



SOLIDARITY BAHRAIN

CORPORATE GOVERNANCE GUIDELINES

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1. INTRODUCTION

The Board of Directors (the “Board”) of Solidarity Bahrain B.S.C. (the “Company”) has approved the following corporate governance guidelines as a framework for the governance of the Company. These guidelines developed to cover matters specifically stated in the Bahrain Commercial Companies Law, Bahrain’s Corporate Governance Code (the “CGC”), the Company’s Articles and Memorandum of Associations, Rulebook Volume “3” of the Central Bank of Bahrain (the “CBB”), and other corporate governance matters deemed appropriate by the Board. The Board will review these guidelines on annual basis or more frequently if necessary. The Corporate Governance Committee shall recommend for Board approval any amendments to this framework.

2. THE BOARD OF DIRECTORS

2.1 Composition and Appointment

The Board of the Company consists not less than (5) five members and not exceeding (9) nine members¹.

At least half of the Company’s Board should be non-executive directors and at least three of those persons should be independent directors.²

The chairman of the Board should be an independent non-executive director and in any event shall not be the same person as the CEO.³

The Board should 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 should also recommend changes in Board size to the shareholders when needed. Change requires amendment of the Company’s Memorandum of Association.⁴

All members of the Board are appointed by the Ordinary General Assembly from among candidates proposed by the Board on the recommendation of the Nomination and Remuneration Committee.

The Company shall have a written appointment agreement with each director which recites the directors’ powers and duties and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.⁵

¹ Articles of Association, Article (21)

² 1.3 Recommendation of the CGC

³ 1.3 Recommendation of the CGC

⁴ 1.2 Recommendation of the CGC

⁵ 1.1 Recommendation of the CGC

2.2 Meetings and Attendance

The Board shall meet at least four times in a financial year. At least half the Board meetings in any twelve-month period must be held in the Kingdom of Bahrain.⁶

Board members must attend at least three-quarters of all Board meetings held during any twelve-month period in person. The Board Charter of the Company which is approved by the Board indicates that any Board member who does not satisfy this requirement must step down if they are not actively participating in Board meetings.⁷

2.3 The Board's Role and Responsibilities

The Board's role and responsibilities include but are not limited to the overall business performance and strategy; causing financial statements to be prepared which accurately disclose the financial position; monitoring management performance; convening and preparing the agenda for shareholder meetings; monitoring conflicts of interest and preventing improper related party transactions; and assuring equitable treatment of shareholders including minority shareholders. The directors are responsible both individually and collectively for performing these responsibilities.⁸

2.4 Independent and Non-Executive Directors

Each year the Board will affirmatively determine that each such independent director has no material relationship with the Company. When evaluating the independence of each of the Company's directors, the Board will broadly consider all relevant facts and circumstances that may bear on that director's independence.⁹ The Board has adopted the following categorical standards to assist it in determining the independence of Board members, which include those standards established by the CGC and the CBB.

In assessing independence, the Board shall consider whether the person concerned during at least the 12 months period preceding the time in question met all the following conditions:

- a) Was not:
 - i. An employee of the Company;
 - ii. Engaged directly or indirectly as an auditor or professional advisor for the Company; and

⁶ HC-1.4.3/6, CBB Rulebook Volume 3 and 1.2 The Board's Decision-Making Process, CGC

⁷ 14.1.4, Board of Directors Charter, SB

⁸ 1.1 The Board's Role and Responsibilities, CGC

⁹ 1.3 Recommendation of the CGC

- iii. An associate of a director or a member of senior management of the Company.
- b) Did not:
 - i. Make to, or receive from, the Company payments of more than BD31,000 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; and
 - 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.
 - v. 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;

In assessing independence, if the member in question has served (6) six years or more (two terms or more), the Board must review and satisfy itself the continued independence of such member.¹⁰

The independent Board members must have an affirmative outright obligation to inform the Board of any circumstances or relationships that may impact their designation as "independent", including any material changes in such circumstances or relationships with the Company, or a related party, or any such circumstance as indicated above.

To facilitate free and open communication among independent directors, each Board meeting may 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.¹¹

2.5 Term of Directorship

Without prejudice to the terms of Article 2.4 above, the members of the Board shall be appointed for a period of three years, which may be renewable.

