

2011

# Corporate Governance Policy

بنك الإثمار  
Ithmaar Bank



Ithmaar Bank

Risk Management & Compliance Division

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<b>Volume</b>	<b>High Level Standards</b>
<b>Chapter</b>	<b>Corporate Governance Policy</b>

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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 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, therefore, is established to provide a direction and framework for managing and monitoring the Bank in accordance with the principles of good corporate governance guidelines provided by (a) CBB’s Rulebooks on High Level Controls and Public Disclosures, (b) the Bank’s Article and Memorandum of Association, (c) The Bahrain’s Commercial Companies law, and (d) international best practices.

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 Article and Memorandum of Association, (c) The Bahrain’s Commercial Companies law, and (d) international best practices.

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 theirhome regulatory authorities.

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## 2.0 Responsibilities:

The Corporate Governance Committee together with the Company Secretary and the Compliance Officer shall be responsible for implementing and monitoring the provisions of this policy.

## 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 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
- 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 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 government authorities. It also takes responsibility to 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, major or minor, 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.
- 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.
- Inspect the minute books of the general meetings and to receive copies thereof.
- Call or direct the Annual General Meeting in accordance with the Bahrain Commercial Companies Law.
- Proceed against the Board of Directors, jointly and severally, by way of civil or criminal proceedings in accordance with the provisions of the Bahrain Commercial Companies Law.
- Apply for the winding up of the Bank.

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### 3.2.2 Minority Shareholders:

Given its shareholding structure, the Board of Directors has been structured to include independent directors with additional responsibilities of protecting minority shareholders rights.

As additional measures to protect minority interests, the Bank subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain) to protect against insider abuses of major transactions;
- Mandatory disclosures of transactions by substantial shareholders: to protect against insider abuses with disclosure of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares: to protect against dilution of minority shareholders and to prevent insiders altering ownership structure;
- Limitations on Bank's business transactions with Directors, controllers, and related parties: to protect against making use of the Bank's funds for personal benefits;
- Exercise rights to elect independent directors;
- Penalties for insider trading: to protect against insider abuses of information at the expense of current and potential shareholders; and
- Provisions on takeovers, mergers, and acquisitions: to protect against violation of minority shareholders rights.

### 3.2.3 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 already has a comprehensive Personnel Policy to address employment issues.

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### 3.2.4 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.

### 3.2.5 Counter-parties:

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

### 3.2.6 Creditors:

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

### 3.2.7 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 Corporate Governance Committee 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, as well as ensuring proper implementation and management of the investment contracts/projects.

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

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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, 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.

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. Ithmaar Bank is one of the founding members of AAOIFI which is committed to developing, in the public interest, accounting thought in the field of Islamic banking by preparing and issuing a single set of high

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quality global accounting standards for Islamic banks and financial institutions.

#### **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 the Code of Business Conduct and integrity 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

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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 performance of investment funds and career opportunities, amongst others.

To further assist with shareholder's communications, the Bank has a dedicated department "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.

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#### **4.0 High Level Organization Structure:**

