



## BisB Corporate Governance Report 2013

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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 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*

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Chief Executive Officer & Director – National Bank of Bahrain. Master's degree in Management Sciences and a Sloan Fellowship from MIT (Massachusetts Institute of Technology, USA). Mr. Al Qassim joined NBB in 1977 after nine years with Chase Manhattan Bank and Standard Chartered Bank. Chairman of Bahrain Islamic Bank; Chairman of Benefit Company; Deputy Chairman and Chairman of Executive Committee of the Arab Academy for Education and Research; Board Member and Chairman of Executive Committee of Bahrain Telecommunication Company; Board Member of Umniah.

#### **Brigadier Khalid Mohammed Al Mannaei**

*Vice Chairman and Chairman of the Executive Committee*

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Brigadier Khalid Mohammed Al Mannaei is the General Manager of Military Pension Fund. He holds Master's degree in Business Administration from Sheffield Hallam University (UK) and joined the Military Pension Fund in February 2001 after 30 years of experience with the Bahrain Defense Force. He is one of the founders of GCC Expanded Pension Coverage Committee.

Along with BISB, Brigadier Al Mannaei currently is a Board member at Batelco, Board member at Social Insurance Organization (SIO), Board member at Osool Asset Management and Board member at Marina Club.

#### **Fatima Abdulla Budhaish**

*Board Member*

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Mrs. Budhaish heads the Credit Risk Department of NBB. She holds an Executive MBA (University of Bahrain) with CPA (USA) and Leadership Diploma (Darden Business School, University of Virginia, USA). She has also completed various local as well as international courses related to Banking, Finance & Risk. Mrs. Budhaish joined NBB in 2004 after five years with BBK and worked in various capacities and currently Assistant General Manager – Credit Risk since April 2013.

#### **Mohammed Ahmed Abdulla**

*Board Member*

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Mr. Abdulla is the Head of Fund Management in Osool Asset Management Co, overlooking the management of all assets within the organization. Before joining Osool, he was with Credit Suisse AG as a Vice President, Team Leader at Credit Suisse AG-Bahrain and prior to that he was Vice President, Senior Relationship Manager at Credit Suisse – Dubai.

Mr. Abdulla began his career with HSBC Bank Middle East in the Financial Control Department and then moved to Merrill Lynch International Bank Ltd. Bahrain in various senior positions (2000-2007).

Mr. Abdulla holds a Bachelor Degree in Accounting from University of Bahrain (2000). He obtained his Series 7 from the National Association of Security Dealers (NASD) in the year 2000, Series 9 & 10 in 2001 and Series 3 from the National Futures Association in 2001.

Mr. Abdulla is a Board Member in MedGulf Group and MedGulf Allianz Takaful. He is the Chairman of the Nomination & Remuneration Committee and a member of the Audit Committee (for both Organizations as well).

#### **Talal Ali Al Zain**

*Board Member – Chairman of the Risk Committee*

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BA in Business Administration, Major in Accounting from Oglethorpe University and an MBA in Finance from Mercer University.

Mr. Al Zain is CEO for PineBridge Investments' Middle East. He is responsible for managing the firm's investment activities and relationships within the Middle East, North Africa and Turkey. Mr. Al Zain is also a member of the PineBridge Global Investments' Executive Committee. As Co-Head of Alternative Investments, he has joint management responsibility for PineBridge's global alternative investments capabilities. Prior to joining PineBridge, Mr. Al Zain was the Chief Executive Officer of Bahrain Mumtalakat Holding Company, the sovereign wealth fund and investment arm for the Kingdom of Bahrain. He was a founding member of Mumtalakat, an independent holding company for the government of Bahrain's strategic non-oil and gas related assets. Prior to joining Mumtalakat, Mr. Al Zain spent 18 years with Investcorp as Managing Director and Co-Head of Placement and Relationship Management. Before that, he was Vice President of Private Banking International and Head of Investment Banking Middle East with The Chase Manhattan Bank, Geneva as well as a corporate banker for Citibank Corporate Banking Division in Bahrain.

