

بنك البحرين الإسلامي



BisB Corporate Governance Report 2011

Contents

| | |
|---|----|
| Introduction to BisB’s Corporate Governance..... | 4 |
| Bahrain Islamic Bank’s Board of Directors | 5 |
| Board member’s Profile | 5 |
| Number and names of independent board members..... | 7 |
| Board start date for each term for each director | 8 |
| Code of Conduct | 8 |
| Board and Directors’ Responsibilities..... | 10 |
| Responsibilities | 11 |
| Responsibilities relating to Risk Management Function | 12 |
| Responsibilities relating to Compliance Function..... | 13 |
| Board of Directors Membership Terms and Termination | 13 |
| Board Meetings and Attendance in 2011 | 14 |
| Board Committees, Members and Objectives | 14 |
| Executive Committee Meetings and Attendance..... | 15 |
| Audit Committee Meetings and Attendance | 15 |
| Risk Committee Meetings and Attendance | 15 |
| Nomination & Remuneration Committee Meetings and Attendance | 16 |
| Sharia’a Supervisory Board | 17 |
| Sharia’a Supervisory Board Report | 17 |
| Zakah | 18 |
| Earnings prohibited by Sharia’a..... | 18 |
| Sharia’a Board members’ Profiles | 18 |
| Sharia’a Committee Members and its Objective..... | 21 |
| Sharia’a Board Meetings..... | 21 |
| Management Structure | 22 |

| | |
|--|----|
| Executive Management, business title, experience in years and the qualifications of each Executive member..... | 22 |
| Performance-linked incentive structure | 23 |
| Approval Process for Related Party Transactions | 24 |
| Shareholders Ownership (5% and above)..... | 24 |
| Shareholding Distribution (Bahraini & Non-Bahraini)..... | 24 |
| Directors and Senior Managers Trading during the Year (As of December 2011)..... | 24 |
| Distribution of Ownership shares of Directors, Sharea'a Members and Senior Management (As of December 2011)..... | 25 |
| Board of Directors and Senior Management Aggregate Remuneration and Sitting Fees..... | 25 |
| Corporate Social Responsibility | 26 |

Introduction to BisB's Corporate Governance

Corporate Governance:

BisB is committed to upholding the highest standards of corporate governance. 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 two Committees to assist it in carrying out its responsibilities. The Internal Audit function reports directly to the Board through the Audit 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, including appropriate anti-money laundering procedures.

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 member's Profile

Khalid Abdulla Al Bassam

Chairman

Holds a Bachelors degree in Business Administration. Currently Chairman of Al Bassam Investment Company and of Capital Management House. Also a Board Member of Gulf Investment Corporation, Kuwait and the Islamic Bank of Asia, Singapore. Previously was the Deputy Governor of Bahrain Monetary Agency (now Central Bank of Bahrain) and Vice Chairman of the Bahrain Stock Exchange.

Shaikh Hesham bin Abdulrahman Al Khalifa

Vice Chairman

Holds a Masters in Business Administration Degree, in Finance, and a Bachelors of Science in Business & Management. Currently been appointed by H.M. King Hamad Bin Isa Al Khalifa to be the Governor of the Capital Governorate. Previously held prestigious positions namely Head of Central Strategy Office, Ministry of Finance & National Economy, Bahrain; Head of Commercial Enterprises at the Government Shareholdings Directorate of the Ministry of Finance & National Economy and Senior Financial Analyst - Industrial Enterprises at the Government Shareholdings Directorate, Ministry of Finance & National Economy.

Sh. Hesham Al Khalifa submitted his resignation as Board member in Bahrain Islamic bank on 14th November 2011 after being appointed, by His Majesty King Hamad bin Isa bin Salman Al Khalifa King of Bahrain, to be the Governor of the Capital Governorate.

