



2020

Corporate Governance Policy

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Abbreviations

AGRMC	Audit, Governance and Risk Management Committee
Approved Persons	Members of the Board of Directors and employees in executive positions including: CEO and his Deputies; Chief Financial Officer/ Head of Financial Control; Head of Risk Management; Head of Legal and Corporate Secretary; Head of Compliance & AML and Deputy MLRO; Head of Information Technology & Administration; Head of Internal Audit; Sharia Officer; Compliance Officer; Money Laundering Reporting Officer and his Deputy; Head of Internal Sharia Audit; and Heads of other Functions.
BCCL	Bahrain Commercial Companies law No. 21 for the year 2001 and its amendments
BoD or The Board	Board of Directors
CBB or Central Bank	Central Bank of Bahrain
CEO	Chief Executive Officer
MOICT	Ministry of Industry, Commerce and Tourism
RNC	Remuneration and Nomination Committee
The Bank	Ithmaar Bank B.S.C (c)
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1.0 Statement of Purpose:

Corporate Governance is defined as a “set of relationships between a company’s management, its Board of Director’s, its shareholders and other stakeholders”. A more balanced and value oriented definition of Corporate Governance is stated as effective implementation of systems and processes for ensuring proper accountability, fairness and transparency in the conduct of an organization’s business.

Ithmaar Bank (the “Bank”) recognizes the importance of good corporate governance, which is generally accepted as a key factor in attaining fairness for all stakeholders and achieving organizational efficiency. This Corporate Governance Policy (the “Policy”), therefore, is established to provide a direction and framework for managing and monitoring the Bank in accordance with the principles of good corporate governance.

It mainly focuses on the functions of the constituent parties of high level controls such as Board of Directors, Committees of the Board, Sharia Supervisory Board, and the Management. It also provides guidance and sets minimum requirements for internal control systems and compliance issues. This document shall also serve as the basis for the Bank’s corporate governance disclosures as well as a handbook for the directors.

This policy document is based on (a) CBB’s Rulebooks on High Level Controls and Public Disclosures, (b) the Bank’s Memorandum and Articles of Association, (c) The Bahrain’s Commercial Companies law.

Being a high level policy document, the guidelines contained herein shall lay base for other policies of the Bank such as Risk Management, Human resources and operational policies.

The provisions of this policy document shall apply to Ithmaar Bank as well as its subsidiaries subject to it complementing the regulations of their home regulatory authorities.

2.0 Responsibilities:

The Audit, Governance and Risk Management Committee (“AGRMC”), together with the Compliance Officer shall be responsible for implementing and monitoring the provisions of this policy, with the exception of the provisions of this policy relating to the Board of Directors which the Board of Directors together with the Corporate Secretary shall be responsible for implementing and monitoring.

3.0 The Bank’s Corporate Governance Principles:

3.1 Guiding principles

The Board of Directors of the Bank believes that good corporate governance process will sustain and enhance the business objective of the Bank as a key to the success and achievement of its ultimate goals, including the maximization of value to shareholders. As a leading financial institution in Bahrain, the Board of Directors strictly adheres to best practices in corporate governance, consisting of the following major components:

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- Islamic Sharia
- Integrity
- Transparency
- Independence
- Accountability
- Responsibility
- Fairness
- Social Responsibility

These principles will guide the business activities of the Bank in a manner viable in the market, while also being ethical, meeting international standards and complying with the corporate governance rules adopted by the Central Bank of Bahrain (“CBB”), Commercial Companies law, Bank of International Settlement guidelines, Islamic Financial Services Board recommendations, and Accounting and Auditing Organization for Islamic Financial Institutions (“AAOIFI”) standards.

