

بنك البحرين الإسلامي



BisB Corporate Governance Report 2014

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Introduction to BisB's Corporate Governance

Corporate Governance:

BisB is committed to upholding the highest standards of corporate governance and the Central Bank of Bahrain's High-Levels Control Module (and its amendments). The Bank seeks to balance entrepreneurship, compliance, and industry best practices, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of BisB in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organization to ensure that the right things are always done in the right way.

Responsibilities:

The Board of Directors is accountable to the shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value through strategic initiatives. The Chairman is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the Executive Management, and maintaining a dialogue with the Bank's shareholders. The Board has appointed four Committees to assist it in carrying out its responsibilities. The Internal Audit function reports directly to the Board through the Audit & Corporate Governance Committee. The Board delegates the authority for management of the business to the Chief Executive.

Framework:

BisB's corporate governance framework comprises a code of business conduct; operational policies and procedures; internal controls and risk management systems; internal and external audit and compliance procedures; effective communications and transparent disclosure; and measurement and accountability.

Code of Business Conduct:

BisB conducts itself in accordance with the highest standards of ethical behavior. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders.

Compliance:

BisB has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain.

Communications:

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate brochure and website, and regular announcements in the appropriate local media.

Bahrain Islamic Bank's Board of Directors

Board members Profile

Abdul Razak Abdulla Al Qassim

Chairman and Chairman of Nomination and Remuneration Committee

Mr. Abdul Razak Al Qassim is the Chief Executive Officer and Board member of National Bank of Bahrain (NBB). He joined NBB in 1977 after seven years with Chase Manhattan Bank. Abdul Razak Al Qassim is the Chairman of the Board of Directors of Bahrain Islamic Bank (BisB); Chairman of Benefit Company; Chairman of Bahrain Association of Banks; Deputy Chairman, Chairman of Executive Committee and Member of Nomination and Remuneration Committee at Bahrain Telecommunication Company (Batelco); Deputy Chairman of Umniah Mobile Company (Jordan); Deputy Chairman of Dhivehi Raajeyge Gulhnlc. (Dhiraagu), Maldives; Deputy Chairman of Sure Guernsey Limited, Sure Jersey Limited and of Sure Isle of Man Limited; Board Member of the Crown Prince International Scholarship Programme; Board Member of Deposit and URIA Protection Board at Central Bank of Bahrain. He holds a Master's degree in Management Sciences and a Sloan Fellowship from MIT (Massachusetts Institute of Technology), USA.

Brigadier Khalid Mohammed Al Mannai

Vice Chairman and Chairman of the Executive Committee

Brigadier Khalid Mohammed Al Mannai is the General Manager of the Bahrain Military Pension Fund, and one of the co-founders of the GCC Expanded Military Pension Coverage Committee. He joined the Military Pension Fund after spending 30 years with the Bahrain Defense Force. Brigadier Al Mannai is a Board Member of Bahrain Telecommunications Company (Batelco), the Social Insurance Organisation (SIO) and Osool Asset Management Company. He holds a MBA from Sheffield Hallam University, UK; and has over 34 years' professional experience.

Fatima Abdulla Budhaish

Board Member

Mrs. Fatima Abdulla Budhaish is an Assistant General Manager - Credit Risk at National Bank of Bahrain (NBB). She joined NBB in 2004, and worked in various capacities before taking up her current position as an Assistant General Manager in 2013. Prior to this, she spent five years with BBK. A Certified Public Accountant (USA), Mrs. Budhaish holds an Executive MBA from the University of Bahrain; and attended the Gulf Executive Development Programme at Darden School of Business, University of Virginia, USA. She has over 16 years' professional experience.

Mohammed Ahmed Abdulla*Board Member*

Mr. Mohammed Ahmed Abdulla is the Head of Asset Management at Osool Asset Management Company. Prior to Osool, he held senior management positions at Credit Suisse AG-Bahrain Branch and Credit Suisse AG-Dubai. He started his career at HSBC Middle East, before moving to Merrill Lynch-Bahrain where he spent 7 years. Mohammed Ahmed is a Board Member, Chairman of the Nomination & Remuneration Committee and Audit Committee Member at both the Medgulf Group and Medgulf Allianz Takaful. Furthermore, he is a Board Member and Vice Chairman of the Audit Committee of Bahrain Commercial Facilities Company. He holds a Bachelor's degree in Accounting from University of Bahrain, and is accredited to the National Association of Securities Dealers and the National Futures Association. Mohammed Ahmed has more than 16 years' professional experience.