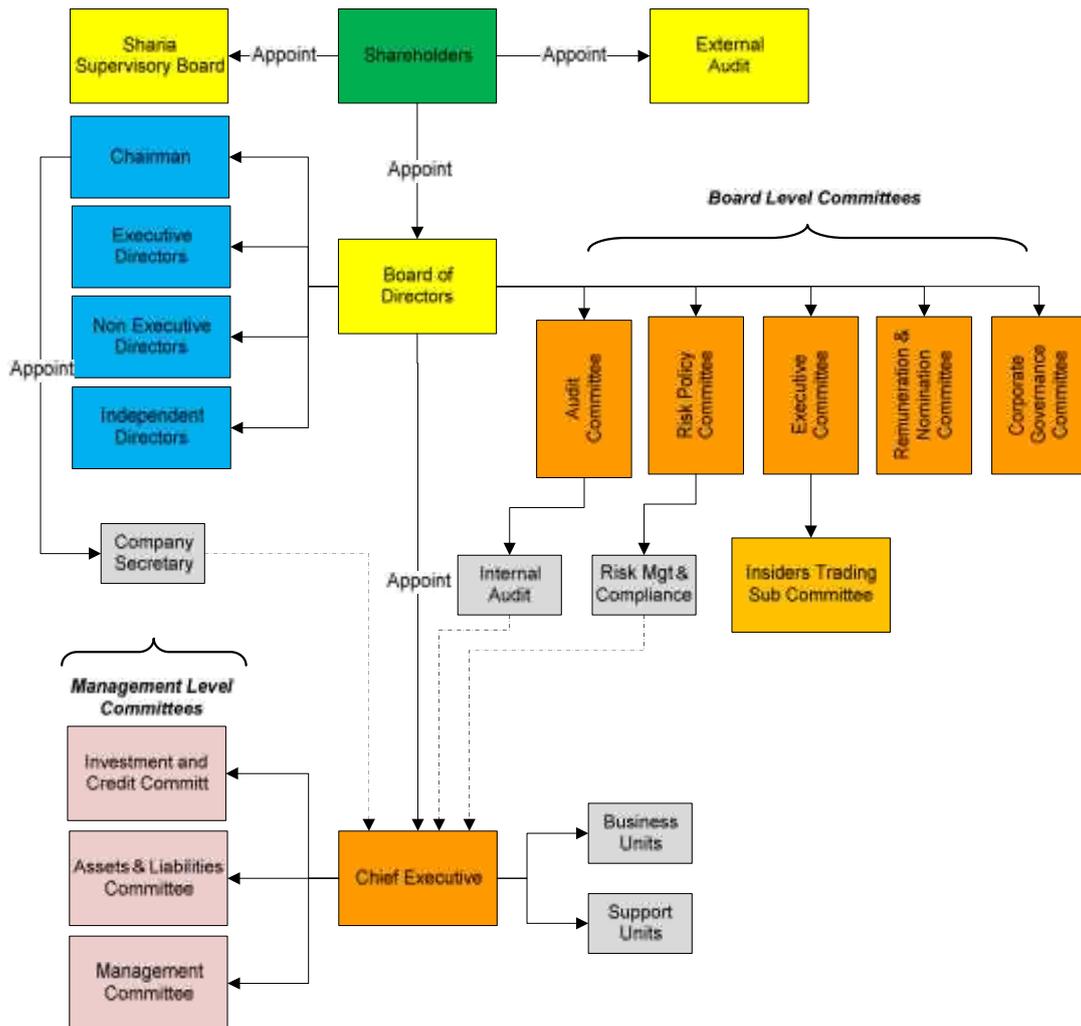
The Bank shall be administered by three distinct bodies namely:

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

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## High Level Organization Chart



### 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 5 but not more than 15 Directors one-third of which will be Independent Directors. The actual size of the Board will be determined by

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the shareholders in the General Meetings based on recommendations from the Corporate Governance Committee. In all cases the size of the Board shall be subject to the Bank's articles of association and the rules and procedures decreed by the Minister of Commerce and Industry.

The Board will always compose of individuals whose knowledge, background, experience, and judgment are valuable to the Bank and shall comprise a Chairman, Independent Directors, Executive Directors, and Non-Executive Directors, as defined below:

**A) Chairman:**

A Director elected by the Board of Directors through secret ballot to act as the Chairman of the Board for a period of one year, renewable after a review by the R&N Committee.

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 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 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 an Independent Non-Executive Director.

**B) Executive Directors:**

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

- 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

**C) Non-Executive Directors:**

A person not involved in the day-to-day management and/or is not a full-time salaried employee of the bank and/or any of its affiliates, or subsidiaries or parent companies.

**D) Independent Directors:**

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An independent director means a director of the Bank who, or whose family 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:

- Was not an employee of the Bank;
- Did not:
  - Make to, or receive from, the Bank payments of more than 31,000 BD or equivalent (not counting director's remuneration);
  - 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;
  - 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;
  - 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,
- 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;
- Was not engaged directly or indirectly as an auditor or professional advisor for the Bank; and
- Was not an associate of a Director or a member of senior management of the Bank.

#### **4.1.2 Duties of Directors:**

Directors, individually and collectively, are bound by distinct fiduciary duties to the Bank. Directors owe their fiduciary duty to the Bank as a corporate being in its own right and not just individual shareholders and/or group of shareholders. These duties apply to all Directors whether

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they are representing / appointed by a major shareholder or are elected as Independent Director; a Director's fiduciary duties rest upon the Director as an individual.