While upholding highest standards in corporate governance, the Bank shall fully adhere to the corporate governance principles, rules and guidance contained in the High Level Control Module of the CBB Rule Book, particularly covering the following areas:

- HC-1 The Board of Directors
- HC-2 Approved Persons Loyalty
- HC-3 Audit Committee and Financial Statements Certification
- HC-4 Appointment, Training & Evaluation of the Board
- HC-5 Remuneration of Approved Persons and Material Risk Takers
- HC-6 Management Structure
- HC-7 Communication between Board and Shareholders
- HC-8 Corporate Governance Disclosure requirements
- HC-9 Principles of Islamic Shari’a

In addition, the Bank shall also fully adhere to the principles of Sharia Governance contained in the SG Module of the CBB Rule Book (SG-1 to SG-6).

3.2 Rights of Stakeholders:

The Bank places significant emphasis on the rights of all stakeholders, both internal stakeholders, i.e. shareholders, the Board of Directors, and employees of the Bank and its subsidiary companies, and external stakeholders, i.e., customers, counter-parties, creditors, as well as regulatory and governmental authorities. It also takes responsibility to the community, society and the environment.

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The Board of Directors always ensures that it fully understands the rights of stakeholders and undertakes measures to ensure that these legitimate rights are protected, and that stakeholders will be treated equally and fairly.

3.2.1 Shareholders:

One of The Bank's ultimate goals is to ensure favorable and stable growth, with solid viability and due consideration to both current and future risks to ensure the highest value to its shareholders over the long-term. Its primary duty is to carry on with usual business, disclose all information fairly and transparently, and use its best efforts to protect its assets and reputation.

Recognizing the importance of shareholders, it is the Bank's policy to treat its shareholders equally and fairly in line with the governing laws and regulatory guidelines. Basic legitimate rights of the Bank's shareholders include, amongst others, rights to:

- Participate in shareholders meetings, appoint other persons as a proxy for participating in and voting at meetings, participate in the election or disqualification of a Director of the Board.
- Vote on the annual audit fees and appointments of independent auditors, Sharia Board, and voting for other businesses of the Bank, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquiries during shareholders meeting.
- Receive copies of the Bank's annual report containing the balance sheet, the income statement and the auditor's report amongst others.
- Call or direct the Ordinary or Extraordinary General Meeting in accordance with the provisions of the BCCL
- Proceed against the Board of Directors, jointly and severally, by way of legal action in accordance with the BCCL.

3.2.2 Employees:

The Bank's employees are perceived as the most valuable assets. The Bank continues to seek capable and experienced personnel in line with its growth and demand in the organization. Necessary training programs are provided for additional knowledge and skills upgrades to attract high caliber personnel. Favorable culture and atmosphere are promoted in the workplace, together with fair and equal treatment for all employees. The Bank has a comprehensive Human Resources Policy to address employment issues.

3.2.3 Customers:

The Bank aims to promote customer satisfaction through the offering of Sharia compliant high-quality products and services. It recognizes the importance of customers, paying due attention to them, and more importantly, protecting their confidential information within the scope of the law. It is the duty of the Bank to explain clearly to customers about all possible risks involved with investment accounts / funds and/or non-depository businesses.

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3.2.4 Counterparties:

The Bank respects actions in accordance with business terms and conditions as contracted, and in fair and acceptable competition, without practicing any dishonest actions.

3.2.5 Creditors:

The Bank abides by financing terms and conditions, and by all legitimate duties to creditors, especially accounts payables, and depositors, as applicable. It is the duty of the Bank to explain clearly to creditors about all possible risks involved with dealing with the Bank.

3.2.6 Investment Account Holders:

A significant part of the Bank's business is managing funds on behalf of Investment Account Holders ("IAH"). IAHs have the rights to receive profits on their investments, based on agreed upon profit distribution percentages, while assuming all risks associated with their investments.

The Bank acknowledges IAHs right to monitor the performance of their investments and the associated risks. For this purpose, the Bank has put into place adequate means to ensure that these rights are observed and exercised. The AGRMC of the Bank shall take responsibility for protecting the rights of the IAH by ensuring that relevant disclosures to IAH are made in a timely and effective manner.

