



BANK SADERAT IRAN

**CORPORATE GOVERNANCE
REPORT
2023**

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1. Introduction

Corporate Governance's fundamental role is to build up a strong and sound culture and business practices of BSI. The Bank's framework in Corporate Governance reflects to the way the business and its related activities taking into consideration of all the stakeholders and the role of the Bank in the community. BSI is a Foreign Bank in the UAE established since 1968.

2. BSI's Corporate Governance Framework

The Governance framework ensures adequate Supervisory Board oversight over the risks inherent to bank's overall business and its related activities. The framework focus is on each segmentation of the Supervisory Board, the Executive Management's duties and responsibilities, the effectiveness of the Supervisory Board and Management Committees, role of the external and internal auditors and the transparency accuracy and timely disclosure of information. Additionally it supports cooperation with supervisory and regulatory authorities for ensuring compliance within the scope of applicable regulations and best practices.

BSI complies with the Central Bank of the UAE regulatory requirements continuously while looking to adopt banking best practices.

3. Transparency and Disclosure

Following the best practice to continuously enhance disclosures and transparency, the top priority of the bank is to deliver accurate and timely information to its stakeholders. Various mode of distribution channels are used which includes SMS, Brochures, Newspapers and other various avenues.

Financial reports include published annual reports and financial results in English.

4. BSI's Supervisory Board Composition and Nomination

Members of the Supervisory Board shall be appointed by the BSI Board in Head Office, Tehran, Iran.

Supervisory Board consists of minimum 5 and maximum 7 members as below:

1. CEO of BSI (as the chairman of the Supervisory Board)
2. Deputy CEO – International Affairs (when absent, Manager – International Affairs will replace)

3. Regional Manager

4. Head of Foreign Department

5. In addition to the above, 1 to 3 members from the Bank's executives selected by the CEO (according to the subjects to be discussed in the meeting).

Note 1: Only members of the Supervisory Board have the right to attend Supervisory Board meetings, however, other individuals such as external advisors and Senior Management (attend all or part of any meeting accordingly as per the meeting invite).

Note 2: Members of Supervisory Board will perform their responsibilities in line with the rules and regulations, circulars and guidelines of Central Bank of the UAE and the Central Bank of the Islamic Republic of Iran considering the interest of the Bank.

Note 3: CEO of the Bank chairs the Supervisory Board,

The Chairman will appoint a Secretary to ensure formal minutes of meetings are recorded, approved and signed and that agendas and documents for meetings are prepared.

The Supervisory Board collectively possesses professional knowledge, business expertise, industry knowledge, diversity and financial awareness to carry out its oversight responsibilities. All Supervisory Board members are in regular attendance of the meetings.

At least 50% plus of the Supervisory Board members must be present for a quorum.

Conflict of Interest

- Members are expected to avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict.
- A member who has any direct or indirect interest or duty which conflicts or may conflict with the interests of the Bank relating to any contract or other transaction made or proposed to be made with or by the Bank, must give the other Supervisory Board notice of such interest. Such notice should be confirmed in writing.
- This notification shall be recorded in the Supervisory Board's minutes and the member having such interest shall not be counted in the quorum for the matter at hand nor be permitted to take part in the discussion or voting and if he does vote, his vote shall not be counted.
- If a significant conflict of interest with a Supervisory Board member exists and cannot be resolved, the member is expected to tender his resignation after consultation with the Chairman.

Code of Ethics

The Code of Ethics applies to all Senior Management and Employees of the Bank, as well as to the Supervisory Board Members, temporary workers and other independent contractors and consultants when engaged by or otherwise representing the Bank and its interests. In addition, this Supervisory Board Terms of Reference also governs the conduct of the Supervisory Board.

Confidential Information and Banking Secrecy

The internal control systems are monitored and employee integrity is fostered to ensure that banking secrecy is at all times, fully respected and confidential customer information is not improperly disclosed outside the Bank or used for individual personal gain.

When the members are serving on the Supervisory Boards of other companies and undertaking private transactions, they have to follow confidentiality obligations at all times by signing a Non-Disclosure Agreement and Conflict of Interest forms.

5. Role of the Supervisory Board

The Supervisory Board of Directors is empowered, under the mandate by Head Office Board, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank.

The Supervisory Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite.

Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Supervisory Board to help ensure the implementation of solid internal controls and disclosures, the establishment of adequate policies and procedures necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all times in addition, the Supervisory Board has agreed on the Terms of Reference of the Supervisory Board and all Supervisory Board Committees, which set out their respective process, duties and responsibilities.

