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### Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>AGRMC</td>
<td>Audit, Governance and Risk Management Committee</td>
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<td>Approved Persons</td>
<td>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 &amp; AML and Deputy MLRO; Head of Information Technology &amp; 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.</td>
</tr>
<tr>
<td>BCCL</td>
<td>Bahrain Commercial Companies law No. 21 for the year 2001 and its amendments</td>
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<tr>
<td>BoD or The Board</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>CBB or Central Bank</td>
<td>Central Bank of Bahrain</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>MOICT</td>
<td>Ministry of Industry, Commerce and Tourism</td>
</tr>
<tr>
<td>RNC</td>
<td>Remuneration and Nomination Committee</td>
</tr>
<tr>
<td>The Bank</td>
<td>Ithmaar Bank B.S.C (c)</td>
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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 (“AGMC”), 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:

- Islamic Sharia
- Integrity
- Transparency
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- 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.

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.

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.

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
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.

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
Corporate Governance Policy

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.

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 (see 4.1);
- Sharia Supervisory Board (see 4.2); and
- Management Team (see 4.3).

4.1 Board of Directors (Board Charter):

4.1.1 Board’s Structure and Composition

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. One-third of which will be Independent Directors. The size of the Board shall be subject to the Bank’s Articles of Association and the provisions of BCCL.

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, as defined below:

The Chairman shall be elected by the Board of Directors through secret ballot to act as the Chairman of the Board for a period of three (3) years.

The Chairman is responsible for the leadership of the Board, and for the efficient functioning of the Board. The Chairman is responsible for ensuring that the Directors are adequately briefed in sufficient time for issues arising at Board meetings. It is the Bank’s policy that the role of Chairman and Chief Executive Officer may not be exercised by the same person with clear segregation of duties of these two posts. It follows that the Chairman shall always be a Non-Executive Director.

A. Executive Directors:

A Director shall be considered as an Executive Director is such Director is an officer or employee, or is otherwise involved in day-to-day management, of either:

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The Bank;
Another company which is a controller of the Bank;
Another company of which the Bank is a controller; or
Another company which is controlled by a controller of the Bank

B. Non-Executive Directors:
A Non-Executive Director is a director who is not an executive director.

C. Independent Directors:

Determination by the Board: an ‘independent director’ is a director whom the Board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The Board should consider that, although a particular director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the bank, ownership structure of the bank, or for any other reason. The Board’s determination shall be a good faith finding after diligent review and full discussion.

Formal requirements: An independent director means a non-executive director of the Bank who, or whose family\(^1\) shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the Bank (not counting director's remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

(a) Was not an employee of the Bank;
(b) Did not:
   (i) Make to, or receive from, the Bank payments of more than 31,000 BD 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 Bank payments of more than such amount;
   (iii) Act as a general partner, manager, director or officer of a partnership or a company that made to or received from the Bank payments of more than such amount;
   (iv) Have any significant contractual or business relationship with the Bank which could be seen to materially interfere with the person's capacity to act in an independent manner,
(c) Did not 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 Bank;
(d) Was not engaged directly or indirectly as an auditor or professional advisor for the Bank; and
(e) Was not an associate\(^2\) of a Director or a member of senior management of the Bank

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\(^1\) For the purpose of the definition of “independent director”, the term “family” or “family member or related persons” includes: spouse, father, mother, son(s) or daughter(s);
\(^2\) For the purpose of the definition of “independent director”, where the term “associate” is used reference is made to: (i) Spouse, father, mother; son(s) or daughter(s); or (ii) A person who is an employee or partner of the Director or of the firm represented or owned by the Director.
4.1.2 Duties of Directors:
The Directors, individually and collectively, are bound by distinct fiduciary duties to the Bank. The Directors owe their fiduciary duty to the Bank as a corporate entity in its own right and not just individual shareholders and/or group of shareholders. These duties apply to all Directors whether they are appointed by a major shareholder or elected in the Annual General Meeting. A Director’s fiduciary duty rests upon the Director as an individual.

The main duties owed by the Directors to the Bank are the duty of obedience, the duty of care and the duty of loyalty.

