shareholder, both controllers and other shareholders should be aware of controllers specific responsibilities regarding their duty of loyalty to the Company and conflicts of interest.

DIRECTOR S ACCESS TO INDEPENDENT ADVICE (1.5)

32. 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.

33. Individual Directors should also have access to the Company secretary, who has the responsibility for reporting to the Board on Board procedures. Both the appointment and removal of the corporate secretary must be a matter for the Board as a whole, not for the CEO or any other officer.

34. Whenever a Director has serious concerns, which cannot be resolved concerning the running of the Company or a proposed action, he should consider seeking independent advice and should ensure that the concerns are recorded in the Board minutes and that any dissent from a Board action is noted or delivered in writing.

DIRECTOR 'S COMMUNICATION WITH MANAGEMENT (1.6)

35. The Board must encourage participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the Directors.

36. Non-executive Directors should have free access to the Company's management beyond that provided in Board meetings. Such access should be through the Chairman of the Audit Committee or CEO.

COMMITTEES OF THE BOARD (1.7)

37. The Board must create specialized committees as and when such committees are needed.

38. The Board or a committee may invite Non-Directors to participate in, but not vote at, a committee's meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas.

39. Committees must act only within their mandates and therefore the Board must not allow any committee to dominate or effectively replace the whole Board in its decision- making responsibility.

40. Committees may be combined if no conflict of interest might arise between the duties of such committees, subject to CBB's prior approval.

41. Every committee must have a formal written charter

42. Where committees are set up, they should keep full minutes of their activities and meet regularly to fulfill their mandates.

EVALUATION OF THE BOARD AND EACH COMMITTEE (1.8)

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

44. While the evaluation is a responsibility of the entire Board, it should be organized and assisted by an internal Board committee and, when appropriate, with the help of external experts.

45. The Board should report to the shareholders, at each annual shareholder meeting, that evaluations have been done and report its findings.

PRINCIPLE 2

The Directors and Officers shall have full loyalty to the Company

PERSONAL ACCOUNTABILITY (2.1)

46. Each Director should 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.
47. The duty of loyalty includes a duty not to use property of the Company for their personal needs, should not disclose confidential information of the Company or use it for his personal profit, should not take business opportunities of the Company for himself, should not compete in business with the Company, and should not serve the Company's interest in any transactions with a company in which he has a personal interest.

48. The Board has established Code of Conduct for Directors and employees. These standards must be communicated throughout the Company, so that the Directors and staff

understand the importance of conducting business based on good corporate governance values and understand their accountabilities to the various stakeholders of the Company.

49. The Code of Conduct outlines the practices that Directors and staff should follow in performing their duties.

50. The Board and its members individually and collectively should:

a) Act with honesty, integrity and in good faith, with due diligence and care, with a view to the best interest of the Company and its shareholders and other stakeholders;

b) Act within the scope of their responsibilities (which should be clearly defined and not participate in the day-to-day management of the Company;

c) Have a proper understanding of, and competence to deal with the affairs and products of the Company and devote sufficient time to their responsibilities; and

d) To independently assess and question the policies, processes and procedures of the Company.

51. A Director should be considered to have a "personal interest" in a transaction with a Company if:

a) He himself; or

b) A member of his family (i.e. spouse, father, mother, sons, daughters, brother or sisters); or

c) Another company of which he is a Director or controller, is a party to the transaction or has a material financial interest in the transaction. (Transactions and interests which are minimal or insignificant in value should not be included.)

AVOIDANCE OF CONFLICT OF INTEREST (2.2)

52. Directors must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the Company.

53. The Board should establish and disseminate to its members and management, policies and procedures for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest, including rules concerning connected party transactions and potential conflicts of interest.

DISCLOSURE OF CONFLICTS OF INTEREST (2.3)

54. Directors must inform the entire Board of (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. In any case, all Directors must 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 on an annual basis;

55. The Company should have formal Board approved procedures for:

a) Periodic disclosure and updating of information by each Director on his actual and potential conflicts of interest; and

b) Advance approval by Directors or shareholders who do not have an interest in the transactions in which any particular Director(s) have a personal interest. The Board should require such advance approval in every case.