Talal Ali Al Zain*Board Member and Chairman of the Risk Committee*

Mr. Talal Ali Al Zain is Chief Executive Officer of PineBridge Investments Middle East BSC (c), and Co-Head of Alternative Investments at PineBridge Investments. Prior to this, he was a Board Member and CEO of Bahrain Mumtalakat Holding Company; having previously spent 18 years with Investcorp Bank as Managing Director and Co-Head of Placement & Relationship Management. Talal was Vice President of Private Banking international and Head of Investment Banking Middle East with Chase Manhattan Bank; as well as a Corporate Banker with Citibank Bahrain. Talal Al Zain is a Board Member of Bahrain Islamic Bank and Bahrain Association of Banks. He previously chaired and served as a board member on many corporations including McLaren, the Bahrain Economic Development Board, Gulf Air, and the Bahrain International Circuit.

He holds an MBA in Finance from Mercer University, Atlanta, USA; a BA in Business Administration (majoring in Accounting) from Oglethorpe University, Atlanta, USA.

Khalil Ebrahim Nooruddin*Board Member*

Mr. Khalil Ebrahim Nooruddin is an experienced banker, at both an executive and board level. Currently, he is the Managing Partner of Capital Knowledge, a consulting and training company. Over the past five years, he has concluded several consulting assignments for financial institutions, working on strategy formulation and implementation. Prior to this, Khalil Nooruddin worked for Investcorp Bank, Bahrain; UBS Asset Management in London and Zurich; and Chase Manhattan Bank in Bahrain. He is an active member of several civil and professional societies in Bahrain. A Chartered Financial Analyst, Mr. Nooruddin holds an MSc in Quantitative Analysis from Stern Business School at New York University, USA; and a BSc in Systems Engineering from King Fahd University of Petroleum & Minerals, Saudi Arabia. He has over 36 years' professional experience.

Ebrahim Hussain Al Jasmi

Board Member and Chairman of the Audit & Corporate Governance Committee

Mr. Ebrahim Hussain AlJasmi was the Chief Executive Officer & Board Member of Khaleeji Commercial Bank until June 2012, and continued as Board Member until July 2013. Prior to this, he was Chief Executive Officer of Liquidity Management Centre. Previously, at the Arab Banking Corporation, he held the positions of Vice President-Global Marketing Unit, Vice President-Treasury & Marketable Securities Department, and General Manager-ABC Securities. He has also worked for BBK Financial Services Company, and Shamil Bank. He holds an MBA from University of Bahrain and a Bachelor's degree in Economics from University of Kuwait; and has over 33 years' experience in both conventional and Islamic banking.

Othman Ebrahim Al Askar

Board Member

Mr. Othman Ebrahim Al Askar is the Director of the Investment department of Kuwait Awqaf Public Foundation. He joined the Kuwait Awqaf Public Foundation in 1995, and held various positions before taking up his current post in 2010. Prior to this, he was Head of Investment and Banks Department at Kuwait Public Transport Company. Othman Al Askar is a Board Member of the Educational Holding Group, Kuwait; and a former Board Member of Rasameel Structured Finance Company, Kuwait. He holds a BSc in Business Administration and Economics from Washington Center University, USA; and has over 27 years' professional experience.

Names of Independent Board Members

1. Talal Ali Al Zain.
2. Khalil Ebrahim Nooruddin
3. Ebrahim Hussain Al Jasmi
4. Othman Ebrahim Al Askar

Board start date for each term for each director

1. Abdul Razak Abdulla Al Qassim (Joined on: 05-06-2013).
2. Brigadier Khalid Mohammed Al Mannai (Joined on: 11-06-2013).
3. Fatima Abdulla Budhaish (Joined on: 05-06-2013).
4. Mohammed Ahmed Abdulla (Joined on: 11-06-2013).
5. Talal Ali Al Zain (Joined on: 07-07-2013).
6. Khalil Ebrahim Nooruddin (Joined on: 07-07-2013).
7. Ebrahim Hussain Al Jasmi (Joined on: 07-07-2013).
8. Othman Ebrahim Al Askar (Joined on: 07-07-2013).
9. Dr. Sherif Ayoub (Joined on: 06-02-2014) (Resigned on: 08-10-2014).

Induction of New Directors

As per the Board-approved Corporate Governance Policy, the Bank shall provide an orientation program for new Directors which shall include presentations by senior management on the Bank's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its operations, its Code of Conduct, its management structure and executive officers and its internal and external auditors.

Code of Conduct

The Bank adopts a Code of Conduct and other internal policies and guidelines to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct will apply to all employees of the Bank and its subsidiaries, as well as to Directors, temporary workers and other independent contractors and consultants whether engaged by or otherwise representing the Bank and its interests.

The Directors have adopted the following Code of Conduct in respect of their behavior.