A) Duty of Obedience: The Directors are required to act in accordance with the Bank’s rules and policies to further its goals and objectives. In addition, the Directors must comply with all relevant laws and regulations. The duty of obedience forbids the Directors from acting outside the scope of the Bank’s internal authorities and policies.

B) Duty of Care: The Directors are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Directors must act in a manner that they reasonably believe is in the best interest of the Bank.

C) Duty of Loyalty This duty requires the Directors to act in good faith, solely and collectively, in the best interest of the Bank. The Directors should not act out of expedience, avarice or self-interest. The Directors are barred from using Bank properties and assets for their personal needs or seeking business opportunities for personal benefit. This duty also requires Directors to retain the confidentiality of information that is explicitly deemed confidential by the Bank, as well as information that appears to be confidential from its nature or matter. See section 5.5 of this policy for Management of Conflicts of Interest.

The Directors must be aware of their accountability towards the Bank and the shareholders if such duties are violated, and that they can be personally held liable and sued by the Bank or the shareholder for such violations.

The Bank provides insurance to indemnify the Directors for negligence, default, breach of duty or breach of trust provided that the Director was acting in good faith.

The above duties are detailed in the Bank’s Code of Ethics and Business Conduct approved by the Board. Such policy must be received and signed by all of the Bank’s employees as well as members of its Board of Directors and Sharia Supervisory Board.

4.1.3 Responsibilities of Directors:
The responsibilities of the Board of Directors, individually or collectively, are listed below. These responsibilities emphasize the Board’s fiduciary duties as described in the previous section. It should be noted that the Board of Directors will not be involved in the day to day operation of the Bank.
Corporate Governance Policy

Although the Board may delegate certain authorities to the Management, the Directors retain specific duties and responsibilities which may not be delegated to Management for which Directors will be held fully responsible. The primary responsibilities of the Board are as follows:

A) **Set the Bank’s Strategic Direction:**
   The Board of Directors is responsible for setting the Bank’s strategic direction in accordance with the objectives upon which the Bank is established and ensuring that business activities are aligned with the terms of the Bank’s license as well as the interests of shareholders it represents.

B) **Overall Responsibility for the Performance of the Bank:**
   The Board of Directors is ultimately responsible for the performance of the Bank. The fundamental role of the Directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Bank and its stakeholders.

   Annually, the Board shall review and approve yearly goals and operating plans as required for the Bank. On an ongoing basis during the year, the Board shall monitor the Bank’s performance against its annual operating plan and against the performance of its peers.

   The Board shall establish policies for strengthening the performance of the Bank, including ensuring the Management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital. This includes deciding on whatever steps necessary to protect the Bank’s financial position and viability.

   The Board of Directors shall also approve and review a risk appetite and tolerance statement for various risks that articulates the nature, types and levels of risks that the bank is willing to assume. In its strategy review process, the Board will:

   - Review the inherent level of risk in these plans;
   - Assess the adequacy of capital to support the business risks of the bank;
   - Set performance objectives; and
   - Oversee major capital expenditures, divestitures and acquisitions.

   In compliance with CBB rules, the Board shall ensure that all major changes to the Bank’s business plans/strategy are communicated to CBB in due course before the implementation of such plans.

C) **Select, Appoint, and Evaluate the Management:**
   The Board, through the RNC, is responsible for selecting members of the executive management

   The Board shall oversee the Chief Executive Officer and other executive management in the competent and ethical operation of the Bank.

   The Chief Executive Officer meets with the Board of Directors to develop appropriate goals for a fiscal year. At year end, the Board of Directors shall obtain information from the RNC to evaluate the performance of the Chief Executive Officer in meeting those goals.
D) **Review Management Performance and Compensation:**
The RNC shall conduct an annual review of the performance of the Chief Executive Officer and the executive management in light of the goals and objectives of the Bank and shall report the same to the Board of Directors.

The RNC shall also review and approve the compensation programs for executive officers and key employees of the Bank as it deems appropriate. The evaluation process and compensation shall be in accordance with the Remuneration Policy of the Bank and related regulatory guidelines, if any.

E) **Review Management Structure and Succession Planning:**
Based on the RNC recommendations, the Board shall review the Bank’s succession plan, which at a minimum shall include appropriate contingencies in case the Chief Executive Officer retires or is incapacitated. The Board will evaluate potential successors to the Chief Executive Officer and other key executives of the Bank. The Chief Executive Officer shall at all times make available his recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals. The Chief Executive Officer shall present to the Board of Directors a formal review of succession planning on periodic basis.