6. Supervisory Board Obligations and Duties

As members of Supervisory Board, in order to achieve the highest Corporate Governance standards the Supervisory Board Members are committed to below mentioned obligations in

carrying out their duties by:

- Acquiring and having the required skills, qualifications and knowledge of the Bank’s affairs and business;
- Act honestly and in good faith with a view to protecting the best commercial interests of the Bank;
- Observing confidentiality, conflict of interest and transparency requirements when taking charges of the responsibilities as Supervisory Board;
- Act in accordance with the obligations stipulated under the Terms of Reference’s and all applicable laws and regulations;
- Not being convicted of any crime or felony or a crime involving moral turpitude; and
- Attend regularly and participating effectively in Supervisory Board meetings.

7. Supervisory Board Remuneration

- Approval of the framework for determining the policy for remuneration following review and recommendation of the Remuneration Committee.
- Approval of Chairperson, and Committee Chairpersons and Senior Management, remuneration following review and recommendation of the Remuneration Committee.
- BSI – H.O. management charges are paid yearly.

8. Supervisory Board activities in 2023

The Supervisory Board of Directors met 6 times in 2023 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank’s business developments.

1. Supervisory Board committees

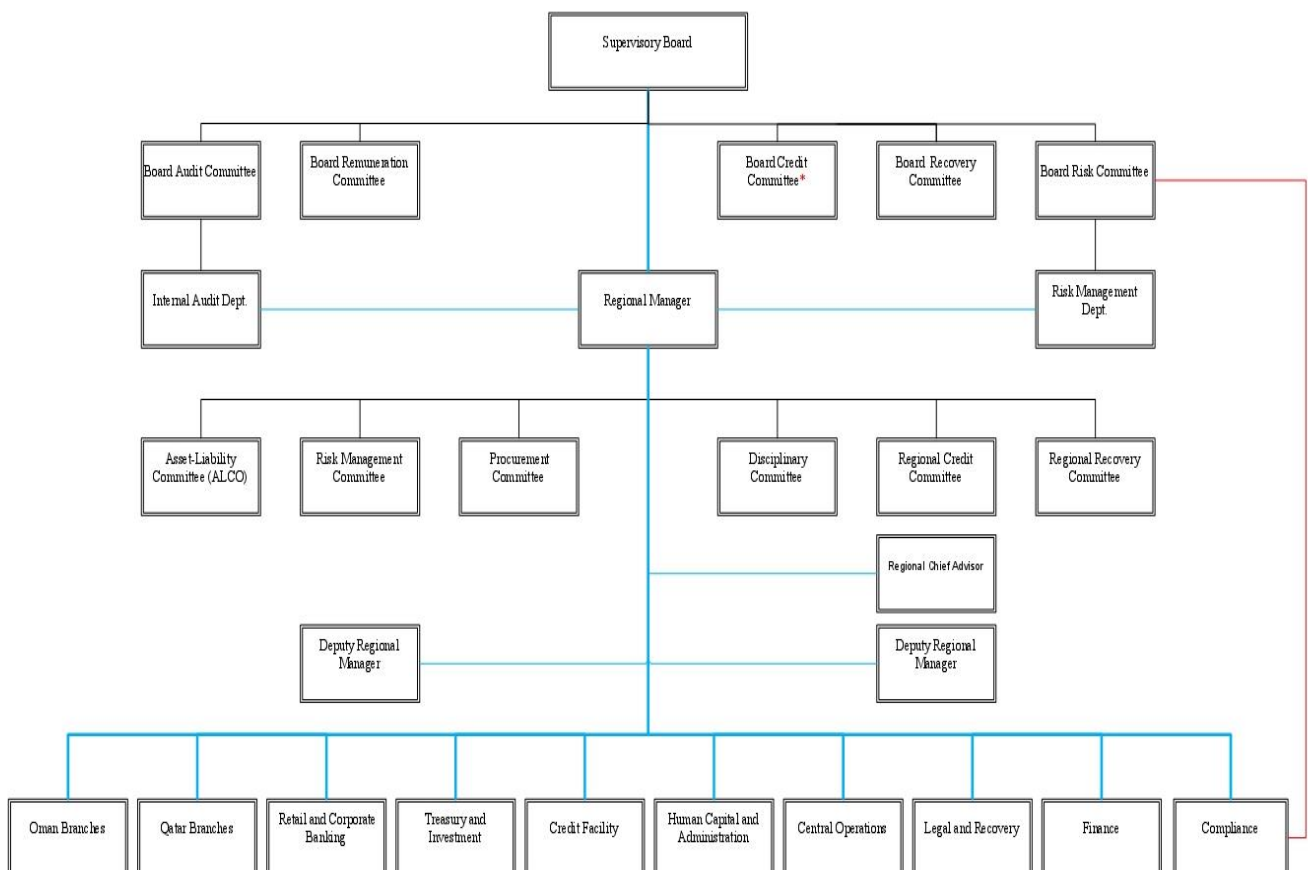
The Supervisory Board established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business and control.