- To act with honesty, integrity and in good faith, with due diligence and care, with a view to the best interest of the Bank and its stakeholders;
- To meet regularly with senior management and Internal Audit to establish and approve policies;
- To act within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To understand, identify and measure the significant risks to which the Bank is exposed in its business activities;
- To independently assess and question the policies, processes and procedures of the Bank with the intent to identify and initiate management action on issues requiring improvement;
- To keep confidential board discussions and deliberations;
- To refrain from making improper use of information gained through the position as a Director;
- To refrain from taking improper advantage of the position of Director;
- To ensure his / her personal financial affairs will never cast doubt on the integrity of the Bank;
- To maintain sufficient detailed knowledge of the Bank's business and performance to make informed decisions;

- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- To refrain from agreeing to the business of the Bank being carried out or cause or allow the business to be carried on, in a manner likely to create a substantial risk of serious loss to the Bank's creditors and other key stakeholders;
- To refrain from agreeing to the Bank incurring an obligation unless he / she believes at the time, on reasonable grounds, that the Bank will be able to perform the obligations when it is required to do so;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- To refrain from entering into competition with the Bank;
- To refrain from demanding or accepting substantial gifts from the Bank for himself or his associates;
- To refrain from taking advantage of business opportunities to which the Bank is entitled for himself or his associates;
- To report to the Board any potential conflict of interest;
- To declare interests in the Register of Interest; and
- To abstain themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest;
- To commit the applicable regulations and follow the best industry practices;
- To handle disputes and complaints from the clients to their entire satisfaction and at the same time safeguarding the interest of the Bank.

The Director's adherence to this Code will be periodically reviewed. Additionally, this Code of Conduct may be published in the Annual Report with copies also available on request.

New product information, announcements and information related to stakeholders are made available in a timely manner through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. In addition, the Consolidated Financial Statements of at least past 3 years are available in the Bank's website.

The Bank has a Quality Assurance Department which is responsible for managing customer complaints. After receiving a complaint, the department routes the complaint to the concerned department for their response. After analyzing the responses of the concerned department the customer is contacted accordingly. The customers may use the bank's website or the call centre for lodging a complaint.

Board of Directors' Responsibilities

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of its stakeholders, and to balance the interests of its diverse constituencies, including associated concerns, employees and other stakeholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank.

The Board will approve and oversee the implementation of the Bank's strategies and will review and approve the Bank's strategic plan. As part of its strategic review process the Board will review major action and business plans, set performance

objectives and oversee major investments, divestitures and acquisitions. Every year, at an annual Board strategy session, the Board will formally reassess the Bank's objectives, strategies and plans.

One of the Board's most important responsibilities is identifying, evaluating and selecting candidates for the Board of Directors. The Board will seek members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have had experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon the contributions they can make to the Board.

The factors to be considered by the Board in its review of potential candidates include:

- Whether the candidate has exhibited behavior that indicates he or she is committed to the highest ethical standards and the values adhered to by the Bank;
- Whether the candidate has had broad business, governmental, non-profit or professional experience that indicates that the candidate would be able to make a significant and immediate contribution to the Board's discussion and decision-making in an array of complex issues;
- Whether the candidate has special skills, expertise and background that add to and complement the range of skills, expertise and background of the existing directors;
- Whether the candidate has had a successful career that demonstrates the ability to make the kind of important and sensitive judgments that the Board is called upon to make;
- Whether the candidate will effectively, consistently and appropriately take into account and balance the legitimate interests and concerns of all of the Bank's shareholders and our other stakeholders in reaching decisions;
- Whether the candidate will be able to devote sufficient time and energy to the performance of his or her duties as a director;
- The application of these factors involves the exercise of judgment and cannot be measured in any mathematical or routine way.

Responsibilities

The following are the detailed responsibilities of the Board. The Board of Directors may not necessarily carry out all these responsibilities but should ensure that these have been delegated to various board committees or executive management committees to act on their behalf and communicate periodic reports to the Board for their review:

- Ensure that senior management adequately manages the Bank's capital adequacy on a regular basis and periodic reports showing the adequacy of capital to support the business risks of the bank are prepared and submitted to the Board;
- Establish policies for appointing management, and ensuring that they have the necessary integrity, technical and managerial competence, and experience;
- Oversee succession planning and replacing key executives when necessary, and ensuring appropriate resources are available, and minimizing reliance on key individuals;
- Monitor and make formal (annual) evaluations of senior management's performance in implementing agreed strategy and business plans;

- Approve budgets and review performance against those budgets and key performance indicators;
- Approval of Financial Statements;
- Manage the Bank's compliance risk;
- Submit organizational structure or changes to the structure approved by the Board of Directors to the CBB for final approval;
- Develop policy to review the systems and controls framework, and to identify any significant issues related to the Bank's adopted governance framework, processes and practices;
- Ensure to obtain the CBB's approval on the following positions prior to their appointment:
 - Board Member;
 - Chief Executive Officer or General Manager and their Deputies;
 - Chief Financial Officer and/or Financial Controller
 - Head of Risk Management;
 - Head of Internal Audit;
 - Head of Shari'a Review;
 - Compliance Officer;
 - Money Laundering Reporting Officer;
 - Deputy Money Laundering Reporting Officer; and
 - Heads of other Functions.