The main duties that Directors owe the Bank are the *duty of obedience*, the *duty of care* and the *duty of loyalty*.

**A- Duty of Obedience:**

Directors must act in accordance with the Bank's rules and policies, and in furtherance of its goals as stated in the mission statement, Memorandum & Articles of Association. In addition, Directors must comply with all relevant laws and regulations. The duty of obedience forbids acts outside the scope of internal authorities, powers, and limits.

**B- Duty of Care:**

Directors are under duty to exercise the same care that an ordinary, prudent person would exercise in a like position or under similar circumstances. In complying with this duty, Directors are expected to:

- Attend all Board meetings. At minimum, Directors are expected to attend not less than 75% of all scheduled Board meetings.
- Consider all material information reasonably available and/or seek relevant information prior to making a business decision relating to the issue. Directors have the rights of access to the Management and/or advisors when in doubt. See sections 4.1.7 and 4.1.8 below for more information on Board Operations and Board Interaction with Third Parties.

**C- Duty of Loyalty**

This duty requires the Directors to act solely in the best interest of the Bank, free of any self-dealing, conflicts of interest, or other abuse of the principal for personal advantage. Directors are barred from using Bank properties or assets for their personal pursuits, insiders trading, or taking business opportunities for themselves. 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 4.1.10 of this policy for Conflict Resolution.

Directors will be protected from liability for their actions on the Board if the above duties are exercised properly. Directors must be aware of their accountability towards the Bank and the shareholders if such duties are

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violated, and that they can be personally sued by the Bank or the shareholder for such violations.

The Bank shall take out insurance to indemnify Directors or officers for negligence, default, breach of duty or breach of trust provided such breach has occurred in good faith.

The above duties are detailed in the Bank's Code of Conduct and Business Ethics policy approved by the Board. Such policy must be received and signed by all Board, Management, 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.

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.

Before finalizing the strategy of the Bank, the Chairman of the Board will discuss the overall strategy with its controllers / major shareholders and seek their views in that respect.

**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

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against its annual operating plan and against the performance of its peers.

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 R&N Committee, is responsible for selecting members of the Management which at minimum must include the following positions:

- Chief Executive Officer;
- Head of Financial Control;
- Company Secretary;
- Head of the Group Internal Audit;
- Head of Departments / Functions;
- Compliance Officer; and
- Money Laundering Reporting Officer and its deputy;

The Board shall oversee the Chief Executive Officer and other senior 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 ends, the Board of Directors shall obtain information from the R&N Committee to evaluate the performance of the Chief Executive Officer in meeting those goals.

**D) Review Management Performance and Compensation:**

The Remuneration and Nomination Committee shall conduct an annual review of the performance of the Chief Executive Officer and

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the senior management in light of the goals and objectives of the Bank and shall report the same to the Board of Directors.

The Remuneration and Nomination Committee 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 Personnel Policy of the Bank and related regulatory guidelines, if any.

**E) Review Management Structure and Succession Planning:**

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 time 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. Once approved, the succession plan will be forwarded to CBB in compliance with relevant rules.

**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 its Audit Committee, to produce financial statements that fairly and accurately present the financial condition and results of operations of the Bank.

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The Board, through the Audit Committee, 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 Generally Accepted Accounting Principles.

The Board, through the Audit Committee 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 Audit Committee 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 Audit Committee and the Corporate Governance Committee, 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 Risk Management & Compliance Division.
- 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:**

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In accordance with Bahrain Commercial Companies Law, the Board will arrange for an annual general meeting of the shareholders. See Section 7 for more details.

**M) Ensure Equitable Treatment of Minority Shareholders:**

The Boars is also responsible to ensure that all shareholders are treated equally. The "Shareholders Affairs Department" acts as a liaison officer between the Board of Directors and the shareholders and ensuring that all shareholders are treated equally. Refer to sections 3.2.1 and 3.2.2 of this policy for more details

**4.1.4 Selection and Nomination Process of Board Candidates:**

See Section 8 of this policy.