2.6 Committees of the Board

¹⁰ 4.3 Recommendation of the CGC

¹¹ 1.3 Recommendation of the CGC

The Board shall establish such committees as it shall determine to be appropriate from time to time, but shall at all times have a standing Audit Committee, a standing Nomination and Remuneration Committee, and a standing Corporate Governance Committee. Each committee shall have such duties and responsibilities as are assigned to it from time to time by the Board and, with respect to standing committees, as are set forth in their respective charters.¹²

2.6.1 Audit and Risk Committee

The Audit and Risk Committee shall consist of at least three members of which the majority shall be independent including the Chairman. Such members must have no conflict of interest with any other duties they have for the Company. The committee shall meet at least four times a year.¹³

The Company has established a “whistleblower” program under which employees can confidentially raise concerns about improprieties in financial and legal matters to the internal auditor.¹⁴

The committee shall:¹⁵

1. Review the Company’s accounting and financial practices;
2. Review the integrity of the Company’s financial and internal controls and financial statements;
3. Review the Company’s compliance with legal requirements; and
4. Recommend the appointment of the internal auditor.
5. Communicate and co-ordinate with the Corporate Governance Committee and the Shari’a Supervisory Board (“SSB”) to ensure that information on compliance with Islamic Sharia’a rules and principles are reported in a timely manner.¹⁶

As part of encouraging management accountability for the financial statements required by the Board, the CEO and Finance Manager shall state in writing to the committee and the Board as 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.¹⁷

2.6.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee shall consist of at least three members whom are only independent directors and the chairman

¹² 1.7 Committees of the Board, CGC

¹³ Committee Membership and Qualifications, Appendix B Audit Committee, CGC

¹⁴ 3.2 Recommendation of the CGC

¹⁵ 3.1 Audit Committee, CGC

¹⁶ 9.1 Recommendation of the CGC

¹⁷ 3.3 CEO and Chief Financial Officer Certification of Financial Statements, CGC

is an independent director. The committee shall meet at least twice a year.¹⁸

The committee shall:¹⁹

1. Identify persons qualified to become members of the Board or CEO, Finance Manager, Corporate Secretary and any other officers of the Company considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee;
2. Make recommendations to the Board including recommendations of candidates for Board membership;
3. Review the Company's remuneration policies for the Board and senior management, which should be approved by the shareholders;
4. Make recommendations regarding remuneration policies and amounts for specific persons to the whole Board, taking account of total remuneration including salaries, fees, expenses and employee benefits; and
5. Remunerate Board members based on their attendance and performance.

2.6.3 Executive Committee

The Executive committee shall consist of at least three members. The Committee shall meet at least 4 times a year.

The Committee shall:

1. Monitor and ensure the implementation of all decisions taken by the Board of Directors relating to strategy, business plan, investments, business operations and related activities.
2. Review corporate strategies, business plans and budgets, and, once satisfied with these, to recommend them for approval by the Board of Directors.
3. Monitor the operating performance of the Company against strategies, business plans and budgets and initiate corrective action, as and when required. Further, if any significant issues are identified in these areas, to notify and brief the Board immediately.
4. Periodically assess the asset management and investment performance of the Company and initiate corrective action, as and when required.
5. Review and recommend all investments exceeding BD 1 million per investment for approval by the Board of Directors; within the Board approved Investment Policy & Guidelines

¹⁸ 4.1 & 5.2 Nominating Committee & Remuneration Committee, CGC

¹⁹ 4.1 & 5.2 Nominating Committee & Remuneration Committee, CGC

6. After due consideration and diligence, to recommend to the Board of Directors for approval all matters relating to Strategic investments, mergers and acquisitions, and joint ventures.
7. Review proposals to borrow/leverage submitted by the management, and after due diligence to recommend these to the Board for consideration on a case by case basis.
8. Review and approve currency hedging transactions instituted at the Company level.
9. Review and deliberate any other matters referred to it by the Board of Directors, and within scope of responsibility.