The Bank also recognizes that with its fiduciary responsibility to the IAH comes accountability. The Bank is responsible for ensuring that the investment accounts are managed within the parameters of the given mandate. Before opening an investment account with the Bank, IAHs are adequately advised of their contractual rights and risks in regard to investment account products, including primary investment and asset allocation strategies and the method of calculating the profit/loss made from their investments.

3.3 Business Ethics:

The Bank respects a business approach that is transparent, honest and fair. All Directors, SSB members, executives and employees share common goals in carrying out their designated duties, being responsible to the Bank and its stakeholders.

The Bank has already established various policies (such as Code of Ethics, Anti Money Laundering, and many others) in writing for strict adherence by Directors, executives and employees at all levels. These policies shall be distributed as guidelines to all employees for their acknowledgement and compliance. Related matters shall always be communicated to all employees for their understanding via newsletters, emails, circulars, and the IntraNet – all being internal communication channels of the Bank.

3.4 Other Principles:

3.4.1 Responsibility to the community and society:

Ithmaar acts as a good corporate entity, being non-partisan, and unaligned with any political party. It bears in mind the awareness and realization of its role in society, contributes to charitable activities and promotes a healthy environment in communities and the society at large, for better living standards.

The Bank relies on Islamic Sharia principles to strike a balance between the interest of its stakeholders and those of the society. In its business activities, the Bank shall always assist in using wealth and financial resources in a manner beneficial to stakeholders as well as the community at large.

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The Bank shall also play an important role in the promotion of an atmosphere in which commercial activities can be undertaken in compliance with the Sharia in the best interest of the wider social content.

The Bank also contributes in enhancing the concept of Islamic Banking.

3.4.2 Responsibility toward the environment:

The Bank regards the importance of sound environmental protection through its continuing efforts to promote environmental conservation and protection. Due consideration shall always be given to environmental issues when undertaking business activities.

3.4.3 Fairness:

The Bank believes in fairness to all parties having any business relationship with the Bank, and does its best to prevent bias or any event that leads to conflict of interest.

3.4.4 Justice:

The Bank adheres to its Code of Ethics and Business Conduct in every business endeavor it pursues.

3.4.5 Specialization:

The Bank maintains professional standards, aiming high for superb quality integrated with modern and sophisticated technology.

3.4.6 Responsiveness:

The Bank keeps itself ready for any changes in customer needs, as well as changes in society, the economy and technology, both present and future.

3.4.7 Discipline and compliance:

The Bank pursues business with discipline and ethical principles to ensure that its business undertakings comply with laws, rules and regulations, the Code of Ethics and Business Conduct as stipulated in relevant policies.

3.5 Communications with Shareholders:

The Board acknowledges the importance of regular communication with shareholders and investors via a number of means to promote greater understanding and dialogue with stakeholders through the Annual General Meeting, annual reports, circulars to shareholders and quarterly financial reports and various announcements made during the year, through which shareholders and investors can have an overview of the Bank's performance and operations.

The Chairman of the Board (or other Directors if delegated by the Chairman) will maintain continuing personal contact with its major shareholders to solicit their views and understand their concerns. The Chairman will discuss the views of the major shareholders with the Board of Directors.

The Bank has a website which the shareholders and investors can access for information which includes Bank's Profile, corporate information, press releases, financial performance, newsletters and career opportunities, amongst others.

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To further assist with shareholder’s communications, the Bank has a dedicated unit “Shareholders Affairs Department” with primary responsibility of acting as a liaison officer between the Board of Directors and the shareholders. Views of shareholders will always be communicated to the Board as part of the Board’s meeting agenda.

4.0 High Level Organization Structure:

The Bank shall be administered by three distinct bodies namely:

- Board of Directors;
- Sharia Supervisory Board; and
- Management Team.

4.1 Board of Directors:

The Bank shall be administrated by a board of directors comprising not less than 3 but not more than 12 Directors elected for renewable periods of 3 years, the Board will always compose of individuals whose knowledge, background, experience, and judgment are valuable to the Bank and shall comprise of a Chairman, Independent Directors, Executive Directors, and Non-Executive Directors, further details on the respective duties, responsibilities and authorities of the Board are duly included in the Board Charter.