**4.1.5 Directors Orientation & Continued Education**

The Bank through the Company Secretary will, as soon as practicable but not more than 6 months from the date of appointment, arrange for a comprehensive induction programme aimed at broadening Directors understanding of the Bank, its business, and the environment and market in which it operates. Such induction programs may include the following:

- Ownership Structure;
- The Corporate Governance framework of the Bank;
- The Bank's most recent business and budget plans;
- Financial performance of the Bank over the past three years;
- Major issues with regulatory bodies including inspection reports;
- Meetings with the Chief Executive Officer of the Bank and selected heads of departments;
- The control environment adopted in the Bank; and
- Laws and regulations governing the Bank's business.

The R&N Committee 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 Company Secretary shall maintain sufficient records of these induction programs which shall be subject to periodic audit.

**4.1.6 Term**

Each Director is elected for a three-year term renewable at an annual meeting of shareholders of the Bank.

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#### 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 two Directors may also call for a meeting.
- The quorum for the meeting is considered as present if attended by at least 50% of the Directors but, in any case, not less than three members provided that the Chairman is one of them.
- 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 Company Secretary, shall ensure that all 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.
- 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, Directors may attend in person, via telephone conference or via video-conference. Meeting attendance and voting through proxies is prohibited.

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- 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 the 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:

Directors shall have reasonable access to Management and shall coordinate such contact with Management through the Chairman of the Board or Company 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

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knowledge of the Chairman, and in most instances, at the request of senior 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 Company Secretary:**

Each Director also has full access to the Company 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 annual retention fees in addition to sitting fees for every meeting they attend. The amounts of these fees are approved by the shareholders based on recommendations of the Remunerations and Nominations Committee. All Directors are entitled for full travel expenses.

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. The Bank has established a number of policies and procedures to be followed by Directors in such circumstances. 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. Some of the policies adopted by the Board to control conflict of interest include:

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- Related Parties & Conflict of Interest;
- Insiders Trading Policy; and
- Code of Ethics & Business Conduct

Directors may often sit on the boards of several companies and conflicts may arise between the divergent interests of these companies, thus presenting a problem to the Directors who sit on the boards of both companies. This is controlled through caps imposed on number of directorship a Director may have on board of other companies (as described in paragraph 8.3 of this policy) and the provisions of the Related Parties & Conflict of Interest Policy.

It is important to note that where a Director is simultaneously a director of the holding company and the Bank, he owes a separate and distinct fiduciary duty to both entities as legal individuals in their own right. A Director must guard against a conflict of interests developing in a situation where a director represents both the holding company and the Bank. 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.

#### 4.1.11 Disclosure of Interests:

On taking office, Members of the Board of Directors of the Bank are required to disclose to the Bank all interests and relationships which could or might be seen to affect his / her ability to perform his / her duties as a Member of the Board of Directors. Any such interests declared shall be recorded in the Board of Director's Register of Interests, which shall be maintained by the Insider Trading Committee.

In particular, Members of the Board of Directors of the Bank shall disclose all relevant information which might give rise to a conflict of interest, or a perceived conflict of interest. Each Member of the Board of Directors shall inform the Bank when there are changes in his / her interests, and the Insider Trading Committee shall update the Register of Interests at least on an annual basis.

Members of the Board of Directors of the Bank shall disclose:

- Shareholdings in the Bank held by them, their spouse, their close family (including parents, and / or children), or their employer, directly or indirectly;
- Positions of employment;
- Other directorships;

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- Significant shareholdings held by them, their spouse, their close family, or their employer, in any company which is a client, competitor or supplier of the Bank, or which may transact with the Bank in any other way; and
- Any other interest which may reasonably be perceived to be relevant to the exercise of their duties as a Member of the Board of Directors of the Bank.

In the event of uncertainty, guidance should be sought from the Insider Trading Committee of the Bank.

#### **4.1.12 Self-Assessment by the Bank's Board of Directors**

The Board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. 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 Director's contribution and attendance.