2.6.4 Corporate Governance Committee

The Corporate Governance Committee shall consist of at least three members who are only independent directors. One of the members shall be a Shari'a scholar who is a member of the SSB of the Company for the purpose of leading the committee on Shari'a-related governance issues (if any), and also to coordinate and link the complementary roles and functions of the committee and the SSB. The chairman shall be one of the independent directors. The committee shall meet at least once a year.²⁰

The committee shall:

1. Oversee and monitor the implementation of this corporate governance framework by working together with the management, the Audit Committee and the SSB; and
2. Provide the Board with reports and recommendations based on its findings in the exercise of its functions.

2.7 Board and Committees Charters

The Board and each Committee shall adopt a formal written charter specifying matters which are reserved to them, which include but need not be limited to the specific requirements and responsibilities of directors.²¹

2.8 Director Orientation and Continuing Education

The Board and management have an established orientation process for new directors. With the assistance of the corporate secretary, the Chairman of the Board reviews the Board's role and duties with the new directors upon becoming a member, including information from internal and external sources.

²⁰ Principle 9, CGC

²¹ 1.1 & 1.7 Recommendations of the CGC

The Company may schedule on-site one-on-one meetings between the new director and executive officers of the Company.

In addition, each year various executive officers meet with the Board to review the previous year's results and the focus goals and challenges of the coming year. Management also periodically updates the Board on progress towards business unit focus goals.

From time to time throughout the year, the Board invites members of management to address particular subjects of interest to the Board to assist Board members in remaining aware of current issues, trends and concerns.

The Nomination and Remuneration Committee oversees directors' corporate governance educational activities.²²

2.9 Access to Management and Independent Advisors

The Board has full access to members of management. Key members of management report at Board and committee meetings on a regular basis, providing directors with additional insight to matters being discussed. Additionally, the Board encourages the involvement of managers who have senior management potential, enabling the Board to have a greater familiarity with individuals for succession planning purposes.²³

Non-executive directors have free access to the Company's management beyond that provided in Board meetings. Such access is facilitated through the Chairman of the Audit Committee or the CEO.²⁴

Any serious concerns raised by a Board member concerning the running of the Company or a proposed action should ensure that the concerns are recorded in the Board minutes. Each Board member has the authority, at the Company's expense, to engage independent legal counsel, consultants or other external expert advisors whenever they judge this necessary to discharge their responsibilities as directors. Upon resignation, the non-executive director should provide written statement to the Chairman of the Board, for circulation to the Board, if he/she has any such concerns.²⁵

2.10 Limit to Board Service

Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time.

²² 4.5 Induction and Training of Directors, CGC

²³ 1.6 Directors' Communication with Management, CGC

²⁴ 1.6 Recommendation of the CGC

²⁵ 1.5 Directors' Access to Independent Advice, CGC

In determining whether directors have and are devoting sufficient time to their duties and responsibilities, consideration shall be given to the number of companies on whose boards of directors such directors are serving. Accordingly, an individual director is required to inform the Board before he/she accepts any board appointments to another company. A Board member may have a maximum of two directorships of financial institutions inside Bahrain. However, two directorships of CBB licensees within the same category of licensees would not be permitted. In addition, a Board member should not serve on more than three boards of public companies in Bahrain without prejudice to the provisions of conflict of interest and the Board should not propose the election or reelection of any director who does.²⁶

2.11 Annual Performance Evaluation of the Board and its Committees

The Board and each of its standing committees will perform an annual self-evaluation. The Nomination and Remuneration Committee is responsible for initiating and reporting to the Board on the results of the evaluation process.²⁷

The Board shall report to the shareholders, at each annual shareholders meeting, that Board and standing committees evaluations have been done and shall highlight any material issues that arise therefrom.²⁸

2.12 Directors Compensation

The Nomination and Remuneration Committee is responsible for evaluating and recommending to the Board appropriate compensation for members of the Board and its committees.

In establishing and evaluating compensation levels, the committee may consider the relative responsibilities of directors serving on the Board and its committees. The committee may also consider levels of compensation and perquisites in relation to other companies, the effectiveness of the Board as determined through the annual self-assessment process, the number of meetings held, the demands and responsibilities of Board members and other factors it deems appropriate.