Khalid Mohammed Najibi

Board Member

Mr. Najibi is the Managing Director & CEO of Capital Management House. He is also the Founding Member and Executive Director of Bahrain-based Najibi Investment Company. Also a Board Member and Chairman of the Executive Committee of Bahrain Islamic Bank , Board Member of First Energy Bank BSC and Arbah Capital (Saudi Arabia), founding Member of Young Arab Leaders (YAL) Bahrain Chapter.

Mr. Najibi has over 21 years experience in the fields of finance and investment. He holds a B.A. in Business Administration with a major in Finance from Schiller International, UK, which he gained in 1990. He passed his US Certified Public Accountant's Exams in California, USA in 1993.

Ali Mohammed Al Olaimi

Board Member

Holds a Bachelors degree in Accounting and is currently the General Manager of Kuwait's Public Authority for Minors' Affairs. Currently a Board Member for Al Reem Real Estate Services and was a Board Member of National Real Estate Company, Kuwait.

Nabil Ahmed Ameen

Board Member

Holds a Bachelors degree in International Business Administration. Currently Chairman & Managing Director of Almadar Finance and Investment Company, Kuwait. Also Vice Chairman of Al Wethaq Takaful Insurance Company, Kuwait. Has also held senior executive positions in Kuwait Finance House in Kuwait and Turkey and at The International Investor in Kuwait.

Mohammed Alzarooq Rajab

Board Member

Holds a Bachelors degree in Accountancy and is a Fellow member of the Institute of Chartered Accountants in England & Wales. Has held senior posts in Libya including the Auditor General, the Minister of Treasury, Head of Libyan Peoples' Congress, the Prime Minister from 1983 to 1985, Convener of Libyan Central Bank, and has been with Libyan Foreign Investment since 2007.

Ghassan Hamad Al-Baraheem

Board Member

Holds a Masters in Business Administration Degree. Currently is a Deputy Secretary – General of Kuwait Awqaf Public Foundation. Previously held senior positions in Kuwait Investment Authority, Kuwait Investment Office – London, Morgan Stanley & Co and J. P. Morgan.

A.Rahman Ali Al-Dawood

Board Member

Holds a Bachelors degree in Economics, currently the General Manager of Al-Dar Asset Management Company (Kuwait). In addition, he is the Vice Chairman of Al- Dar International Consultancy Co. (Kuwait), and the Vice Chairman of Bait Al Mal Al Khaleeji Co. (KSA). He is a Board member in: Khbari Holding Co. (Kuwait), Saudi Joint Co. (KSA), and Al-Jubail Development Co. (KSA). He is also the Chairman of Al-Dar Securities Fund and Al-Dar Fund of Funds (Kuwait).

Abdulla Meshari Al-Homaidhi

Board Member

Mr. Abdullah M. Al-Homaidhi is currently the Chief Executive Officer in the Investment Dar Company since 2005. With past professional experience in full supervising all administration affairs activities, training and engineering department services – in Kuwait Airways Corporation –KAC from 1977 to 2005. Mr. Al-Homaidhi is also chairman of Credit Rating & Collection crc, Vice Chairman of Wethaq Takaful Insurance Company and Investment Dar Bank B.S.C.(c), General Manager of Al-Dar Al-Aula Real Estate Co. Ltd., Board member in Bahrain Islamic Bank, Wethaq Takaful Insurance Company- Egypt, Stehwaz Holding, and supervisory Board Member of Al Dar Fund of Funds.

Number and names of independent board members

1. Khalid Al-Bassam
2. Sh. Hisham Al-Khalifa
3. Khalid Najibi
4. Ghassan Al-Baraheem

5. Ali Mohammed Al-Olaimi

Board start date for each term for each director

1. Khalid Al-Bassam (Start date: 08-02-2011)
2. Sh. Hisham Al-Khalifa (Start date: 08-02-2011 – End date: 14th November 2011)
3. Khalid Najibi (Start date: 08-02-2011)
4. Ali Al-Olaimi (Start date: 08-02-2011)
5. Mohammed Rajab (Start date: 08-02-2011)
6. Nabeel Amin (Start date: 08-02-2011)
7. Ghassan Al-Baraheem (Start date: 08-02-2011)
8. Abdulrahman Al-Dawood (Start date: 08-02-2011)
9. Abdulla Al-Humadhi (Start date: 01-12-2011)

Code of Conduct

The Bank will adopt 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 only 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 absent 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 to follow 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, Banks new announcement and information related to stakeholders are made available in 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 Group 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 Group's website or the call centre for lodging a complaint.