DISCLOSURE OF CONFLICTS OF INTEREST TO SHAREHOLDERS (2.4)

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

PRINCIPLE 3

The Board must have rigorous controls for financial audit and reporting, internal control, and compliance with law.

AUDIT COMMITTEE (3.1)

57. The Board must establish an audit committee of at least three Directors of which the majority must be independent including the Chairman. The committee must:

a) Review the Company's accounting and financial policies and practices;
b) Review the integrity of the Company's financial and internal controls and financial statements. The information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Audit Committee;
c) Review the Company's compliance with legal requirements;
d) Recommend the appointment, compensation and oversight of the Company's external auditor; and
e) Recommend the appointment of the internal auditor.
f) Oversee and coordinate the implementation of the Company Corporate Governance Framework and review and recommend from time to time changes in the corporate governance policy framework of the Company, if and when required based on regulatory requirement or industry best practices.

58. The Company must set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.

59. The CEO must not be a member of the audit committee.

AUDIT COMMITTEE CHARTER (3.2)

60. The Audit Committee has a formal written charter, which states the duties outlined in paragraphs above.

61. A majority of the Audit Committee must have the financial literacy qualifications such that there should be sufficient technical expertise to enable the committee to perform its functions effectively.

62. The Board should adopt a "whistleblower" program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters.

CEO AND CFO CERTIFICATION OF FINANCIAL STATEMENTS (3.3)

63. The Company's CEO and Chief Financial Officer must state in writing to the audit committee and

the Board as a whole that the Company's interim and annual financial statements present a true and fair view, in all material respects, of the Company's financial condition and results of operations in accordance with applicable accounting standards**.**

PRINCIPLE 4 & PRINCIPLE 5

The Company must have rigorous and transparent procedures for appointment, training and evaluation of The Board. ***------ Principle 4***

The Company must remunerate Directors fairly and responsibly. ***------ Principle 5***

NOMINATION AND REMUNERATION COMMITTEE (4.1) (5.1)

64. The Board has established a Nomination and Remuneration Committee of four Directors which will:

a) Identify persons qualified to become members of the Board of Directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the conventional Company licensee considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee; and

b) Make recommendations to the whole Board of Directors including recommendations of candidates for Board membership to be included by the Board of Directors on the agenda for the next annual shareholder meeting.

65. The committee must include only independent Directors or, alternatively, only Non-Executive Directors of whom a majority must be independent Directors. The Committee must exercise judgment free from personal career conflicts of interest.

NOMINATION AND REMUNERATION COMMITTEE CHARTER (4.2) (5.2)

66. The Nomination and Remuneration Committee has a formal written charter, which states the duties outlined above and related matter included in CBB Guidelines.

BOARD NOMINATION TO SHAREHOLDERS (4.3)

67. Each proposal by the Board to the shareholders for election or reelection of a Director must be accompanied by a recommendation from the Board, a summary of the advice of the Nomination and Remuneration Committee.

68. The Chairman of the Board should confirm to shareholders when proposing reelection 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.

INDUCTION AND TRAINING OF DIRECTORS (4.4)

69. The Chairman of the Board must ensure that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term.

70. All continuing Directors must be invited to attend orientation meetings and all Directors must continually educate themselves as to the Company's business and corporate governance.

71. Management, in consultation with the Chairman of the Board, should hold programs and

presentations to Directors respecting the Company's business and industry.

72. The Nomination and Remuneration Committee will also:

a) Review the Company's remuneration policies for the Directors, which must be approved by the shareholders and be consistent with the corporate values and strategy of the Company;

b) Make recommendations regarding remuneration policies and mounts for Directors to the whole Board, taking account of total remuneration including salaries, fees, expenses and employee benefits;

c) Recommend Board member remuneration based on their attendance and performance.