#### **4.1.13 Resignation and Disqualification of Directors:**

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

- Fails to attend 75% of scheduled meetings of the Board without a lawful excuse;
- Exceeds 70 years of age;
- Declared bankrupt;
- If shareholders owning 10% or more of the Bank's capital chose to dismiss such Directors in accordance with Article 178 of Bahrain's Commercial Companies Law;
- If a Director was originally elected as an Independent Director and subsequent to his appointment the Director's independence is impaired; and
- Any other condition stipulated by the Bank's Article & Memorandum of Association.

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Directors may also voluntarily resign from the Board of Directors during or upon the expiry of the Term. Upon the resignation of Non-Executive Directors, such Directors can submit written statements, addressed to the Chairman for circulation to the Board, stating any material concerns they may have regarding the Bank's operations.

A resigned / disqualified Director can be replaced in accordance with Section 8.6 of this policy.

#### **4.1.14 Committees of the Board of Directors:**

The Board of Directors shall have the following four committees: Executive Committee, Audit Committee, Risk Policy Committee, Remuneration & Nomination Committee, Corporate Governance Committee, and the Insiders Trading sub-Committee.

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 favors 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 chairman 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**

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The primary function of the Executive Committee is to exercise the powers of the Board of Directors (except those prohibited by law or the internal policies) on matters of an urgent nature which arise between regularly scheduled Board meetings. The Committee shall discharge its responsibilities, and assess information provided by the Bank's Management, in accordance with its business judgment.

**B) Audit Committee:**

The Audit Committee ("AC") 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, AC shall review the financial reporting process, adequacy of the Bank's internal controls, and the process for monitoring compliance with policies, procedures, laws, regulations and its own code of business conduct. AC is also responsible for appointing Internal Auditors.

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

**C) Risk Policy Committee:**

The Risk Policy Committee ("RPC") is responsible for all aspects of enterprise-wide risk management including, but not restricted to credit risk, market risk, operational risk, reputational risk, legal risk and accounting risk. The RPC sets the policy on all risk issues and maintains oversight of all Bank risks through the Risk Management & Compliance Division ("RMCD").

**D) Corporate Governance Committee:**

The Corporate Governance Committee ("CGC") is established to assist the Board in fulfilling this responsibility with respect to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management, the Audit Committee, and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

This Committee shall have at least two Independent Directors, one of which shall be the Chairman, and a member of the Sharia Supervisory Board.

**E) The Remuneration & Nomination Committee:**

This Remuneration & Nomination Committee ("R&N Committee") is responsible for identifying qualified persons to become Board members, Corporate Secretary, CEO, and heads of departments

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(other than Internal Auditors which will be the responsibility of the AC). 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 Company Secretary:**

The Board has appointed a qualified officer to be the Company Secretary to take responsibilities for matters connected with the meetings of the Board and the shareholders and to contribute to best corporate governance practices

The Company Secretary's principal function is to support the Board on statutory matters. Specific functions of the Company Secretary include

1. Undertaking arrangements for meetings of the Board, related Board Committees and the shareholders. Ensuring that the meetings conform to relevant laws and regulations, the Bank's articles of associations, individual Board and Committees charters, and best practices;
2. Communicating the Board's and shareholders resolutions to the management and follow up on their implementation, through the Chief Executive Officer;
3. Providing preliminary advice and recommendations pertaining to legal, regulatory, and governance issues and practices related to the Board and Board Committee operations.
4. Managing the secretariat office to serve as the center for corporate records such as the juristic person register, the memorandum and articles of associations, the shareholder register, and business licenses.
5. Communicating, through the Shareholders Affairs Department, to general shareholders about their rights and the Bank's developments.

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6. Providing information and data concerning the Bank's businesses to Board members to support the Board in carrying out their duties.
7. Arranging / coordinating induction programs for newly elected directors.
8. Acting as administrative officer with regard to Board matters, e.g. ensuring that indemnity agreement / insurance required are obtained.

The Company Secretary reports functionally to the Chairman of the Board of Directors and operationally to the Chief Executive Officer. The appointment and dismissal of the Corporate Secretary is decided by the Board as a whole (not the Management).