4.2 Sharia Supervisory Board:

The Bank shall always conduct its business in accordance with the Islamic Sharia rules and principles as expressed in AAOIFI Shariah standards and in the rulings of the Centralized Sharia Supervisory Board of the CBB and the Bank’s Sharia Supervisory Board (“SSB”).

In compliance with CBB licensing requirement, the Bank’s Articles and Memorandum of Association, and the general practice of Islamic Banking, the Bank shall, at all times, have an SSB, which must consist of at least three scholars approved by the shareholders in their Annual General Meeting for a three year term based on recommendations of the Board of Directors (through the RNC).

The SSB actively participates in developing and overseeing the Bank’s products and business activities. It is responsible for certifying every product to ensure strict adherence to the principles of Sharia.

The SSB have full access to the Board and the Management of the Bank, including access to the Bank’s Sharia Coordination and Implementation Officer and the Internal Sharia Auditor

The SSB shall develop its own charter which shall set forth its policies, procedures, meeting operations, and responsibilities in addition to the qualifications for membership. The SSB Charter will be developed in coordination with the RNC. Accordingly, this section only provides a high-level overview of SSB, while the specific details shall be referred to the aforementioned SSB Charter.

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The remuneration of the SSB will be approved by the shareholders at the General Meetings based on the recommendations of the RNC.

4.3 Management Team:

4.3.1 Selections / Employment of Management:

The RNC shall identify qualified candidates to become members of the Board, Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the Bank considered appropriate by the Board, with the exception of the appointment of the Internal Auditor, Head of Compliance & Anti Money Laundering and the appointment and termination of the Chief Risk Officer / Head of Risk Management which shall be the responsibility of the AGRMC in accordance with the regulatory rules.

As for the appointment of management of lower rankings, the approval authority shall be specified in the HR Policy.

Formal letters of appointment shall be issued by the Board (through the Human Resources Department) in accordance with the HR Policy of the Bank. Certain positions may require the prior approval of CBB.

4.3.2 Management's Responsibilities:

A) Overall Day-to-Day Responsibilities:

Management is responsible for operating the Bank in an effective, ethical and legal manner designed to produce value for the Bank's shareholders consistent with the Bank's policies and standards, including this policy. Management also is responsible for enforcing and complying with mandatory provisions of the Bank's policies and standards. Executive Management is responsible for understanding the Bank's income-producing activities and the material risks being incurred by the Bank and also is responsible for avoiding conflicts of interest with the Bank and its shareholders.

To perform his duties, the CEO shall have the authority to act generally in the Bank's name, representing the Bank's interests in concluding transactions, and giving instructions to other senior managers and employees;

B) Preparations of Financial Statements:

Management is responsible for producing, under the oversight of the Board of Directors and the AGRMC financial statements that fairly present the Bank's financial condition, results of operations, cash flows and related risks in a clear and understandable way, for making timely and complete disclosures to investors, and for keeping the Board and the appropriate committees of the Board well-informed on a timely basis as to all matters of significance to the Bank. The ultimate responsibility of this function rests with the Head of Financial Control Department.

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C) Strategic Business and Risk Planning

The Chief Executive Officer and Executive Management are responsible for developing and presenting to the Board of Directors the Bank's strategic business plans and risk strategies of the Bank. Management is also responsible for implementing those plans once approved by the Board of Directors.

D) Annual Operating Plans and Budgets

The Chief Executive Officer and Executive Management are responsible for developing and presenting to the Board the Bank's annual operating plans, annual budgets and overall risk appetite and for implementing those plans and budgets as approved by the Board.

E) Effective Management and Organizational Structure

The Chief Executive Officer and Executive Management are responsible for selecting qualified members of management and for implementing and working within an effective organizational structure appropriate for the Bank's particular circumstances.

F) Setting a Strong Ethical Tone at the Top

Executive Management, especially the Chief Executive Officer, are responsible for setting a "tone at the top" of integrity, ethics and compliance on the part of all persons associated with the Bank, with applicable legal requirements and with the Bank's policies and standards.