Responsibilities relating to Risk Management Function

- Approve the Bank's strategies and policies with respect to risk management i.e. credit, operational, market, liquidity, profit rate risk, strategic and legal, E-banking;
- Define the committee responsible for managing the risk whose responsibility includes the following:
 - Ensure risk management personnel are adequately qualified to investigate and resolve issues relating to potential risks;
 - Determine acceptable limits of exposure to various types of risks;
 - Ensure that the risk management function is subject to independent review at least annually and results are communicated to the Board;
 - Review the Bank's strategy and significant policies at least annually with respect to Risk Management Function;
 - Ensure that the senior management is adequately carrying out the delegated responsibilities with respect to the Risk Management Function;
 - Approve disclosure policy in line with applicable regulations.
- Define responsibility of the individuals managing the risk;
- Ensure that the Risk Management manual should clearly define reports to be used for monitoring risk, frequency at which these reports should be prepared and appropriate management levels to which these should be submitted for review.

Compliance and Anti-Money Laundering Function

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established independent Compliance Function in keeping with Basel and CBB guidelines. The unit acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. Anti-money laundering measures form an important area of the Compliance Function, in addition to areas of corporate governance, disclosure standards, Key Persons trading, conflict of interest and adherence to best practices.

Prior to appointment of the Compliance Manager, the Bank should obtain the CBB's prior approval and ensure he has the necessary qualification and experience necessary for the proposed position.

The Compliance Function is typically responsible for the following:

- Independent assessment of compliance requirements in relation to the operating activities;
- Provide guidance on the applicable laws and regulations;
- Check and evaluate internal policies and limits with the CBB rules and regulations;
- Evaluate compliance of the practices adopted to disseminate information to respective business units with the CBB rules and regulations;
- Develop programmes for training staff on laws, regulations and internal policies;
- Carryout compliance monitoring activities;
- Reporting exceptions to the senior management and the Board or its committees.

The Bank has documented an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure which contains sound customer due diligence measures, procedure for identifying and reporting suspicious transactions, a program for periodic awareness training to employees, record-keeping and a designated Money Laundering Reporting Officer (MLRO). The Bank has deployed a risk based automated transaction monitoring system in keeping with the anti-money laundering regulations of the CBB. The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit & Corporate Governance Committee of the Board. The Central Bank performs periodic inspections on the Bank's compliance with anti-money laundering regulations. Additionally, the Bank's anti-money laundering measures are audited by independent External Auditors every year and their report is submitted to the CBB. The Bank is committed to combating money laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF 49 recommendations, 'Customer Due Diligence for Banks' paper, and best international practices.

Review of Internal Control Processes and Procedures

Audit & Corporate Governance Committee assists the Board in fulfilling its oversight responsibility relating to the performance of the internal audit function, which regularly reviews and ensures adherence to internal control processes and procedures.

Board of Directors Membership Terms and Termination

The Board of Directors membership terms three years subject to renewal. Shareholders owning 10% or more of the share capital must nominate a representative on the Board of Directors in proportion to the number of Board members. A secret ballot is held at the General Meeting for the remaining Board members. The Board of Directors elect, by a secret ballot, a Chairman and Vice Chairman for a renewable term of three years.

Membership of the Board of Directors shall be terminated in the following cases:

- If a member fails to attend four consecutive meetings without a reasonable excuse;
- If he tenders his resignation in writing;
- If he fails to fulfill any of the conditions referred to in Article 26 of Bahrain Islamic Bank's Memorandum of Association;
- If he is appointed or elected in violation of the provisions of the law;
- If he abuses his membership for carrying on other business that competes with or is detrimental to the company's business;
- If the shareholder who nominates him applied for his removal.

Board Meetings and Attendance in 2014

Members	12Jan	3 Feb	24Mar	11May	17Jun	9Jul	11Aug	28 Oct
Abdul Razak Al Qassim (Joined on: 05 June 2013)	✓	✓	✓	✓	✓	X	✓	✓
Khalid Al Mannai (Joined on: 11 June 2013)	✓	X	✓	✓	✓	✓	✓	✓
Fatima Budhaish (Joined on: 05 June 2013)	✓	✓	✓	✓	✓	✓	✓	✓
Mohammed Abdulla (Joined on: 11 June 2013)	✓	✓	✓	✓	✓	✓	✓	✓
Talal Al Zain (Joined on: 07 July 2013)	✓	✓	✓	✓	X	✓	✓	X
Khalil Nooruddin (Joined on: 07 July 2013)	✓	✓	✓	✓	✓	✓	✓	✓
Ebrahim Hussain Al Jasmi (Joined on: 07 July 2013)	X	✓	✓	✓	✓	✓	✓	✓
Othman Al Askar (Joined on: 07 July 2013)	✓	✓	✓	✓	X	✓	X	✓
Dr. Sherif Ayoub (Joined on: 06 Feb 2014) (Resigned on: 08 Oct 2014)			✓	✓	✓	✓	✓	