F) **Advice and Counsel Management:**
Advice and counsel to management occurs both in formal Board and committee meetings and through informal, individual Director’s contacts with the Chief Executive Officer and other members of management.

G) **Monitor and Manage Potential Conflicts of Interests:**
All Directors must disclose all types of transactions between them (directly or indirectly) and the Bank, prior to their conclusion, even if such transactions are in the ordinary course of business. The Board of Directors shall ensure that there are no abuses of corporate assets or unlawful related party transactions. See 4.1.10 for more details.

H) **Ensure the Integrity of Financial Information:**
It is the responsibility of management, under the oversight of the Board and the AGRMC, to produce financial statements that fairly and accurately present the financial condition and results of operations of the Bank.

The Board, through the AGRMC, shall oversee the engagement of an independent accounting firm / external audit firm to audit the financial statements prepared by management and issue an opinion on those statements based on standards issued by AAOIFI, or with International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS), where no relevant AAOIFI standard exists.
The Board, through the AGRMC and the Management, shall also ensure that the external auditors receive all documents and support necessary for the conduct of the independent audit.

For accountability purposes, the CEO and Head of Financial Control Department must state in writing to the AGRMC and the Board as a whole that the interim and annual financial statements present a true and fair view, in all material respects, of the Bank’s financial condition and results of operations in accordance with applicable accounting standards.

I) **Monitor the Effectiveness of the Governance & Compliance Practices:**
The Board of Directors, through the AGRMC, shall periodically review and evaluate the status of the Bank’s compliance with rules and regulations as well as the effectiveness of the governance practice under which the Board operates and make changes to such practices as needed in coordination with the Compliance and AML Department.

J) **Responsibilities for Disclosure:**
The Board of Directors shall oversee the process of disclosure and communications with internal and external stakeholders. The Board shall ensure that disclosures made by the Bank are fair, transparent, comprehensive and timely and reflect the character of the Bank and the nature, complexity and risks inherent in the Bank’s business activities. The Board approves the Public Disclosure Policy which addresses the regulatory disclosure requirements.

K) **Internal Controls:**
The responsibilities of the Board of Directors also includes ensuring that an effective internal control systems are in place sufficient and appropriate for the Bank’s business undertakings in order to prevent any possible damage to the Bank. See Section 5 on Internal Control.

L) **Preparations of Shareholders General Meetings:**
In accordance with the BCCL, the Board will arrange for an annual general meeting of the shareholders. See Section 7 for more details.

4.1.4 **Selection and Nomination Process of Board Candidates:**
See Section 8 of this policy.

4.1.5 **Directors Induction & Development Programme**
The Bank prepares an all-day induction program for newly appoint/elected Directors, which starts with a welcome note from the Chief Executive Officer and Deputies Chief Executive Officers. Thereafter, members of the Executive Management introduce the Bank in detail, covering the Bank’s history, structure, subsidiaries, products, strategy, financial performance and organizational chart. This is followed with presentations from the heads of various departments in respect of their role and function within the Bank. The Corporate Secretary shall maintain sufficient records of these induction programs which may be subject to periodic audit.
The Bank also arranges training sessions throughout the year for the Directors and Executive Management, to keep them abreast with the recent developments (legal, regulatory, market, technology and others) in the banking sector.

The RNC shall ensure that all Directors remain current on how to best discharge their responsibilities as Directors of the Bank, including keeping abreast of changes and trends in economic, political, social, financial, regulatory and legal climates and corporate governance practices. The RNC Secretary shall maintain sufficient records of these training programs which may be subject to periodic audit.

4.1.6 Term
A new Board of Directors is elected/appointed for a new term everywhere three years, renewable at the Annual General Meeting of shareholders of the Bank.

4.1.7 Board Operations and Meetings
- In accordance with the Bank’s Articles of Association, the Board of Directors shall meet at least four times per year, once at each quarter. Usually, the meetings are convened upon the invitation of the Chairman but any other Director may also call for a meeting.