G) Internal Controls and Procedures

Executive Management is responsible for developing, implementing and monitoring an effective system of internal controls and procedures to provide reasonable assurance that:

- the Bank's transactions are properly authorized

- the Bank's assets are safeguarded against unauthorized or improper use
- the Bank's transactions are properly recorded and reported.

Such internal controls and procedures shall be designed to permit preparation of financial statements for the Bank in conformity with standards issued by AAOIFI, or with IFRS/IAS, where no relevant AAOIFI standard exists. The Internal Audit Department is responsible for examining the accuracy and adequacy of these controls.

H) Disclosure Controls and Procedures:

Executive Management is also responsible for establishing, maintaining and evaluating the Bank's disclosure controls and procedures.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Bank is in accordance with the regulatory authorities.

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4.3.3 Management Committees

The Management Team shall have the committees listed below. Each committee shall have its own Charter which shall be approved by the Chief Executive Officer.

A) Investment and Credit Committee

The Investment and Credit Committee (“ICC”) is set-up to assist the CEO and the Executive Management in discharging their financing and investments risk responsibilities. It is a management level credit granting committee, the members of which comprise of the certain head of business, support and control units and their nominees during their absence, the members of this committee recommended by the CEO and approved by the Executive Committee.

B) Asset and Liability Committee

The Asset and Liability Committee (“ALCO”) shall be chaired by the CEO. The Committee Charter specifies the members and functions thereof. The members of this committee are approved by the CEO.

C) Information Technology Steering Committee:

The Information Technology Steering Committee (the “ITSC” or the “Committee”) is a recommendation- making authority with regard to Information Technology, its strategy, management and governance. The ITSC reports to the CEO and is responsible for the effective and cost-efficient application of information technologies, related personnel resources and funding to achieve the goals and the needs of the Bank. The ITSC aims to obtain the greatest value and returns for its use within a well-controlled risk containment framework. The members of this committee are approved by the CEO.

D) Business Continuity Plan; Crisis Management Team:

The Crisis Management Team (“CMT”) defines the roles and responsibilities for executives in the management of a crisis including an assessment of the impact an event will have on the time sensitive business processes and guidance on formally declaring a disaster. Since these plans are developed to address the worst-case scenario, the plans are likely to require alteration at the time of the event to effectively address the specific situation. This team is responsible for working with each of the teams to refine strategies, tasks, and assignments at the time of the incident; therefore, CMT will meet at least twice a year. The members of this committee are approved by the CEO.

The CMT plays a leadership role in managing disasters as well as maintaining Business Continuity plan. It will be chaired by the CEO or by the next reporting line at the Bank, and will have respective departmental managers.

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E) Information Security Steering Committee:

The Information Security Steering Committee's ("ISSC") focus is to ensure the confidentiality, integrity, and availability of the Bank's information technology resources and data by safeguarding them from compromise, misuse, loss or damage caused intentionally or unintentionally. This assurance will allow the Bank to continue its mission critical operations of Banking operations, customer support, services, and administration. The members of this committee are approved by the CEO.

F) Complaints Committee

This Committee shall meet periodically to review the status of complaints received during the period. Furthermore, the Committee shall review the Complaints Reports and classify complaints into "genuine" or "not genuine".

G) Compliance Committee

The Compliance Committee is a standing committee of the Management that has the general responsibility to oversee the Bank's compliance, policies & procedures, discuss and decide compliance related issues including compliance with regulatory requirements, AML/CFT, sanctions, KYC, FATCA, CRS and other matters relating to managing the compliance risk facing the Bank and arising from time to time.

4.3.4 Performance Evaluation & Remuneration of Management

The Bank will develop a comprehensive policy specifying the criteria for evaluating the Management and components of their remunerations. Such policies will comply with the regulatory requirements and also be reviewed by the RNC, from time to time, to be approved by the Board and then shareholders.

Remuneration of Executive Management will be structured so that a portion of the total is linked to the Bank's and individual's performance and aligned to the interests of the shareholders.