Board and 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 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 plans of 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 will 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 and Directors. 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 managements 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 senior managers, 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:
 - Director
 - Member of Sharia'a Supervisory Board
 - Chief Executive or General Manager
 - Senior Manager
 - Compliance Officer
 - Money Laundering Reporting Officer and
 - Financial Instrument Trader

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 which 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 whom these should be submitted for review.

Responsibilities relating to Compliance Function

- The Board should appoint a senior member with responsibility for the management of compliance risk as their Compliance Officer/ Manager (CM).
- The Compliance Function should be independent and CM should report directly to the Board of Directors or to the Audit Committee. The CM should have direct access to senior management and all confidential information of the Bank.
- Prior to appointment of the CM, the Board 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
 - Evaluate practices adopted to disseminate information to respective business units
 - 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 committee

Board of Directors Membership Terms and Termination

The Board of Directors membership term is 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 2011

| Members | 18 Jan | 8 Feb | 6 Mar | 12 Apr | 24 May | 23 Jun | 21 Nov |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Mr. Khalid Al-Bassam | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Sh. Hisham Al-Khalifa | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | |
| Mr. Khalid Najeebi | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Nabeel Amin | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Ali Al Olaimi | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Moh'd Rajab | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | | | <input checked="" type="checkbox"/> | |
| Mr. A. Rahman Al Dawood | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Ghassan Al-Baraheem | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | |
| Mr. Yousif Al Awadhi (served as a Board member until 8 th February 2011) | <input checked="" type="checkbox"/> | | | | | | |

Board Committees, Members and Objectives

| Board Committee | Members | Objectives |
|---------------------|---|---|
| Executive Committee | Khalid Najibi Chairman Members <ul style="list-style-type: none"> • Nabeel Amin • Yousif Al Awadhi (served as a Board member until 8th February 2011) • Ghassan Al-Baraheem • Mohammed Ebrahim | Review of strategy and performance Review of new investment proposals, credit proposals, and exit strategies Review of risk, provision and impairment The committee meets six times per year |
| Audit Committee | Sh. Hisham Al Khalifa Chairman (resigned on 14 th November 2011) Members <ul style="list-style-type: none"> • Mohammed Rajab • Ali Al Olaimi | Oversight of integrity and reporting of the Bank's quarterly and annual financial statements Compliance with legal and regulatory requirements The committee meets four times per year |

| | | |
|---|---|--|
| <p>Remuneration and Nomination Committee</p> | <p>Khalid Al Bassam Chairman</p> <p>Members Khalid Najibi</p> <ul style="list-style-type: none"> • Nabil Ameen • Yousif Al Awadhi (served as a Board member until 8th February 2011) | <p>Oversight of the compensation and bonus policy</p> <p>Oversight of recruitment & promotion of key personnel</p> <p>The committee meets two times per year</p> |
| <p>Risk Management Committee</p> | <p>Abdulrahman Al Dawood Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Khalid Al Bassam • Sh. Hisham Al Khalifa (resigned on 14th November 2011) | <p>Monitoring the enterprise-wide risk profile independently Risk Guidance to the Board and Management periodically</p> <p>The committee meets four times per year</p> |

Executive Committee Meetings and Attendance

| Members | 11 Jan | 30 Jan | 14 Feb | 24 Feb | 16 May | 30 Jun | 31 Jul | 28 Aug | 26 Sep | 03 Nov | 27 Dec |
|-------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Mr. Khalid Najibi | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Nabeel Amin | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Ghassan Al-Baraheem | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Moh'd Ebrahim | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