Each Director shall attend at least 75% of the Board meetings conducted in a financial year. Failure to meet this level shall be notified to the CBB immediately and explained in the Bank’s Annual Report for the respective financial year.

- Attendance to the Board meeting shall be in person, however. It is allowed to attend a meeting via teleconference or videoconference, provided that the number of meetings attended through tele/video conferencing is not more than 50% of the total number of meetings attended.
- The quorum for the meeting is considered as present if attended by at least 50% of the Directors, provided that the number of Directors present is not less than two.
- Items on the agenda are typically determined by the Chairman in consultation with other Directors of the Board and the Management. Any Director may request that an item be included on the agenda.
- The Chairman is responsible for taking active lead in promoting mutual trust, open discussion, constructive dissent and support for the decisions after they have been made. The Chairman is also responsible for the leadership of the Board, and the efficient functioning of the Board. The Chairman, through the Corporate Secretary, shall ensure that all the Directors receive the meeting agenda, minutes of prior meeting, and the Board pack.
- Generally, Directors shall receive information in advance of Board meetings so they will have an opportunity to prepare for discussion of the items at the meeting. Information may include background information, summaries, reports and other materials pertaining to the agenda items prepared by Management and/or third parties.
- At Board meetings, ample time is scheduled to assure full discussion of important matters. Management presentations are scheduled to permit sufficient Board meeting time to be available for discussion and comments.
- The Directors are expected to prepare for and participate in all Board and applicable Committee meetings. Each Director is expected to ensure that other commitments do not materially interfere with the member’s service as Director. To facilitate participation, the Directors may attend in
person, via telephone conference or via video conference. Meeting attendance and voting through proxies is prohibited.

- The Board's policy is to allow Independent Directors, at their sole discretion, to have separate meetings prior to the scheduled Board meetings.
- Resolutions of the Board of Directors shall be adopted if approved by the majority of Directors present in the meeting. In case of a tie, the Chairman shall have the casting vote.

- Dissenting Directors: Where a Director strongly disagrees with a Board decision, he has several ways to indicate this dissatisfaction. A dissenting Director may:
  - prepare a memorandum setting out his objections;
  - raise these concerns at a formal board meeting, requesting that a meeting be convened if the matter needs urgent attention and the next board meeting is too late to give proper attention to the issue;
  - insist on a full hearing at the meeting and request that detailed objections be recorded in the minutes of the meeting; and
  - seek professional advice if this is appropriate.
- The absence of a Director from any Board/Committee meeting will be noted in the meeting minutes and appropriately disclosed as per CBB guidelines.

4.1.8 Board Interaction with Third Parties:

A) Board Access to Management:
The Directors shall have reasonable access to Management and shall coordinate such contact with Management through the Chairman of the Board or Corporate Secretary.

Furthermore, the Board encourages the Management to bring managers into Board meetings who can provide additional insight into the items being discussed because of personal involvement in these areas.

B) Board Interaction with Other Parties:
The Board believes that management speaks for the Bank. Individual Directors may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Bank but it is expected that Directors would do this with the knowledge of the Chairman, and in most instances, at the request of executive management.

C) Board Access to Independent Advisors:
The information needed for the Board of Directors decision-making generally will be found within the Bank, and Directors shall have full access to management and other employees as well as to the Bank’s records and documents. The Board of Directors may also seek legal or other expert advice from a source independent of management.

D) Board Access to Corporate Secretary:
Each Director also has full access to the Corporate Secretary for advises on Board procedures. See 4.1.15.
4.1.9 Director Remunerations
Individual Directors, other than members of the Management of the Bank serving as Directors, are entitled for sitting fees for every meeting they attend. The amounts of these fees are approved by the shareholders based on recommendations of the RNC.

The Bank does not currently offer any performance related incentive plans (such as grants of shares, share options, or other deferred share-related incentive schemes, bonuses, or pension benefits) to its Directors. Should the Bank intend to make such schemes, it will structure it in accordance with Article 38 of the Bank’s Article of Association and shall be subject to the approval of the shareholders. In either case, Non-Executive Directors will be excluded from these schemes in accordance with CBB regulations.