Board Committees, Members and Objectives

Board Committee	Members	Objectives
Executive Committee	<p>Khalid Mohammed Al Mannai Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Fatima Abdulla Budhaish • Khalil Ebrahim Nooruddin <p><small>*Previously, BisB's CEO - Mohammed Ebrahim Mohammed, was a non-voting member until resigning from his post on 31st August 2014.</small></p>	<p>Review of strategy and performance Review of new investment proposals, credit proposals, and exit strategies</p> <p>The committee meets six times per year</p>
Audit & Corporate Governance Committee	<p>Ebrahim Hussain AlJasmi Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Othman Ebrahim Al Askar • Dr. Sherif Ayoub* <p><small>* Dr. Sherif Ayoub resigned from his post on 8th October 2014.</small></p>	<p>Oversight of integrity and reporting of the Bank's quarterly and annual financial statements</p> <p>Review of risk, provision and impairment</p> <p>Compliance with legal and regulatory requirements</p> <p>The committee meets four times per year</p>
Nomination and Remuneration Committee	<p>Abdul Razak Abdulla Al Qassim Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Khalid Mohammed Al Mannai • Mohammed Ahmed Abdulla 	<p>Oversight of the compensation and remuneration policy</p> <p>Oversight of recruitment & promotion of key personnel and Board members</p> <p>The committee meets two times per year</p>

Risk Management Committee	Talal Ali Al Zain Chairman Members <ul style="list-style-type: none"> • Fatima Abdulla Budhaish • Mohammed Ahmed Abdulla 	Monitoring the enterprise-wide risk profile independently. Risk Guidance to the Board and Management periodically The committee meets four times per year
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Executive Committee Meetings and Attendance

Members	20 Jan	22 Jan	9 Mar	20 Mar	6 Apr	6 May	29 May	17 Jul	22 Jul	6 Aug	28 Aug	4 Sep	27 Oct
Khalid Al Mannai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Khalil Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fatima Budhaish	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mohammed Ebrahim (Resigned on: 31 Aug 2014)	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	X		

Audit Committee Meetings and Attendance

Members	2 Feb	11 Mar	10 May	29 May	10 Aug	27 Oct
Ebrahim Hussain Al Jasmi	✓	✓	✓	✓	✓	✓
Othman Ebrahim Al Askar	✓	✓	✓	✓	✓	✓
Dr. Sherif Ayoub (Resigned on: 08 Oct 2014)	✓	✓	✓	✓	✓	

Risk Committee Meetings and Attendance

Members	8 Jan	1 Feb	8 Aug	11 May	17 Jun	26 Oct
Talal Ali Al Zain	✓	✓	X	✓	✓	✓
Fatima Abdulla Budhaish	✓	✓	✓	✓	✓	✓
Mohammed Ahmed Abdulla	✓	✓	✓	✓	X	X

Nomination & Remuneration Committee Meetings and Attendance

Members	25Feb	11Aug	10Sep	23Oct
Abdul Razak Abdulla Al Qassim	✓	✓	✓	✓
Khalid Mohammed Al Mannai	✓	✓	✓	✓
Mohammed Ahmed Abdulla	✓	✓	✓	✓

Evaluation of the Board and Each Committee

The Nomination and Remuneration Committee carried out the evaluations through questionnaires of each Board member followed by an assessment of the committees and members, and expressed its satisfaction with the positive results.

Shari'a Supervisory Board

Shari'a Supervisory Board Report

In The Name of Allah, most Gracious, most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

In accordance to Articles of Association and the entrustment of the Shari'a Board with supervising the Bank's activities from a Shari'a perspective, we hereby submit the following report:

The Shari'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2014 to express opinion on the Bank's adherence to the provisions and principles of Islamic Shari'a in its activities by following the guidelines and decisions issued by the Shari'a Supervisory Board. The Shari'a Supervisory Board believes that ensuring the conformity of its activities and investments with the provisions of Islamic Shari'a is the sole responsibility of the Bank's Management while the Shari'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Shari'a Supervisory Board's monitoring function included the checking and documentation of the procedures to scrutinize each operation carried out by the Bank, whether directly or through the Shari'a Internal Audit department. We planned with the Shari'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Shari'a. The Shari'a Internal Audit department executed its mission of auditing the transactions and submitted its periodic reports to the Shari'a Supervisory Board, which confirmed the Bank's commitment and conformity to the Shari'a Supervisory Board's opinions.

The Shari'a Supervisory Board obtained data and clarifications it deemed necessary to confirm that the Bank did not violate the Shari'a principles and provisions of Islamic Shari'a.

The Shari'a Board held a number of meetings during the year and replied to inquiries, in addition to approving a number of new products presented by the Management. The Shari'a Supervisory Board discussed with the Bank's officials all transactions carried out by the Management throughout the year and reviewed the Bank's conformity with the provisions and principles of Islamic Shari'a as well as the resolutions and guidelines of the Shari'a Supervisory Board.

The Shari'a Board has reviewed the Financial Statements for the year ended on 31st December 2014 with the notes and income statement and the Zakat calculation methods.