#### **4.1.15 Board Authorities:**

In accordance with Article 33 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. In compliance with CBB licensing requirement, the Bank's Article and Memorandum of Association, and the general practice of Islamic Banking, the Bank shall, at all times, have a Sharia Supervisory Board ("SSB") elected by the shareholders at General Meetings based on recommendations of the Board of Directors (through the Remuneration and Nomination Committee). 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, the Management of the Bank including access to the Bank's Sharia Compliance Officer who is proactively involved in: (a) reviewing and advising on the Sharia compliance of all products and investment projects, (b) auditing the operations of the Bank from Sharia point of view, and (c) produce reports

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to the SSB in order to ensure that the Bank's activities are under a strict and direct oversight of Sharia guidelines. Furthermore, the Sharia Compliance Officer contributes on a day to day basis in ensuring that all areas of the Bank adhere to SSB's recommendations, advices and opinions.

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 R&N Committee and will be disclosed on the Bank's web site.

The remuneration of the SSB will be approved by the shareholders at the General Meetings based on the recommendations of the R&N Committee.

### **4.3 Management Team:**

#### **4.3.1 Selections / Employment of Management:**

The Remunerations & Nominations Committee's function is to select qualified candidates to be approved by the Board and appointed as management at the position of General Managers and above and other department heads reporting directly to the CEO.

Formal letter of appointment shall be issued by the Board (through the R&N Committee) prescribing titles, authorities, duties, accountabilities, and internal reporting responsibilities.

As for the appointment of management of lower rankings, division heads shall select qualified candidates to be nominated and approved in accordance with relevant Personnel Policies 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

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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. Senior 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 Audit Committee, 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 senior 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 senior 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 senior 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**

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Senior 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**

Senior 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 generally accepted accounting principles or any other criteria applicable to such statements. The Internal Audit Department is responsible for examining the accuracy and adequacy of these controls.

**H) Disclosure Controls and Procedures:**

Senior 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 Executive Committee.

**A) Investment and Credit Committee**

The Investment and Credit Committee (“ICC”) shall be chaired by the Chief Executive Officer and shall review, approve, and ratify all credits within its authorities. It shall also review risk management reports and shall resolve all credit related issues.

**B) Asset Liability Management Committee**

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The Asset and Liability Committee ("ALCO") shall be chaired by the Chief Executive Officer or an officer designated by him, and shall include members from the Strategic Business Units of the Bank, Risk Management, and the Financial Controller. The Committee members shall meet at such times as described in its charter to review inter alia maturity mismatch, funding costs, ForEx risks, and credit concentration by counterparty, country, and industry.

**C) Management Committee**

This Committee shall comprise heads of departments, chaired by the Chief Executive Officer or a officer designated by him, and shall meet at such times as described in its charter to review the overall performance of each division vis-à-vis targets set. This Committee shall also deliberate the implications and shall decide the implementation implications of new initiatives and products for the Bank.

**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 be reviewed by the R&N Committee, from time to time, to be approved by the shareholders.

Remuneration of senior 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 involving grants of shares, share options, and other deferred share-related incentive schemes will 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.

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## 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.

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.

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### **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.

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### 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 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 Senior Management:

The Chief Executive shall be responsible, and shall assume "ownership", of the systems. The Chief Executive shall set the "tone at the top" that

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affects integrity and ethics and other factors of a positive control environment. The Chief Executive shall fulfill this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior management, in turn, shall 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 / Audit Committee

Internal auditors / AC 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 AC 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 AC/Board of Directors on regular and continual basis.

### 5.2.4 Risk Management & Compliance Division

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

### 5.2.5 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 or illegal actions.

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.

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### **5.3- Whistle Blowing Policy**

The Bank has already developed a comprehensive policy for this purpose in which procedures for reporting of misconducts are highlighted.

### **5.4 Internal Control Periodic Assessment:**

In order to assess the adequacy of the internal control measurements in the Bank, the Board will receive periodic reports on the internal control framework from Senior 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.

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## 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 and to ensure that all relevant Islamic banking regulations are complied with in letter and spirit, the Bank has established a Sharia compliance mechanism as a part of its control structure. The Sharia Compliance framework of the Bank will include the following:

- A system of compliance having special emphasis on Sharia aspects with relevant provisions of existing laws, rules, regulations, and policies. Embedding procedures related to Islamic banking in the Bank's processes in such a manner that monitoring and reviewing of issues related to Sharia compliance forms part of internal control structure.
- Monitoring and reviewing for Sharia Compliance covering all activities and products of the Bank. The basic purpose of this responsibility is to ascertain whether the transactions, processes and products undertaken by the Bank are Sharia compliant and all related conditions are being met, as approved by Sharia Supervisory Board.
- Transparency and full access to all necessary documents / information.
- Reporting of irregularities and Sharia breaches, if any, to the Sharia Supervisory Board and the Management for rectification.
- Proper training of all relevant staff in the area of Sharia Compliance.