Audit Committee Meetings and Attendance

| Members | 12 Jan | 17 Feb | 23 May | 12 Oct |
|-----------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Sh. Hisham Al-Khalifa | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Ali Al-Olaimi | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Moh'd Rajab | <input checked="" type="checkbox"/> | | <input checked="" type="checkbox"/> | |

Risk Committee Meetings and Attendance

| Members | 19 Apr | 24 Sep | 14 Dec |
|-------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Mr. A. Rahman Al Dawood | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|-----------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Mr. Khalid Al Bassam | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Sh. Hisham Al-Khalifa | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | |

Nomination & Remuneration Committee Meetings and Attendance

| Members | 17 Jan | 12 Apr |
|---|-------------------------------------|-------------------------------------|
| Mr. Khalid Al Bassam | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Khalid Najibi | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Nabil Amin | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| Mr. Yousif Al Awadhi (served as a Board member until 8 th February 2011) | <input checked="" type="checkbox"/> | |

Evaluation of the Board and Each Committee

The Nomination and Remuneration committee carried out the evaluations through questionnaires to each board member followed by an assessment of the committees and members, and expresses its satisfaction with the positive results.

Sharia'a Supervisory Board

Sharia'a Supervisory Board Report

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

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh

Pursuant to the powers entrusted to the Sharia'a Supervisory Board to supervise the Bank's activities, we hereby submit the following report.

The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year end 31 December 2011 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the guidelines and decisions issued by the Sharia'a Supervisory Board. The Sharia'a Supervisory Board believes that ensuring the conformity of its activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Bank's Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Sharia'a Supervisory Board's monitoring function included the checking of documents and procedures to scrutinize each operation carried out by the Bank, whether directly or through the Sharia'a Internal Audit department. We planned with the Sharia'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 Sharia'a. The Sharia'a Internal Audit department audited the Bank's transactions and submitted a report to the Sharia'a Supervisory Board. The report confirmed the Bank's commitment and conformity to the Sharia'a Supervisory Board's opinions.

The Sharia'a Supervisory Board obtained data and clarifications it deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. It held several meetings throughout the year ended 31 December 2011 and replied to the inquiries, in addition to approving a number of new products presented by the Management. The Sharia'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 Sharia'a as well as the resolutions and guidelines of the Sharia'a Supervisory Board.

The Sharia'a Supervisory Board believes that:

1. Contracts, operations and transactions conducted by the Bank throughout the year ended 31 December 2011 were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
2. The distribution of profit on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board.
3. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'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 Sharia'a. The Bank distributed Zakah on the statutory reserve, general reserve and retained earnings. The shareholders should pay their portion of Zakah on their shares as stated in the financial report.
5. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

Zakah

Zakah is calculated on the Zakah base of the Group in accordance with the "FAS" issued by the "AAOIFI" using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on unrestricted investment and other accounts is the responsibility of investment account holders.

Earnings prohibited by Sharia'a

The Group is committed to avoid recognizing 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.

Sharia'a Board members' Profiles

Rev. Shaikh Dr. Abdul Latif Mahmood Al Mahmood

Sharia'a Supervisory Board's Chairman and Sharia'a Supervisory Executive Committee Chairman

-
- Head of Arabic Language and Islamic Studies Department at the University of Bahrain.

- Member of the Sharia'a Supervisory Board of Takaful International, Kingdom of Bahrain.
- Member of the Sharia'a Supervisory Board of ABC Islamic Bank, Kingdom of Bahrain.
- Member of the Sharia'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 Sharia'a Supervisory Board of Albaraka Group.
- He participated in a number of jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars.

Rev. Shaikh Mohammed Jaffar Aljuffairi

Sharia'a Supervisory Board Member and Vice Chairman

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

Rev. Shaikh Adnan Abdulla Al Qattan

Sharia'a Supervisory Board Member

- Judge of the High Sharia'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 Sharia'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.