The Shari'a Supervisory Board believes that:

1. Contracts, and transactions conducted by the Bank throughout the year ended on 31st December 2014 were in accordance with the standard contracts pre-approved by the Shari'a Supervisory Board.
2. The distribution of profit on investment accounts was in line with the basis and principles approved by the Shari'a Supervisory Board.
3. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Shari'a, have been directed to the Charity and Donations Account according to SSB's resolution.

4. Zakah was calculated according to the provisions and principles of Islamic Shari'a. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
5. The Bank was committed to the Shari'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Earnings prohibited by Shari'a

The Group is committed to avoiding recognition any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

Shari'a Supervisory Board members' Profiles

Shaikh Dr. Abdul Latif Mahmood Al Mahmood

Chairman of Shari'a Supervisory Board

- Head of Arabic Language and Islamic Studies Department at the University of Bahrain previously.
- Member of the Shari'a Supervisory Board of Takaful International, Kingdom of Bahrain.
- Member of the Shari'a Supervisory Board of ABC Islamic Bank, Kingdom of Bahrain.
- Member of the Shari'a Supervisory Board of ABC Islamic Bank, London.
- Preacher at a number of Bahrain's mosques since 1973.
- He gives lessons in Koran interpretation, jurisprudence, principles of jurisprudence and preaching.
- Member of the Joint Shari'a Supervisory Board of Albaraka Group.
- He participated in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Shaikh Mohammed Jaffar Al Juffairi

Vice Chairman of Shari'a Supervisory Board

- Judge of the High Shari'a Court of Appeal and seconded as President of the High Shari'a Court, Ministry of Justice, Kingdom of Bahrain.
- Former Member of the Zakat Committee, Ministry of Justice.

Shaikh Adnan Abdulla Al Qattan

Shari'a Supervisory Board Member

- Judge of the High Shari'a, Ministry of Justice, Kingdom of Bahrain.
- Member of the Board of Directors of Sanabil for Orphan Care.
- Chairman of the Orphans and Widows Care Committee, of the Royal Court.
- Chairman of the Pilgrimage Mission, of the Kingdom of Bahrain.
- Puisne Justice of the High Shari'a Court.
- Preacher of Ahmed Al Fateh Islamic Mosque.
- He participated in a number of Islamic committees, courses, seminars and conferences.
- He worked as Notary Public at the Ministry of Justice and Islamic Affairs from 1981 to 1983.
- He worked as a teacher at the Islamic Studies Department, University of Bahrain.

Shaikh Dr. Nedham Mohamed Saleh Yacoubi

Shari'a Supervisory Board Member

- Member of the Shari'a Supervisory Board at:
 - Bahrain Islamic Bank – Kingdom of Bahrain.
 - Abu Dhabi Islamic Bank, UAE.
 - Sharjah Islamic Bank, UAE.
 - Ithmaar Bank, Kingdom of Bahrain.
 - Gulf Finance House, Kingdom of Bahrain.
 - ABC Islamic Bank, Kingdom of Bahrain.
 - ABC Islamic Bank, London.
 - Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Businessman.

Shaikh Dr. Essam Khalaf AlEnizi

Shari'a Supervisory Board Member

- University of Kuwait Faculty – Shari'a and Islamic Studies
- Member of Shari'a Supervisory Board at:
 - Bahrain Islamic Bank – Kingdom of Bahrain.
 - Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
 - Boubyan Bank – State of Kuwait.
 - Ithmaar Bank – Kingdom of Bahrain.
 - Investment Dar – State of Kuwait.