73. The Nomination and Remuneration Committee charter must state the duties stated above.

STANDARDS FOR REMUNERATION (5.3)

74. Remuneration of Directors must be sufficient enough to attract, retain and motivate persons of the quality needed to run the Company successfully, but the Company must avoid paying more than is necessary for that purpose.

NON-EXECUTIVE DIRECTOR'S REMUNERATION (5.4)

75. Remuneration of Non-Executive Directors must not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

SENIOR MANAGEMENT'S REMUNERATION (5.5)

76. Remuneration of senior management must be structured so that a portion of the total is linked to the Company's and individual's performance and aligns their interests with the interests of the shareholders.

77. If a senior manager is also a Director, his remuneration, as a senior manager must take into account compensation received in his capacity as a Director.

78. All share incentive plans must be approved by the shareholders.

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

80. All plans for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself and not of the grant to specific individuals of benefits under the plan.

PRINCIPLE 6

The Board must establish a clear and efficient management structure.

ESTABLISHMENT OF MANAGEMENT STRUCTURE (6.1)

81. The Board should ensure that senior management authority includes management and operation of current activities of the Company, reporting to and under the direction of the Board.

TITLES, AUTHORITIES, DUTIES AND REPORTING RESPONSIBILITIES (6.2)

82. The Board shall adopt by-laws prescribing each senior officers title, authorities, duties and in internal reporting responsibilities.

83. The Board has also specified limits that it wishes to set on the authority of the CEO or other senior managers, including monetary maximums for transactions that they may authorize without separate Board approval.

84. The corporate secretary should be given general responsibility for reviewing the Company's procedures and advising the Board directly on such matters. Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.

85. 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.

PRINCIPLE 7

The Company shall communicate with shareholders, encourage their participation, and respect their rights.

CONDUCT OF SHAREHOLDERS' MEETING (7.1)

86. The Board must observe both the letter and the intent of the Company Laws requirements for shareholder meetings. Among other things:

a) Notices of meetings must be honest, accurate and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting;

b) Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend;

c) Notices of meetings must encourage shareholders to attend shareholder meetings and, if not possible, to participate by proxy and must refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as "yes," "no" or "abstain);

d) Notices must 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 must 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 must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually;

g) The Chairman of the meeting must 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; and

i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.

87. The Company should ensure that all Directors attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, Nomination and Remuneration committees are ready to answer appropriate questions regarding matters within their committee's responsibility.

88. The Company should ensure its external auditor attends the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.

89. The Company should maintain a website. The Company should dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholder's meeting, and should post significant documents relating to meetings including the full text of notices and minutes.

90. In notices of meetings at which Directors are to be elected or removed the Company should ensure that:

a) Where the number of candidates exceeds the number of available seats, the notice of the meeting should 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 should fairly represent the views of candidates.

DIRECT SHAREHOLDER COMMUNICATION (7.2)

91. The Chairman of the Board (and other Directors as appropriate) must maintain continuing personal contact with controllers to solicit their views and understand their concerns. The Chairman must ensure that the views of shareholders are communicated to the Board as a whole. The Chairman must discuss governance and strategy with major shareholders.

CONTROLLING SHAREHOLDERS (7.3)

92. 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.

PRINCIPLE 8

The Company must disclose its corporate governance.

DISCLOSURE UNDER THE COMPANY LAW (8.1)

93. In the Company:

a) The Board has adopted these written corporate governance guidelines covering the matters stated in corporate governance code and other corporate governance matters deemed appropriate by the Board.

b) The Company should publish the guidelines on its website,

c) At each annual shareholders' meeting, the Board must report on the Company's compliance with its guidelines and corporate governance code, and explain the extent if any to which it has varied them or believes that any variance or non-compliance was justified.

94. The Board shall establish a corporate governance committee of at least three independent members responsible for developing and recommending changes to the company's corporate governance framework.