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

2.13 Code of Conduct

To the extent appropriate, the Company's Code of Conduct and other corporate policies shall be applicable to each director of the Company. In the unusual circumstances where a waiver for a director of the Code of Conduct or

²⁶ HC-1.3.7, CBB Rulebook Volume 3 and 1.2 Recommendation of CGC

²⁷ 1.8 Evaluation of the Board and Each Committee, CGC

²⁸ 1.8 Recommendation of CGC

other policies may be appropriate, such waivers require approval of the Corporate Governance Committee.

3. MANAGEMENT

3.1 Appointment of Officers

The Board shall be responsible for the appointment of key officers under the recommendation of the Nomination and Remuneration Committee. Such officers shall report to the Board or a standing committee which include at a minimum:

1. CEO;
2. Finance Manager;
4. Corporate Secretary;
5. Compliance Officer; and
6. Internal Auditor; under the recommendation of the Audit Committee.

The Board shall also appoint other officers as and when deemed appropriate.²⁹

3.2 Annual Performance Evaluation of the CEO and Officers, Compensation, and Management Succession

The Board of Directors shall annually conduct an evaluation of the CEO of the Company. This process shall be reviewed by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee shall ensure the implementation of the evaluation process. The CEO's compensation shall be determined by the Board in consideration of the recommendation of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee is required to ensure that the CEO conducts a periodic review with the committee of the succession plans relating to positions held by executive officers of the Company. The Board will work with this committee to evaluate potential successors to the CEO, including in the event of an emergency or retirement.

The Company has adopted a performance-linked incentive scheme that is linked with both the individual's performance and with Company's performance. Key officers and key executive management are offered to participate with the medium-term incentive plan in which basically in addition to the above, virtual stock-options are provided to the participants. This motivates individuals for a better performance and helps retain key executives needed to run the company successfully.

4. SHARI'A SUPERVISORY BOARD

The Company is guided by the principles of the Islamic Shari'a. In ensuring compliance with the Shari'a principles in the Company's operations and

²⁹ 6.1 Establishment of Management Structure, CGC

activities, the Company has established a Shari'a Supervisory Board which shall at minimum consist of three members whom are all Shari'a scholars. The SSB shall meet at least once a year.

5. COMMUNICATION WITH SHAREHOLDERS

5.1 Annual Ordinary General Meeting

The Annual Ordinary General Meeting ("AGM") shall be convened at least once a year within three months following the end of the financial year of the Company.³⁰ All invitation notices for the AGM shall be made not less than 21 days prior to the date of the meeting.³¹

The quorum of AGM shall not be valid unless shareholders representing more than half of the Company's shares are present. If the quorum is not attained, the meeting shall be valid by the number of shareholders present after half an hour from the time fixed for the first meeting.³² Resolutions are passed by absolute majority (>50%) of the shares present in the meeting.³³

The AGM have the authority, in particular, with regard to the appointment of directors, the appointment of external auditors and fixing their remuneration, approving the financial statements, approving the directors' report, distribution of profits per share, and absolving the directors from liability or the refusal thereof.³⁴ The AGM may not, however, discuss issues not listed on the agenda, except that the AGM may debate any urgent matter which arose after drawing up the agenda or which may have come to its notice.³⁵

The chairs of Audit Committee, Nomination and Remuneration Committee, and Corporate Governance Committee are required to attend the AGM to answer appropriate question related to their committees taken into consideration that confidential and proprietary business information may be kept confidential.

In addition, External Auditors are required to attend the AGM to be available to answer shareholders questions concerning the conduct and conclusions of the audit.³⁶

5.2 Extra-Ordinary General Meeting

The Extra-Ordinary General Meeting ("EGM") shall be held by the invitation from the Board or on a written requisition addressed to the Board by shareholders representing not less than 1/4th of the shares of the Company. The Board in the latter event shall call an EGM within one month of the date on which the said requisition was received by the Board. Otherwise, the invitation

³⁰ Article (45), Articles of Association

³¹ Article (39), Articles of Association

³² Article (46), Articles of Association

³³ Article (48), Articles of Association

³⁴ Article (47), Articles of Association

³⁵ Article (40), Articles of Association

³⁶ 7.1 Recommendation of CGC

notices for the EGM shall be made not less than 21 days prior to the date of the meeting.³⁷