Rev. Shaikh Nedham Mohamed Saleh Yacoubi

Sharia'a Supervisory Board Member

- Member of the Sharia'a Supervisory Board at:
- Bahrain Islamic Bank – Bahrain.
- Abu Dhabi Islamic Bank, UAE.
- Sharjah Islamic Bank, UAE.
- Shamil Islamic Bank, Kingdom of Bahrain.
- Arcapita, Kingdom of Bahrain.
- Gulf Finance House, Kingdom of Bahrain.
- ABC Islamic Bank, Kingdom of Bahrain.
- ABC Islamic Bank, London.
- Islamic Accounting Standards Organisation, Kingdom of Bahrain.
- Businessman.

Rev. Shaikh Dr. Essam Khalaf AlEnizi

Sharia'a Supervisory Board Member

- University of Kuwait Faculty – Sharia'a and Islamic Studies
- Member of Sharia'a Supervisory Committee at:
- Bahrain Islamic Bank
- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
- Bobyan Bank
- Alsham Bank
- Investment Dar and others

Sharia'a Committee Members and its Objective

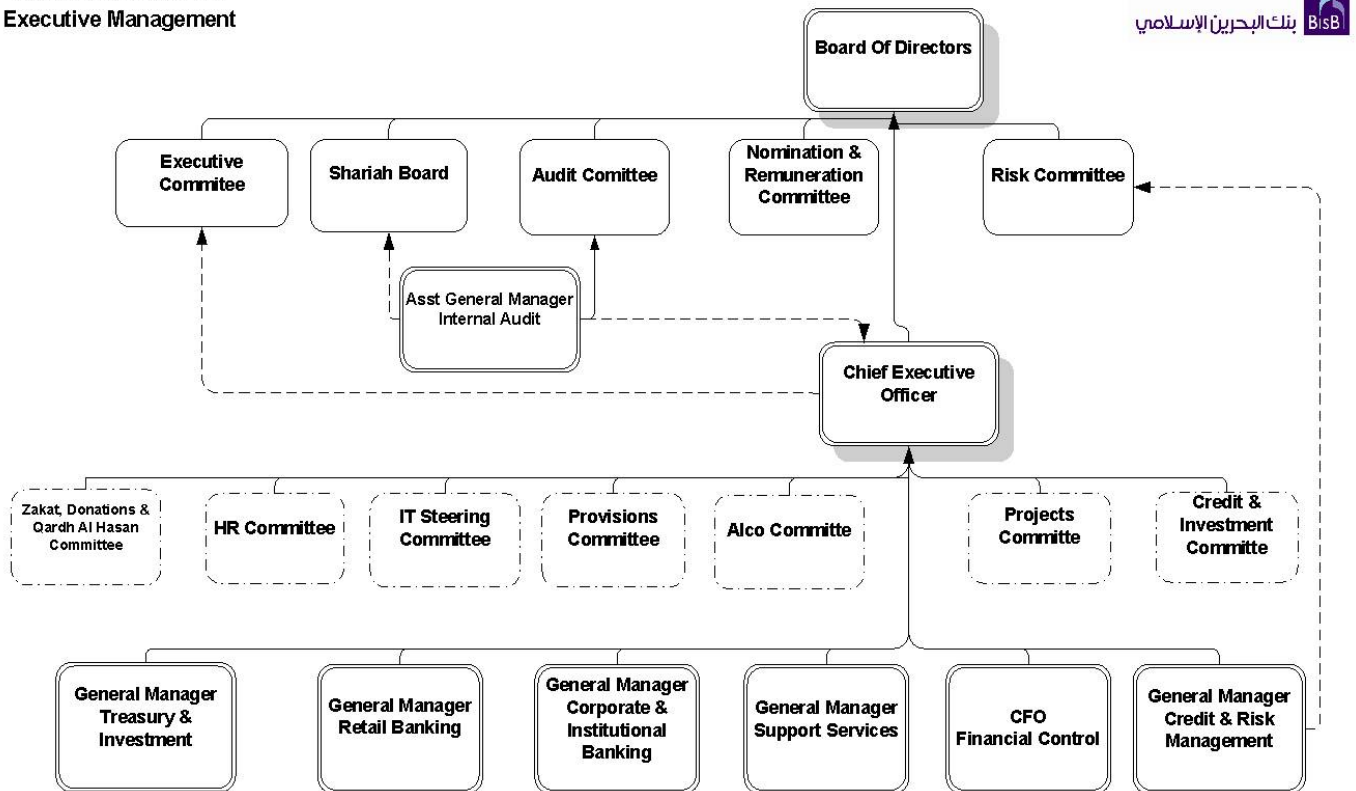
| Members | Objectives |
|--|---|
| <p>Abdullatif Al-Mahmood Chairman</p> <p>Members</p> <ul style="list-style-type: none"> · Mohammed Al Juffairi · Adnan Al-Qattan · Nedham Yacoubi · Essam Al Enizi | <p>The main objective of Sharia'a Committee is to advise the business units on any Sharia'a matter and to ensure compliance with the sharia'a tenets and requirements in their operations. The Sharia'a Committee 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 Sharia'a rules and AAOIFI.</p> |