4.1.10 Conflict Resolution
A conflict may sometimes arise between a Director’s personal circumstances and that of the Bank. In accordance with the Duty of Loyalty (see 4.1.2c), Directors may never prefer their interests over that of the Bank. Directors who do so may be liable to account to the Bank in respect of any profits made as a result of such a transaction. Refer to section 5.5 for Management of Conflict of Interest.

4.1.11 Annual Self-Assessment by the Bank’s Board of Directors
The Board through RNC will conduct an annual self-assessment to evaluate its performance and the performance of its committees and each individual director. It will also assess the appropriateness of its size and would consider introducing new Directors to accommodate potential candidates in accordance with section 8 of this policy. The assessment shall also include a review of each Director’s contribution and attendance of Board and Committee meetings.

4.1.12 Resignation and Disqualification of Directors:
A Director shall be removed or considered for removal from the Board of Directors in the following events:

- If so decided by a resolution of the Board, excluding any voting by the Director in question, if the Director fails to attend four (4) consecutive meetings of the Board. For the purpose of this section, attendance at a meeting of the Board in any manner consented by Article 20(6) of the Bank’s Articles of Association shall be deemed valid attendance;
- If the Director is disqualified by any Bahrain governmental agency, including but not limited to the Central Bank of Bahrain and the Bahrain Ministry of Industry, Commerce and Tourism;
- If the Director accepts to be appointed to any other office in the Bank carrying a salary without the approval of the Board of Directors;
- If the Director is in any jurisdiction convicted of theft, forgery, issuing a false cheque or of committing any of the offences set out in the BCCL;
- If the Director is declared bankrupt; and
- If the Director loses one of the qualifications set forth in Article 20(2) of the Bank’s Articles of Association.

Directors may also voluntarily resign from the Board of Directors during or upon the expiry of their Term. Upon the resignation of a Non-Executive Director such Directors should submit a written statement,
addressed to the Chairman for circulation to the Board, if he/she has any material concerns regarding the running of the Bank.

A resigned / disqualified Director can be replaced in accordance with Section 8.7 of this policy.

4.1.13 Committees of the Board of Directors:
The Board of Directors shall have the following three committees: Executive Committee; Audit, Governance and Risk Management Committee (“AGRMC”), and Remuneration and Nomination Committee (“RNC”).

Each Committee shall have its own charter, approved by the Board, which shall set forth the policies and responsibilities of the committees in addition to the qualifications for Committee membership. Committee members shall be appointed by the Board after consultation with the individual Directors.

The Board generally favours the periodic rotation of Committee assignments and Committee chair positions, but also recognizes that at times it may not be in the best interest of the Bank to change a Committee assignment or chair position, such as when a Director has special knowledge or experience.

The chairperson of each committee will, in consultation with appropriate committee members and members of management, and in accordance with the committee’s charter, determine the frequency and length of committee meetings and develop the committee’s agenda. Committees must keep full minutes of their meetings signed by each member.

The Board of Directors and each committee shall have the authority to obtain advice, reports or opinions from internal and external counsel and expert advisers and shall have the power to hire independent legal, financial and other advisers as they may deem necessary, without consulting with, or obtaining approval from, Management of the Bank in advance.

The Board may, from time to time, form new committees as it deems appropriate. Brief description of each committee follows.

A) Executive Committee
The primary function of the Executive Committee is to exercise the powers of the Board of Directors (except those prohibited by all applicable laws or the Bank’s internal policies) and include matters of an urgent nature which arise between regularly scheduled Board meetings. The Executive Committee shall perform its duties and responsibilities in accordance with the Executive Committee Charter as approved by the Board of Directors.

B) Audit, Governance and Risk Management Committee:
The Audit, Governance and Risk Management Committee (“AGRMC”) is a resourceful, dedicated, and vigilant Committee which shall assist the Board of Directors of the Bank in fulfilling its oversight responsibilities. On an overall basis, AGRMC shall review the financial reporting process, adequacy of the Bank’s internal controls, corporate governance and the process for monitoring compliance with policies, procedures, laws, regulations, process of risk management and its own code of business conduct. AGRMC is responsible for making recommendations to the Board on the risk appetite and tolerances across multiple risk silos and risk policies and methodologies that are to be adopted by the management for effective management of risk in the activities at the
Bank. AGRMC is also responsible for appointing Heads of Risk Management, Compliance & AML and Internal Audit and recommending appointment of external auditors.