### 6.2 Legal Compliance

Ithmaar Bank is organized in accordance with the Commercial Companies Law (Decree No. 21 of 2001). The Bank closely follows amendments to the Commercial Companies Law to ensure compliance and takes particular

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measures in respect of its compliance with the Labor Law for the Private Sector, 1976 and any amendments thereto. 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 checks and balances as stipulated by the supervisory and regulatory authority i.e. Central Bank of Bahrain ("CBB"). Some of the important regulatory requirements which the Bank complies with are:

### **6.5 Bahrain Bourse & Other Listing Bodies**

As a listed company, the Bank adheres to all listing requirements issued by the stock exchanges on which the Bank's shares are listed.

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## 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 six months after the end of the Bank's accounting year. The Bank will send out a notice to all shareholders at least 15 days in advance before the scheduled meeting of shareholders. The notice will be published in two widely distributed newspapers and the Bank's web site indicating the date, time, place of the meeting, and the full text of the notice. Meeting notices and agendas shall also be displayed on the Bank's web site.

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, Remuneration & Nomination Committee, and a representative of the Sharia Supervisory Board. These meetings will also be attended by the Bank's external auditor, representatives of the Ministry of Commerce and the Central Bank of Bahrain.

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.

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The Chairman is responsible for leading these General Meeting who will encourage questions from shareholders, including questions regarding the Bank's corporate governance guidelines. The Chairman is also responsible for 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 within 30 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.

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## 8.0 Board Selection & Nomination Process:

### 8.1 Eligibility Criteria:

The Bank subscribes to the provisions of the Bahrain Commercial Companies Law in respect of forming the Board of Directors. Basically, 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 proxies to represent them, to be appointed as Directors of the Board, provided that their shareholding as a percentage of the size of the Board results in whole number. Any fraction in excess of the above may be used by such shareholders 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 Corporate Governance Committee, 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 3 years Term, renewable, as per the Articles & 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 R&N Committee and regulatory authorities.

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In considering whether to recommend directors who are eligible to stand for reelection, the R&N Committee 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, Commercial Companies Laws, and Bahrain Stock Exchange, 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 financial institution and holds not more than 2 board memberships in financial

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institutions and/or not 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 integrity or involving a breach of trust or in a crime on account of their breach of laws, unless reinstated;
- Must personally own a number of shares the nominal value of which shall not be less than USD 26,700 or, if relevant, the person whom that Directors represents must own the higher of (a) a number of shares representing not less than 1% of the Bank's capital, (b) the nominal value of the shares is not less than USD 26,700;
- Any other condition stipulated in the Bank's Article of Association where applicable and/or as determined by the R&N Committee; 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 R&N Committee 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 R&N Committee 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 R&N Committee shall evaluate the suitability of the candidate. If the candidate is found to be suitable, the R&N Committee 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 R&N Committee shall identify one or more candidates to stand for election, investigate each candidate, evaluate their suitability for service

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on the Board and recommends a short list of suitable candidates to the full Board.

In this respect, the R&N Committee 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 R&N Committee shall seek preliminary approval from the Central Bank of Bahrain 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. 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 and 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 one year, renewable after a review by the R&N Committee.

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### **8.7 Appointment Process for Disqualified / Resigned Directors:**

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.