1	Audit Committee
2	Recovery Committee
3	Remuneration Committee
4	Risk Management Committee

9. Related party transactions during 2023

BSI consistently discloses the related party transactions in the financial statements and is audited by external auditors. The management reviews for any potential related party transactions and when the deals are conducted.

10. BSI's organization structure



Composition

- Changes to the structure, size and composition of the Supervisory Board, following recommendation from the BSI-Head Office Supervisory Board.
- Ensuring adequate succession planning for the Supervisory Board and Senior Management, including any changes to the Supervisory Board Succession Plan.
- The suspension or termination of service of any member as an employee of the Bank, subject to the law and their service contract.
- Appointment, reappointment or removal of the external auditor to be put to members of the Supervisory Board for approval, following the recommendation of the Audit Committee.

11. Senior Management, and their Compensation

BSI's senior management team brings decades of collective expertise in the Banking industry, they work closely with our Supervisory Board to define and deliver the bank's strategy.

The total salaries and benefits paid to the executive management in 2023 are AED 4,192,158.00.

12. Management committees

The Supervisory Board has approved the Terms of Reference of all Management Committees. The Bank has 9 Management Committees that report regularly to the Supervisory Board or the relevant Board committee as follows:

1	Procurement Committee
2	Disciplinary Committee
3	Product Committee
4	Acceptance Committee
5	Risk Management Committee
6	ALCO
7	Regional Recovery Committee - Branch & R.O.
8	Compliance Risk Committee
9	Regional Credit Committee (RCC)

13. External Auditors

External Auditors details

Name of audit firm for the period (January 1, 2023 — December 31, 2023): H L B HAMT Chartered Accountants

Audit Partner: Vijayanandan Thekke Palangattu

Number of years served as an external auditor for the bank: 3

Total fees for auditing the financial statements of 2023: AED 270,000/-

14. Internal control Structure

Effective internal controls are the foundation for a safe and sound banking practices, BSI believes that a properly designed and applied system of operational and internal control can help the bank's Supervisory Board and its Management to:

- Safeguard the bank resources
- Produce reliable financial reports
- Comply with the laws and regulations
- Timely detect significant errors and irregularities, while reduce their occurrence

The Supervisory Board is responsible for maintaining and reviewing the effectiveness of internal system and environment and for determining the individual and aggregate level and type of risks the BSI is willing to take in achieving its strategic objectives.

BSI has implemented three line of defense mechanism in order to strengthen the internal control within the bank. This is further augmented by effective communication and information flow between BSI and external stakeholders such as CBUAE and external Audit.

The overall model is impeded in the following functions for the bank:

15. Risk Management, Internal Audit and Compliance

BSI's Risk Management Framework (RMF) sets out the overarching arrangements for risk management, control and assurance within the bank, including how the business model of the BSI gives rise to the risks that the risk is exposed to and its risk profile.

The RMF is designed to provide a consistent and structured approach to identify, assess, measure, control, monitor and report on the BSI's risks. The RMF helps to ensure that material risks implicit within the business activities are identified. The BSI has also developed a Risk Appetite Framework (RAF) in accordance with its risk profile which is monitored against the Supervisory Board approved Risk Appetite Statement on a quarterly basis and any breaches against the risk appetite are reviewed by the Risk Management Committee (RMC).

Effective risk governance and oversight provides Management and other stakeholders with assurance that the BSI's business activities will not be excessively impacted by risks that could have been reasonably foreseen. This, in turn, reduces the uncertainty of achieving the BSI's strategic objectives.

The Supervisory Board (SB) through the Board Risk Committee has overall responsibility for establishment and oversight of the risk management framework. They are assisted by various management committees including the Executive Risk Management Committee (ERMC), Assets and Liabilities Committee (ALCO), and Compliance Risk Committee (CRC). Board committees' members are appointed by the Supervisory Board who assists the Supervisory Board in management of risk in the BSI including review and approval of all risk management policies.

While the Supervisory Board carries ultimate responsibility for overall risk management, the ERMCA assists the Supervisory Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the BSI.