This Committee shall have at least three members the majority of which, including the chairman of the AGRMC, shall be Independent Directors.

C) The Remuneration & Nomination Committee:
The Remuneration & Nomination Committee ("RNC") is responsible for identifying persons qualified to become Board members, Corporate Secretary, CEO, and heads of departments (other than Risk Management, Compliance & AML and Internal Audit which is the responsibility of the AGRMC). The Committee is also responsible for reviewing the remuneration policy of the Board and the Management and presenting the same to the shareholders for their approval during general meetings.

This Committee shall comprise only Independent Directors or, alternatively, only Non-Executive Directors of whom a majority, including the chairman, will be Independent Directors.

4.1.15 Board Authorities:
In accordance with Article 20 of the Article of Association, the Board is empowered by the shareholders to take all necessary actions to manage the affairs of the Bank within the scope of the Bank's licensing framework, laws, and regulations

Individual Directors have no power outside board meetings, or individual approval authority, apart from any authority specifically delegated by the Board of Directors.

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.
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.

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.

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.

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”.

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.

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.
Corporate Governance Policy

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.

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.

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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.

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.

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

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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.

(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.

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:

8.1 Eligibility Criteria:
The Bank adheres to BCCL in respect of forming the Board of Directors. There are two types of Board nominees: appointed, and elected.

Shareholders owning 10% or more of the capital of the Bank may nominate themselves or any other representative for each 10% owned, to be appointed as Directors. They can use any remaining shares to elect another nominee through voting. Shareholders owning less than 10% may only elect a nominee through voting.

The percentage of the shareholders ownership considered for the nomination process shall be determined as of the date of the general meeting in which directors will be nominated. Subsequent changes to the ownership structure shall not automatically change the Board unless warranted by shareholders.

8.2 Pre-Nomination Process:
Nominations of Directors will usually be called for in the following events:

- **Board Reformation:**
  the Board of Directors and each of its Committee will conduct an annual self-evaluation to identify areas of concern or potential issues relating to the processes, performance and effectiveness of the Board or its Committee, as the case may be. These evaluations will be administered by the RNC, with oversight by the Chairman, and will be reviewed and discussed with the full Board.

  Based on this evaluation, the Board will decide on the ultimate size for its operations as well as the experience of the individual Board members required.

- **_expiry of a Director’s term:**
  All Directors serve a three year term, renewable, as per the Articles and Memorandum of Association of the Bank. When Directors Term expires, they may be nominated to serve for
another 3 years Term subject to the approval of shareholders and clearance of RNC Committee
and regulatory authorities.

In considering whether to recommend directors who are eligible to stand for reelection, the RNC
will consider a variety of factors, including the Director's contributions to the Board and ability to
continue to contribute productively, attendance at Board and committees meetings and
compliance with the Corporate Governance Principles (including satisfying the expectations for
individual directors) and regulatory authorities requirements, as well as whether the Director
continues to possess the attributes, capabilities and qualifications considered necessary or
desirable for Board service, the results of the annual Board self-evaluation, the independence of
the Director and the nature and extent of the Director's personal business activities.

8.3 Candidates Preferred Characteristics:
The Board shall determine the preferred qualities of nominated candidates for the Board but in general,
an individual should possess the following minimum qualities to be considered as a Director:

- Must be of a legal age with full legal capacity;
- Demonstrate ability to comprehend the strategic goals of the Bank and to help guide the Bank
towards the accomplishment of those goals;
- A history of conducting his personal and professional affairs with the utmost integrity and
observing the highest standards of values, character and ethics;
- Time availability for participation and to be present at annual meetings of shareholders as
requested from time to time by the Chairman;
- Willingness to demand that the Bank's officers and employees insist upon honest and ethical
conduct throughout the Bank;
- Knowledge of, and experience with regard to at least some of: (a) financing and investment; (b)
regulations imposed by relevant local authorities such as CBB, BCCL, and Bahrain Bourse, amongst
others; (c) portfolio and risk management; (d) sound business practices and (e) accounting and
financial reporting;
- Is not already a board-member of another retail banking institution,. holds no more than 2 board
memberships in financial institutions, and no more than 3 board memberships in listed Bahraini
companies;
- Must have not been convicted in a crime involving negligent or fraudulent bankruptcy or a crime
affecting their honor or involving a breach of trust or in a crime on account of their breach of laws,
unless he/she was reinstated;
- Must meet the fit and proper criteria identified by the CBB under the “Training and Competency”
Module of Volume 2.
- Any other condition stipulated in the Bank’s Article of Association where applicable and/or as
determined by the RNC; and
- Where applicable, ability to satisfy the criteria for independence indicated under paragraph 4.1.1
(d) above.
8.4 Selection Process:
Upon the occurrence of the above, the RNC shall examine shareholders quotas as per the above mentioned Eligibility criteria based on which the following steps will be pursued:

8.4.1 Appointed Directors:
If any of the shareholders, owning 10% or more of the Bank’s capital, is eligible to appoint a person, the RNC shall request such shareholder to provide details of the candidate it intends to nominate as new Director or re-elect an existing Director. Based on details provided, the RNC shall evaluate the suitability of the candidate. If the candidate is found to be suitable, the RNC shall seek formal approval of the Central Bank of Bahrain, otherwise the shareholder will be notified to nominate another candidate.

8.4.2 Elected Directors:
If shareholders owning 10% or more of the Bank’s capital have already utilized their rights to appoint a Director, or if the above is not applicable, the RNC shall identify one or more candidates to stand for election, investigates each candidate, and evaluates their suitability for service on the Board and recommends a short list of suitable candidates to the full Board.

In this respect, the RNC is authorized to use any methods it deems appropriate for identifying candidates for Board membership, including recommendations from current Board members and recommendations from shareholders. The Committee may also engage outside search firms to identify suitable candidates.

Once the short-listed candidates are approved by the Board, the RNC shall seek preliminary approval from the CBB after which the names and details of the candidates will be sent to the shareholders, usually as an agenda item for a general meeting, for their review and considerations.

8.5 Formal Appointment Process:
At the general meeting, the Chairman shall explain the nomination process, the justifications for Board’s structure, details of each candidate, and performance of each Director being re-elected, including the Director’s attendance level. The Chairman shall also clearly explain the Eligibility Criteria and the differences between Appointed Directors and Elected Directors. The Chairman shall also emphasize on the rights of minority shareholders to elect an Independent Director to represent them.

The quorum of shareholders attending the meeting will then vote for candidates subject to election and the candidate with the highest eligible votes will be appointed as a Director. The Chairman will ensure that each person is voted on separately, so that the shareholders can evaluate each person individually. At the same time, all candidates appointed by shareholders, as described in 8.3.1 above, will be formally appointed.

Following the formal appointment of a Director, the Chairman shall issue formal letters of appointment to the approved-Directors outlining the Director’s powers, duties, responsibilities, term, the time commitment envisaged, committee assignments (if any), remunerations expense reimbursement entitlement, and access to independent professionals when that is needed.

8.6 Election and Appointment of the Chairman:
The Chairman of the Board is elected by the Board of Directors through secret ballots and is appointed for a period of three (3) years.
8.7 Process for filling vacancies in Director positions:
If Directors position becomes vacant as a result of disqualifications or resignations, the R&N Committee will determine as to whether such Director was originally appointed or elected. If the exiting Director was originally appointed, the R&N Committee will approach the shareholder which originally appointed the Director to re-nominate a suitable candidate.

If such shareholder waives his rights to nominate a new Director or if the exiting Director was originally elected, such vacant position will be replaced by the next highest voted for nominee in the latest elections of the Board. The new member shall complete the unexpired term of his predecessor.

If the above is not possible, the Board shall elect by secret ballot a person meeting the Directors Preferred Characteristics nominated by two Board Members (usually the R&N Committee) to serve until the next general meeting.

If more than one Director (equal to one-fourth of the original Board size) resign or are disqualified, the Board of Directors shall call for an ordinary general meeting, within 2 months from the date of such incident, to nominate persons, meeting the Directors Preferred Characteristics, to fill the vacancies. However, if more than half of the Board of Directors resign or are disqualified, the Board of Directors shall deem to be dissolved and new elections shall be called for to elect a new Board of Directors for the Bank.

In any circumstance, all Board Members’ elections/appointments are subject to CBB approval.

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.