Sharia'a Board Meetings

| Members | 7 Feb | 9 Jun | 4 Oct |
|--------------------------|-------|-------|-------|
| Sh. Abdulatif Al-Mahmood | ☑ | ☑ | ☑ |
| Sh. Moh' d Al-Jufairi | ☑ | | ☑ |
| Sh. Adnan Al-Qattan | ☑ | ☑ | ☑ |
| Sh. Nidham Yacoubi | ☑ | ☑ | |
| Sh. Dr. Esam Al-Enizi | ☑ | ☑ | ☑ |

Management Structure

Board of Directors & Executive Management



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

| Name of Experience Executive Member | Designation | Profession | Experience in years | Qualification |
|-------------------------------------|---------------------|------------|---------------------|---|
| Mohammed Ebrahim Mohammed | CEO | Banker | 34 | Master degree in Business Administration from University of Glamorgan- Wales |
| Abdul Rahman Mohammed Turki | GM – Retail Banking | Banker | 39 | Master Degree in Business Administration from University of Strathclyde, Scotland |
| Dr. Salah Addeen Saeed | GM – Credit & Risk | Banker | 34 | Doctor of Business Administration |

| | | | | |
|------------------------------|------------------------------------|------------|----|--|
| | | | | MBA with Distinction B.Sc. Honors in Mechanical Engineering |
| Mohammed Fikree | GM – Treasury & Investment | Banker | 29 | B.Sc (Honors) in Mechanical Engineering from the UK |
| Nader Ebrahim | GM – Corporate Banking | Banker | 29 | Executive Management & Leadership from University of Virginia, USA |
| Mohammed Ahmed Hassan | GM – Support Services | Banker | 43 | Advance Management for Senior Decision Makers |
| Khalid Mohammed Al Dosari | Chief Financial Officer | Accountant | 28 | CPA from American Institute of Certified Public Accountants |
| Khalid Mahmood Abdulla | AGM – Internal Audit & Sharea'a | Accountant | 18 | CPA from American Institute of Certified Public Accountants |

Performance-linked incentive structure

The bank implements Performance Management Scheme that is linked with incentives and competencies on annual basis for Executive Management and all Staff. The bank pays monthly salaries, allowances and bonuses for the following job categories as shown below:

1. Chief Executive:
 - a. Basic Salary
 - b. Banks Car.
 - c. Full Telephone Bill Reimbursement (Business Calls only).
 - d. 3 Additional fixed Cash Bonus (Basic Salary) per year.
 - e. Reimbursement of Education Allowance.
 - f. Annual Performance Bonus decided by Nomination & Remuneration Committee.
2. General Managers:
 - a. Basic Salary
 - b. Car Allowance.
 - c. Telephone Allowance.
 - d. 2 Additional fixed Cash Bonus (Basic Salary) per year.
 - e. Annual Performance Bonus decided by Nomination & Remuneration Committee.
3. Senior Managers/Managers:
 - a. Basic Salary

- b. Car Allowance.
- c. Telephone Allowance.
- d. 2 Additional fixed Cash Bonus (Basic Salary) per year.
- e. Annual Performance Bonus decided by Department Head & CEO.

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 |
|-----------------------------------|--------------|------------------|------------|
| Investment Dar | Kuwait | 373,133,940 | 39.75% |
| Islamic Development Bank | Saudi Arabia | 166,092,465 | 17.68% |
| Kuwait Investment Company | Kuwait | 110,962,471 | 11.81% |
| General Council of Kuwaiti Awaqaf | Kuwait | 68,279,478 | 7.27% |

Shareholding Distribution (Bahraini & Non-Bahraini)

| Shareholders | Number of Shares | Percentage |
|--------------|------------------|------------|
| Bahraini | 158,980,031 | 16.92% |
| Non-Bahraini | 780,693,468 | 83.08% |
| Total | 939,673,499 | 100% |

Directors and Senior Managers Trading during the Year (As of December 2011)

| Director | Date | Nature of Transaction | Number of Shares |
|-----------------------|----------|-----------------------|------------------|
| Khalid Al-Bassam | Jan 2011 | Bought | 118,937 |
| | Mar 2011 | Bought | 20,000 |
| | Jun 2011 | Bought/ Rights issue | 1,100,113 |
| | Oct 2011 | Bought | 57,375 |
| Sh. Hisham Al-Khalifa | Jun 2011 | Bought/ Rights issue | 570,200 |

| | | | |
|-----------------------|----------|----------------------|---------|
| Khalid Najibi | Jan 2011 | Bought | 25,000 |
| | Jun 2011 | Bought/ Rights issue | 415,000 |
| Abdulrahman Al-Dawood | May 2011 | Transfer | 110,000 |
| Mohammed Ebrahim | Mar 2011 | Bought | 5,000 |
| | May 2011 | Bought | 17,990 |
| | Jun 2011 | Bought/ Rights issue | 77,010 |

Distribution of Ownership shares of Directors, Sharea'a Members and Senior Management (As of December 2011)

| Directors | Number of Shares |
|---|---|
| Khalid Al-Bassam | 1,957,639 |
| Sh. Hisham Al-Khalifa | 1,330,467 |
| Khalid Najibi | 851,709 |
| Mohammed Al-Zarroq Rajab | 287,980 |
| Ali Mohammed Al-Olaimi | 402,293 |
| Nabeel Ahmed Amin | 244,750 |
| Abdulrahman Al-Dawood | 110,000 |
| Ghassan Al-Baraheem | No Shares Transferred As of December 2011 |
| Abdulla Al-Homaidhi | No Shares Transferred As of December 2011 |
| Sharea'a Members | Number of Shares |
| Shaikh Dr. Abdul Latif Mahmood Al Mahmood | 191,405 |
| Shaikh Nedham Mohamed Saleh Yacoubi | 14,320 |
| Senior Management | Number of Shares |
| Mohammed Ebrahim Mohammed | 100,000 |
| Dr. Salah Addeen Saeed | 1,676 |

Board of Directors and Senior Management Aggregate Remuneration and Sitting Fees

Board of Directors Sitting Fees

The aggregate Board sitting fees was BD 240,000 including travel expenses for the year 2011.

Senior Management Aggregate Remuneration

The aggregate Senior Management remuneration was BD 1,013,284 including basic salaries, fixed allowances and bonus distribution for the year 2011.

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.