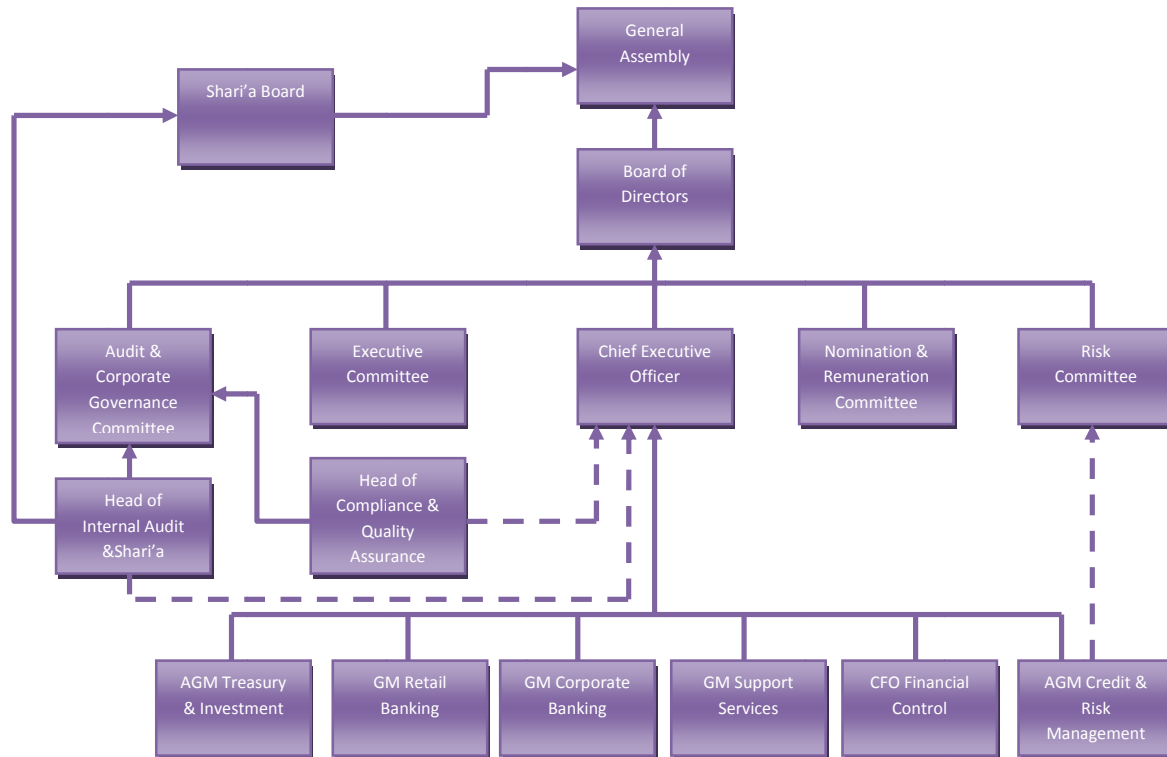
Shari'a Supervisory Board Members and its Objective

The main objective of Shari'a Supervisory Board is to advise the bank on any Shari'a matter and to ensure compliance with the shari'a tenets and requirements in their operations. The Shari'a Supervisory Board is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that the Bank is in compliance with Shari'a rules and AAOIFI.

Shari'a Board Meetings

Members	23Feb	11May	7Sep	30Nov
Sh. Dr. Abdul Latif Al Mahmood	✓	✓	✓	✓
Sh. Mohammed Al Juffairi	✓	✓	X	X
Sh. Adnan Al Qattan	X	✓	✓	✓
Sh. Dr. Nedham Yacoubi	✓	✓	✓	✓
Sh. Dr. Essam Al Enizi	✓	✓	✓	✓

Bank's Structure



Executive Management, business title, experience in years and the qualifications of each Executive member

Name of Executive Member	Designation	Profession	Experience in years	Qualification
Mohammed Ahmed Janahi	Acting CEO*	Banker	46	Advance Management for Senior Decision Makers
Abdul Rahman Mohammed Turki	GM – Retail Banking	Banker	42	Master Degree in Business Administration from University of Strathclyde, Scotland
Dr. Mohammed Shabuddin Belgami	AGM – Credit & Risk Management	Banker	31	PhD, M.Com(India), FRM – GARP, USA
Khalid Mohammed Al Doseri	Chief Financial Officer	Accountant	31	CPA from American Institute of Certified Public Accountants MBA degree from

				University of Glamorgan, Wales - UK
Khalid Mahmood Abdulla	AGM – Internal Audit & Shari’a	Accountant	20	CPA from American Institute of Certified Public Accountants
Yousuf Mohammed AbdulKareem	AGM – Corporate Banking	Banker	42	Master degree in Business Administration from University of Glamorgan, Wales.

*CEO, Mohammed Ebrahim Mohammed resigned on 31st August 2014.

Management Committees

Board Committee	Members	Objectives
Asset & Liability Committee (ALCO)	<p>Mohammed Ahmed Janahi Chairman*</p> <p>Members</p> <ul style="list-style-type: none"> • A. Rahman Turki • Yousuf AbdulKareem • Dr. Mohammed Belgami • Khalid Al Dossari • Nader Al Bastaki • Sameer Qaedi <p>*Previous Chairman was Mohammed Ebrahim Mohammed until 31st August 2014.</p>	<p>The main objective of ALCO is to manage and monitor the liquidity risk of the Bank on a coordinated and consistent basis.</p>
Credit & Investment Committee (C&I)	<p>Mohammed Ahmed Janahi Chairman*</p> <p>Members</p> <ul style="list-style-type: none"> • A. Rahman Turki • Yousuf AbdulKareem • Nader Al Bastaki • Dr. Mohammed Belgami <p>*Previous Chairman was Mohammed Ebrahim Mohammed until 31st August 2014.</p>	<p>The main objectives of C&I is to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the financing portfolio of the Bank and reviewing policies and strategies for achieving investment objectives.</p>