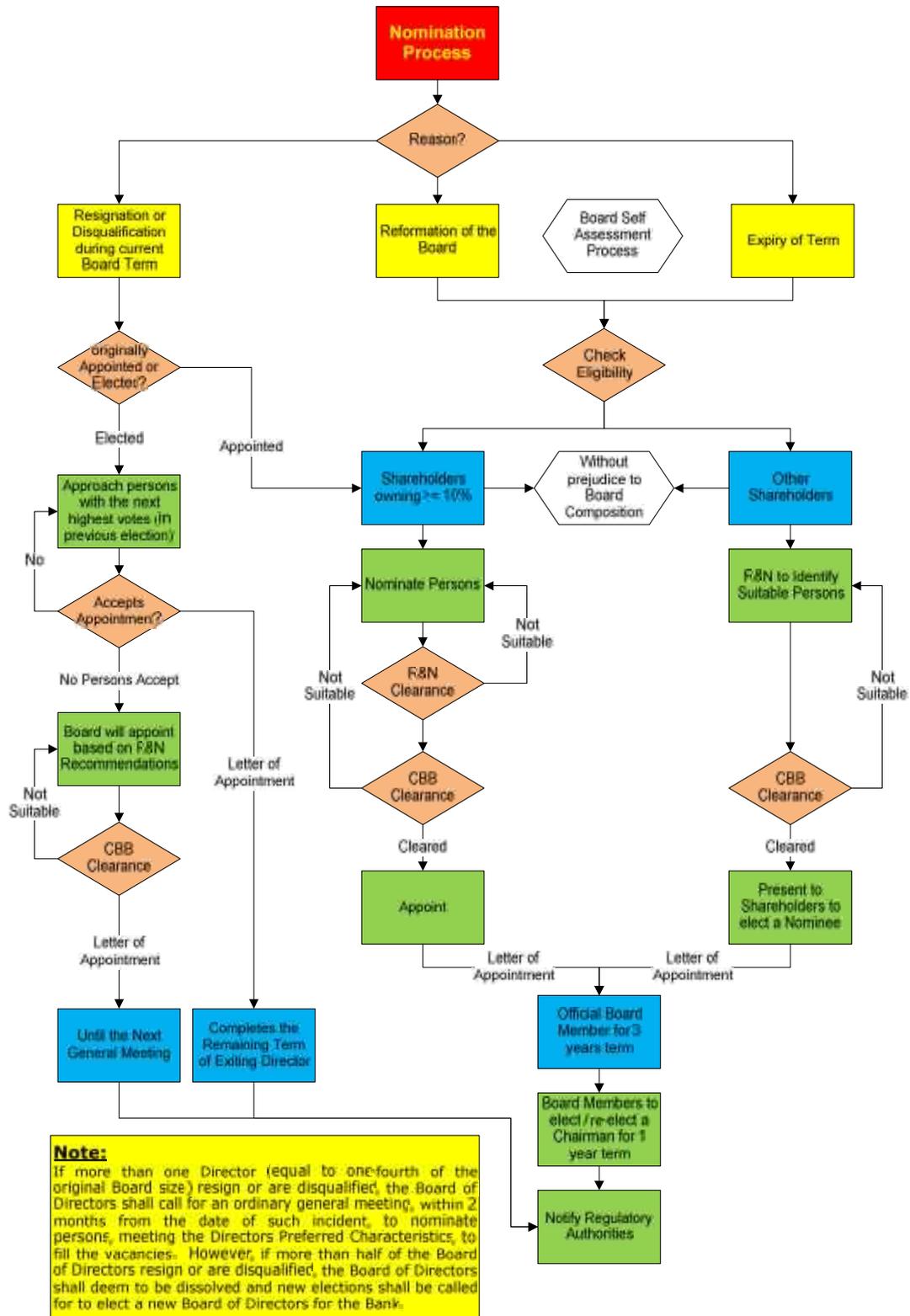
If such shareholder waives his rights to nominate a new Director or if the exiting Director was originally elected, such vacant position will be replaced by the next highest voted for nominee in the latest elections of the Board. The new member shall complete the unexpired term of his predecessor.

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.

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## **9.0- Corporate Governance Disclosure:**

The Bank shall disclose its Corporate Governance principles in accordance with the Public Disclosure rulebook of the Central Bank of Bahrain as well as disclosure requirements of exchanges on which the Bank's shares are listed. The Bank will display its Corporate Governance framework on the Bank's web page.

At each annual shareholders meeting the Board will report on the Bank's compliance with the corporate governance guidelines (including the HC and PD Modules of CBB), and explain the extent if any to which it has varied them and justifications for such variance or noncompliance.

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