The Risk Management Department (RMD) is independent of business and is led by a Head of Risk Management Department (HRMD) with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the BSI. The RMD is primarily responsible for defining the framework for management of all material risks.

The Internal Audit (IA) acts as the third line of defense function, independent from both the business units (“first line of defense”) and Risk Management and Compliance (“second line of defense”). IA provides independent assurance to senior management on compliance with all risk policies and procedures in the BSI and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the BSI, in addition to Risk Management.

The Supervisory Board has the overall responsibility for establishing and overseeing the implementation of the BSI’s Risk Management Framework (RMF). In addition, the Supervisory Board sets, communicates, and enforces the BSI’s risk culture that consistently influences and aligns with the strategy and objectives of the BSI, and thereby supports the embedding of this RMF, risk policies and processes within the BSI.

Stress testing is a key management tool within the BSI. The Stress Testing Program assesses BSI’s capital strength and enhances the resilience to shocks aiding the BSI to identify and mitigate risks.

Stress testing within the BSI is governed by the BSI’s Stress Testing Policy which sets out the approaches for stress testing and associated roles and responsibilities.

- Risk Management Approach

Supervisory Board (SB) and Senior Management assesses and manages risks, enabling users to gain a clear understanding of the BSI's risk appetite in relation to its main activities and all significant risks.

Accordingly, the overall Risk management approach of the BSI is as under;

- Overall Risk Profile

Risk is an integral part of the banking business and the BSI aims to achieve an appropriate trade-off between risk and returns. To ensure sustainable and consistent growth, the BSI has developed a sound risk management framework so that the risks assumed by the BSI are properly assessed and monitored. The BSI undertakes business activities within the defined risk appetite limits and policies approved by the Supervisory Board of the BSI.

The BSI is involved in different commercial banking activities including accepting deposits and providing loans and advances to customers, other ancillary activities such as remittances and payments and settlements to its customers. In the process the BSI is exposed to various potential risks, mainly categorized into credit risk, market risk, operational risk, liquidity risk, business and strategic risk, reputational risk, compliance risk etc.

To manage the identified risks, the SB of the BSI sets risk appetite for the UAE operations the operating units are adhering to the risk appetite limits by ensuring that their businesses are well within the threshold levels. However, BSI due to ongoing situation and external constrains few thresholds are breaching and these have been discussed at SB.

The risk appetite reviewed and updated on annual basis.

- Risk Governance Structure

The BSI adopted three lines of defense for its risk management. The increased focus on risk and the supporting governance framework includes identifying the responsibilities of different parts of the BSI for addressing and managing risk. Each of the three lines has an important role to play in risk management. These are:

- 1) **First Line of defense:** This comprises of the entire BSI's business line functions and operating units employees as required to own and ensure the effective management of risk and compliance with regulations, BSI's policies and guidelines.
- 2) **Second line of defense:** This comprises of the risk control owners, the risk management function and compliance function. It is responsible for identifying, measuring, monitoring and reporting risk on a bank-wide basis independently from the first line of defense.
- 3) **Third line of defense:** An independent assurance is provided by the internal audit function by conducting internal risk-based and other audits. The reviews provide assurance to the Supervisory Board that the overall governance framework, including the risk governance framework, is effective and that policies and processes are in place and consistently applied.

16. Details of violations in 2023

There was no material violations observed in 2023. BSI follows a process in the Operational Risk Policy that is approved by the Supervisory Board.

17. Details of the contributions for the community in 2023

The contribution for the community was participation in Dubai Run event on 26/11/2023 which was conducted as part of the Dubai Fitness Challenge for the purpose of enhancing the awareness and motivating people to take more care of their wellbeing.

As soon as the Bank knew about the event, immediately shared it with its staff and invited them to participate. This is how 45 BSI staff joined the other 226,000 participants to break a world record as the largest fun run in the world.

After the event, the bank appreciated the participating staff and awarded them with cash rewards.

18. Information for Investors

BSI has a dedicated Investor Relations section on its corporate website which makes available the following information for all existing and potential investors:

- Financial reports
- Pillar III Disclosure

19. Company secretariat details

Name: Mr. Shafique Anwar

Designation in Bank: Head of Risk Management Department

Date of joining: 11 Nov 1998

20. Details of transactions conducted with related parties in 2023 of 5% or more of the bank capital

No transactions have been conducted in 2023.

21. Emiratization

The ratio of Emiratization (number of Emiratis / total staff) as of the end of the below years:

2021	19.62%
2022	20.98%
2023	23.49%

Chairman of the Supervisory Board

Date:

Bank's official Stamp.