Information Technology Steering Committee	<p>Mohammed Ahmed Janahi Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Khalid Al Doseri • A. Rahman Turki • Dr. Mohammed Belgami • Khalid Mahmood 	<p>The main objective of the IT Committee is to plan, prepare, coordinate, implement, support and follow-up on all issues related to the IT and new projects implementation issue.</p>
Human Resource Committee (HR)	<p>Mohammed Ahmed Janahi Chairman*</p> <p>Members</p> <ul style="list-style-type: none"> • Khalid Al Doseri • A. Rahman Turki • Yousuf AbdulKareem • Dr. Mohammed Belgami • Khalid Mahmood • Nader Al Bastaki <p><small>*Previous Chairman was Mohammed Ebrahim Mohammed until 31stAugust 2014.</small></p>	<p>The main objectives of HR Committee is to monitor and assess the employer workforce regarding human resources issues and monitor, review and analyze legislative and/or administrative changes related to human resources.</p>
Qard Al Hassan, Donation & Zakah Committee	<p>Mohammed Ahmed Janahi Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Hamad Farooq Al Shaikh • Khalid Waheeb Al Nasser • Ali Hassan Duajj 	<p>The main objective of Qard Al Hassan and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.</p>
Provisioning Committee	<p>Mohammed Ahmed Janahi Chairman*</p> <p>Members</p> <ul style="list-style-type: none"> • Dr. Mohammed Belgami • Khalid Al Doseri • Srinivas Nallamothu • Khalid Mahmood (observer) <p><small>*Previous Chairman was Mohammed Ebrahim Mohammed until 31st August 2014.</small></p>	<p>The main objective of Provisioning Committee is to assist the CEO in reviewing the bank's provisions. In addition, the Committee would be responsible in formulating provision policies with a view to maintain the strategic risk level objectives of the bank.</p>

Performance-linked incentive structure

The Remuneration of all Directors is governed and comply with the provision of the Commercial Companies law no 21 for the year 2001 and CBB Law promulgated by decree no. (64) of 2006.

The Bank remunerates Directors in a manner consistent with the prevailing best practice within banking industry. The current entitlement comprise of setting fees paid per meeting on an annual basis. Non-resident directors are also entitled to full travel expenses.

In addition, the performance of all Board members is evaluated annually by the Nomination & Remuneration Committee based on their contribution in the board meetings and Permanent Committees.

Board of Directors and Senior Management Aggregate Remuneration and Sitting Fees

Board of Directors Sitting Fees

The aggregate Board remuneration was BD 248 thousands for the year 2014.

Senior Management Aggregate Remuneration

The aggregate Senior Management remuneration was BD 825 thousands including basic salaries and fixed allowances for the year 2014. Variable bonus for the year 2014 is subject to AGM approval and hence not provided in the figure above.

Approval Process for Related Party Transactions

The bank monitors these exposures carefully on a periodic basis. Exposures to these obligors are subject to normal credit review and approval process (in line with Credit Policy) on an arm's length basis. These are also specially whetted for all regulatory compliance purposes.

Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage
National Bank of Bahrain	Bahrain	241,838,206	25.74%
Islamic Development Bank	Saudi Arabia	165,804,485	17.64%
Social Insurance Organization (Military Pension Fund)	Bahrain	121,113,559	12.89%
Social Insurance Organization (Civil Pension Fund)	Bahrain	121,019,103	12.88%
Kuwait Awqaf Public Foundation	Kuwait	67,946,033	7.23%

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	68.38%	642,513,024
Kingdom of Saudi Arabia	18.53%	174,099,282
Kuwait	9.08%	85,278,340
United Arab Emirates	3.60%	33,793,459
Qatar	0.16%	1,527,003
Others	0.25%	2,462,391
Total	100.000%	939,673,499

Distribution of Ownership shares of Directors, Shari'a Members and Senior Management (As of 31stDecember 2014)

Directors	Shares as of 31 st Dec 2014
Abdul Razak Abdulla Al Qassim	100,000
Khalid Mohamed Al Mannai	No Shares Transferred As of December 2014
Mohammed Ahmed Abdulla	No Shares Transferred As of December 2014
Fatima Abdulla Budhaish	100,000
Talal Ali Al Zain	No Shares Transferred As of December 2014
Khalil Ebrahim Nooruddin	No Shares Transferred As of December 2014
Ebrahim Hussain AlJasmi	100,000
Othman Ebrahim Al Askar	100,000

Shari'a Members	
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	185,492
Shaikh Nedham Mohamed Saleh Yacoubi	14,320
Senior Management	
Mohammed Ebrahim Mohammed*	100,000

*CEO, Mohammed Ebrahim Mohammed resigned on 31st August 2014.

Corporate Social Responsibility

Since inception, BisB has been committed to supporting the social and economic development of the Kingdom of Bahrain. As a concerned corporate citizen, we have put in place a comprehensive corporate social responsibility programme that provides financial assistance to various charitable, educational, medical, cultural and sporting organizations and events, and deserving causes; and also supports the development of Bahrain's financial services industry. In line with the Bank's business philosophy, we are particularly keen to support initiatives that foster entrepreneurship and that encourage the development of tomorrow's leaders.