The quorum of EGM shall not be valid unless shareholders representing more than two-third (2/3) of the Company's shares are present. If the quorum is not attained, notice shall be sent for a second meeting, which shall be held within 15 days following the date of the first meeting. The quorum for the second meeting shall be valid if attended by shareholders representing more than one-third (1/3) of the Company's shares. All resolutions passed in either of the meetings shall be by two-thirds (2/3) of the shares present in the meeting.³⁸

If a quorum is not attained for the second meeting, a notice shall be sent out for a third meeting, which shall be held within 15 days following the second meeting. The third meeting shall be valid if attended by 1/4th of the share capital. The resolutions passed in this meeting shall require a majority of the votes of those present. All resolutions passed in the EGM shall not be binding except after the approval of the Ministry of Industry, Commerce and tourism.³⁹

The following shall be within the preview of the EGM:⁴⁰

1. Amend the Memorandum of Association or Articles of Association;
2. Extend the duration of the Company;
3. Increase or reduce the capital;
4. Sell-off the entire business undertaken by the Company or dispose of it in any manner;
5. Dissolve the Company or convert it or merge it with another entity; and
6. Change the Company's name.

5.3 Election and Reelection of Board Members

The Board should present each proposal to shareholders for election and reelection by a recommendation, a summary of the advice of the Nomination and Remuneration Committee and the following specific information:

1. The term to be served, which may not exceed three years (but there need not be limit on reelection for further terms).
2. Biographical details and professional qualifications.
3. In the case of independent director, a statement that the Board has determined that the criteria in Section 2.4 of these guidelines have been met.
4. Any other directorship held.
5. Particulars of other positions which involve significant time commitments.
6. Details of relationship between:
 - a. The candidate and the Company.

³⁷ Article (49), Articles of Association

³⁸ Article (50), Articles of Association

³⁹ Article (50), Articles of Association

⁴⁰ Article (51), Articles of Association

- b. The candidate and other directors of the Company.

When proposing reelection of a director, the chairman of the Board should confirm to the shareholders that the person's performance continue to be effective and continues to demonstrate commitment to the role by following a formal performance evaluation.⁴¹

5.4 Disclosure of Corporate Governance

At each AGM the Board shall report on the Company's compliance with these guidelines and the CGC and explain the extent of variation and the justification of the variation or noncompliance if any.⁴²

6. CONFLICT OF INTEREST

All directors and officers of the Company should not violate their legal duty of loyalty to the Company which may arise from using property of the Company for their personal use, disclosing confidential information of the Company or using it for their personal benefit, seizing business opportunity for themselves, competing with the Company's business and serving the Company's interest in any transactions with a company in which they have personal interest in.

Personal interest is considered if (he himself) or (member of his family i.e. spouse, father, mother, sons, daughter, brothers and sisters) or (another company which he is a director or controlling shareholder) is a party to the transaction or has material financial interest in the transaction.⁴³

6.1 Avoidance of Conflict of Interest

Each director or officer should make every practicable effort to arrange his personal and business affairs to avoid conflict of interest with the Company.⁴⁴

6.2 Disclosure of Conflicts of Interests

Each director or officer shall inform the Board of conflicts of interest on annual basis or as and when they arise. Disclosure should include all material facts in case the transaction of the contract involves the director or the officer. All approval of a conflict transaction is effective only if all material facts are known to the authorizing person (disinterested directors or shareholders) and the interested person shall not participate on the decision.⁴⁵

The Board shall disclose to the shareholders, at each annual shareholders meeting, any authorization of a conflict of interest contract or transaction.⁴⁶

⁴¹ 4.3 Recommendation of the CGC

⁴² 8.1 Disclosure Under the Company Law, CGC

⁴³ 2.1 Personal Accountability, CGC

⁴⁴ 2.2 Avoidance of Conflict, CGC

⁴⁵ 2.3 Disclosure of Conflicts of Interests, CGC

⁴⁶ 2.4 Disclosure of Conflicts of Interest to Shareholders, CGC