All performance-based incentive plans shall be approved by the shareholders.

4.3.5 Powers and Authorities of the Management:

The powers and authorities of the Management are documented in the Business Discretionary Powers policy of the Bank approved by the Board. Basically, all powers and authorities of the Management are granted by the Board of Directors.

5.0 Internal Control Systems:

The Board of Directors of the Bank places significant emphasis on efficient internal control systems. Therefore, internal control systems shall be put in place, which shall always be sufficient and appropriate for the Bank's business undertakings in order to prevent any possible damage to the Bank. It should cover all key issues, ranging from management, operations, custodianship, financial systems, risk management, and compliance matters, amongst others. The organizational structure of the Bank shall always be arranged to enhance efficient functioning of management.

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5.1 Internal Control Framework:

The internal control systems of the Bank shall consist of six interrelated components. These are derived from the way management run the business integrated with the management process. The components are:

5.1.1 Control Environment:

The control environment shall set the tone of the organization, influencing the control consciousness of the people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors at the Bank shall include the integrity, ethical values and competence of the people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the Board of Directors.

5.1.2 Risk Assessment

Recognizing the fact that the Bank faces a variety of risks from external and internal sources, the internal control systems should be able to identify and assess risks. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent.

Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms shall be in place to identify and deal with the special risks associated with change.

5.1.3 Policies and Procedures

The Bank shall have written policies and operational procedures for the different functions of the Bank. These shall be effectively communicated to the employees in order to ensure a common understanding and capabilities that will lead to effective functioning.

5.1.4 Information and Communication

Pertinent information shall be identified, captured and communicated in a form and timeframe that enable management to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They should deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting.

Effective communication channels shall also be developed in a broader sense, flowing down, across and up the organization. All personnel shall receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There are also needs to be effective communication with external parties, such as customers, suppliers, regulators and shareholders.

5.1.5 Chinese-Wall Principle and Segregation of Duties

Segregation of duties is a basic and key internal control component at Ithmaar and shall be used to ensure that errors, irregularities, and conflict of interest are prevented and detected in a timely basis.

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There are five general categories of duties or responsibilities which must at all times be segregated: initiation of proposals, approval, record and book keeping (maker / checker), reconciliation, and reporting.

In an ideal system, different bodies would have to perform each of these five major functions. In other words, no one person shall have control of two or more of these responsibilities.

5.1.6 Monitoring

Monitoring and control system, a process that assesses the quality of the internal control system's performance over time, shall be the responsibility of all business and support units of the Bank. This shall be accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It shall include regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the Board.

5.2 Roles and Responsibilities:

5.2.1 Board of Directors:

The Board sets the “tone at the top” and has a responsibility for overseeing the effectiveness of corporate governance processes. The Board of Directors is responsible for the Bank’s system of internal control It shall set appropriate policies on internal control and seek regular assurance that will enable it to satisfy it that the system is functioning effectively. The Board shall further ensure that the system of internal control is effective in managing risks in the manner which it has approved.

In determining its policies with regard to internal control, and thereby assessing what constitutes a sound system of internal control in the particular circumstances of the Bank, the Board’s deliberations should include consideration of the following factors:

- the nature and extent of the risks facing the Bank;
- the extent and categories of risk which it regards as acceptable for the Bank to bear;
- the likelihood of the risks concerned materializing;
- the Bank’s ability to reduce the incidence and impact on the business of risks that do materialize; and
- the costs of operating particular controls relative to the benefit thereby obtained in managing the related risks.

5.2.2 Executive Management:

The Executive management is responsible for establishing the operating framework and the processes to support an effective governance system. The Executive Management shall fulfill this duty by providing leadership and direction and assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions.

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5.2.3 Internal Auditors / AGRMC

Internal auditors / AGRMC play an important role in evaluating the effectiveness of Bank's control systems, and contribute to ongoing effectiveness.

Recognizing the significance of an efficient internal audit system, the Board of Directors has established the AGRMC which is responsible for supervision of auditing actions taken by Bank personnel and the internal control system. The results of all internal audits shall be reported directly to AGRMC / Board of Directors on regular and continual basis.

5.2.4 Risk Management Department

The Risk Management Department is responsible for supervising appropriate management of overall risks of the Bank. It shall also recommend to the AGRMC/ Board of Directors proper risk management policies, including assessment, mitigation and monitoring of risks, and reporting on the risk status.

5.2.5 Compliance and AML

The Compliance and AML Department has the overall responsibility for coordinating the identification and management of the Bank's compliance risk. It shall assist executive management, the Board/ AGRMC in their compliance obligations and help promote the right compliance culture within the Bank. While the Board and the executive management are accountable for the Bank's compliance, the compliance function has an important role in supporting corporate values, policies and processes that help ensure that the Bank acts responsibly and fulfils all applicable obligations.

5.2.6 Other Personnel

Internal control is the responsibility of everyone in the Bank and therefore shall be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations, noncompliance with legal or regulatory requirements or illegal actions.

5.2.7 External Stakeholders

A number of external parties often contribute to achievement of internal control objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the Board in carrying out their responsibilities. Other entities providing useful information in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, credit rating agencies and the news media.

5.3 Whistleblowing Policy

The Bank has a Whistleblowing Policy, which stipulates procedures for raising concerns about possible improprieties in conduct and reporting thereof in a confidential manner. The status is formally reported to AGRMC.

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5.4 Internal Control Periodic Assessment:

In order to assess the adequacy of the internal control measurements in the Bank, the Board shall receive periodic reports on the internal control framework from Executive Management and control functions such as Internal Audit, Compliance and Risk Management. Such reports are assessed and scrutinized by the Board to ensure that the internal control framework is being implemented according to management prerogatives.

5.5 Management of Conflicts of Interest

This section applies to all Approved Persons of Ithmaar Bank, which includes all members of the Board of Directors as well as members of Executive Management (collectively “Approved Persons”).

The approved persons shall have full loyalty to the Bank, and shall make every practicable effort to arrange their personal and business affairs to avoid conflict of interests. For instance, Approved Persons shall:

- (a) Not enter into competition with the bank;
- (b) Not demand or accept substantial gifts from the bank for himself or connected persons;
- (c) Not misuse the bank’s’ assets;
- (d) Not use the Bank’s privileged information or take advantage of business opportunities to which the Bank is entitled, for himself or his associates; and
- (e) Absent themselves from any discussions or decision-making (i.e. abstain from voting) 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.

5.5.1 Policies and Procedures

The Bank has established a number of policies and procedures to address conflicts of interest, including: Connected Party and Conflict of Interest Policy, Insiders Trading Policy; and Code of Ethics and Business Conduct.

5.5.2 Multiple Directorships

Where a Director is simultaneously a director of the Bank and another company the Bank, he owes a separate and distinct fiduciary duty to each entity as legal individuals in their own right. Should a conflict arise which prevents such Directors from discharging their duty to both companies properly, they should consider resigning from one of the boards.

5.5.3 Disclosure of Interests

(a) *Disclosures to the Board:* Each Approved Person shall inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organisations as they arise. This disclosure must include all material facts in the case of a contract or transaction involving the approved person.

At least annually, all Approved Persons 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 on an annual basis.

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(b) *Disclosures to Shareholders:* The Bank shall disclose to its shareholders in the Annual Report; (a) any abstention from voting motivated by a conflict of interest; and (b) any authorisation of a conflict of interest contract or transaction in accordance with BCCL. (c) All related party transactions and exposures.

5.5.4 Approval of conflicted transactions

Any approval of a conflicted transaction is effective only if all material facts are known to the authorising persons and the conflicted person did not participate in the decision.

6.0 Compliance

The Bank shall always conduct its business in conformity with all laws and regulations pertaining to financial institutions. Some of the important regulations which the Bank complies with include the following:

6.1 Sharia Compliance

The Bank shall conduct its business in conformity with the glorious Islamic Sharia which prohibits usury and encourages trade.

In order to strengthen the Sharia compliance mechanism within the Bank in letter and spirit, the Bank has established a Sharia Governance framework consisting of: (a) Sharia Supervisory Board; (b) Sharia Coordination and Implementation Department; (c) Internal Sharia Audit Department; and (d) Independent External Sharia Compliance Consultant.

6.2 Legal Compliance

Ithmaar Bank is organized in accordance with the BCCL. The Bank closely follows amendments to the BCCL to ensure compliance and takes particular measures in respect of its compliance with the Bahraini Labor Law for the Private Sector No. 36 for the year 2012 and any amendments thereto (the “Labour Law”). The Bank undertakes an annual legal audit to confirm that it is in compliance with the applicable laws, rules and regulations of the Kingdom of Bahrain.

6.3 Accounting Standards

The Bank is required to comply with the requirements of Financial Accounting, Governance, and Ethical Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

6.4 Central Bank of Bahrain Rules

The Bank is subject to a number of regulatory requirements as stipulated by the supervisory and regulatory authority i.e. CBB.

7.0 General Meetings:

The Board is responsible for arranging general meetings for the shareholders where Bank’s performance is discussed as well as other matters relating to the Bank.

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The Annual General Meeting of shareholders shall be held within the first three months after the end of the Bank's accounting year. The Bank will send out a notice to all shareholders and must publish such notice in at least two local Arabic and one local English newspapers and the Bank's website indicating the date, time, place of the meeting, and the full text of the notice including the agenda at least 21 days in advance before the scheduled meeting of shareholders.

Meetings will be held during normal business hours.

Attached to the notice will be sufficient information for voting on every agenda item, each of which shall be identified clearly as either for acknowledgement or consideration, as the case may be, together with comments by the Board on particular issues.

General Meetings will be attended by all Board members in particular the chairs of Audit Committee, RNC, and a representative of the Sharia Supervisory Board. These meetings will also be attended by the Bank's external auditor, representatives of the MoICT and CBB.

In addition, the notice will clearly inform all shareholders of all required documents to maintain their legitimate rights for participating in the meeting and a proxy form to appoint proxies to the meeting. The proxy form will list the agenda items specifying the votes (Yes or No) against each item. At least one hour before the meeting begins, the Bank will provide an opportunity for its shareholders to register for the meeting.

At the meeting, the Bank will inform all shareholders of the voting and vote-counting procedures, and during the consideration of each agenda item, all shareholders will have equal rights for expressing opinion and asking questions at an appropriate time. The voting and vote-counting procedures will be conducted openly and efficiently, counting one share as one vote, and approval of a resolution will be based on the majority of votes. Each participant shall exercise his/her votes on ballots only for opposition, abstention or split votes, and the ballots will be kept for later inspection.

The chairman of the General Meeting is responsible for leading the meeting and disclosing all material facts on agenda items before voting.

Minutes for all General Meetings will be prepared and will be made available to shareholders upon their request as soon as possible but not later than 30 days from the meeting date. In addition, the Minutes will be submitted to the CBB within a maximum of 15 calendar days from the meeting date.

In preparing the Minutes of a Meeting, the Bank will show total votes in approval, opposition or abstention on each agenda item. These totals will be recorded in writing, together with questions raised on every agenda item, and clarifications and comments by the Bank.

8.0 Board Selection & Nomination Process:

The Bank adheres to BCCL in respect of forming the Board of Directors, further details on the Board selection and nomination process are duly presented in the Board Charter.

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9.0- Corporate Governance Disclosure:

The Bank shall disclose its Corporate Governance principles in accordance with the Public Disclosure Module of Volume 2 of the CBB Rulebook. In addition, the Bank will display its Corporate Governance framework on its website.

At each annual shareholders meeting the Board will report on the Bank's compliance with the corporate governance guidelines stipulated under the High Level Controls ("HC") Module of Volume 2 of the CBB Rulebook, and explain the extent, if any, to which it has varied them and justifications for such variance or non-compliance.

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