#### **Khalil Ebrahim Nooruddin**

*Board Member*

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Mr. Nooruddin is an investment banker who has 35 years extensive executive and board level experience, gained by serving regional and international investment banking firms. He is currently the managing partner of Capital Knowledge: a consulting and training company. Over the past five years, Mr. Nooruddin finished several consulting assignments working with bank's senior management and boards on strategy formulation and implementation. Previously, he worked for several reputable institutions, including, Investcorp Bank, UBS Asset Management (London and Zurich) and Chase Manhattan Bank (Bahrain). Mr. Nooruddin is a Chartered Financial Analyst (CFA) and also the president of the CFA Bahrain Society, he holds a Master of Science Degree in Quantitative analysis from Stern Business school in New York University and a Bachelor of Science degree in System Engineering from the University of Petroleum and Minerals, Saudi Arabia. Mr. Nooruddin is an active member of several civil and professional societies in Bahrain.

#### **Ebrahim Hussain Ebrahim**

*Board Member – Chairman of the Audit Committee*

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Mr. Ebrahim Hussain Ebrahim is currently Board Member of Bahrain Islamic Bank. He was the Chief Executive Officer of Khaleeji Commercial Bank until May 2012 and was instrumental in establishing the Bank in 2004. He has around 32 years'

experience in both Islamic and conventional banking and occupied a number of prominent positions in financial institutions in Bahrain. Prior to joining Khaleeji Commercial Bank, Mr. Ebrahim was the Chief Executive Officer of the Liquidity Management Centre, Bahrain. In his long stint at Arab Banking Corporation, he held various positions including Vice President in the Global Marketing Unit, Vice President in the Treasury and Marketable Securities Department, and General Manager of ABC Securities. He also worked as General Manager of Bank of Bahrain and Kuwait's Financial Services Company in addition to holding senior positions in the treasury and financial institutions division of Ithmaar Bank (previously Shamil Bank). Mr. Ebrahim is currently a Board member of First Energy Bank - Bahrain and Gulf Real Estate Company - Saudi Arabia. Mr. Ebrahim Hussain holds a B.S.C in Economics from The University of Kuwait. He also holds a Masters Degree in Business Administration from the University of Bahrain.

### **Othman Ebrahim Al-Askar**

#### *Board Member*

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Mr. Al-Askar is currently the director of Investment Management Directorate at the General Secretariat of Awqaf (Kuwait). He was a Board member of Rasameel, a Board member of the Educational Holding Group Co. Mr. Al-Askar holds a Bachelor of Business Administration - Economy from the University of Center Washington - United States. Mr. Othman Al-Askar has 23 years experience in investments.

### **Mohammed Alzarooq Rajab**

#### *Board Member*

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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.

### **Names of Independent Board Members**

1. Talal Ali Al-Zain.
2. Khalil Ebrahim Nooruddin
3. Ebrahim Husain Ebrahim
4. Othman Ibrahim Al-Askar

## Board start date for each term for each director

1. Abdul Razaq Abdulla Al-Qassim (Start date: 05-06-2013).
2. Brigadier Khalid Mohamed Al-Manna'ei (Start date: 11-06-2013).
3. Fatima Abdulla Budhaish (Start date: 05-06-2013).
4. Mohammed Ahmed Abdulla (Start date: 11-06-2013).
5. Talal Ali Al-Zain (Start date: 07-07-2013).
6. Khalil Ebrahim Nooruddin (Start date: 07-07-2013).
7. Ebrahim Husain Ebrahim (Start date: 07-07-2013).
8. Othman Ibrahim Al-Askar (Start date: 07-07-2013).
9. Mohammed Rajab (Start date: 08-02-2011).
10. Khalid Al-Bassam (Resigned: 07-07-2013).
11. Nabeel Amin (Resigned: 20-05-2013).
12. Khalid Najibi (Resigned: 07-07-2013).
13. Ali Al-Olaimi (Resigned: 07-07-2013).
14. Ghassan Al-Baraheem (Resigned: 07-07-2013).
15. Abdulla Al-Humadhi (Resigned: 20-05-2013).
16. Ismaeel Amin (Resigned: 07-07-2013).
17. Adnan Al-Nisif (Resigned: 20-05-2013).

## 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 Group'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 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 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 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 CM, 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 Committee of the Board. The Central Bank performs periodic inspections of 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.

## 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 2013

| Members  | 11 Feb | 26 Mar | 18 Jun | 7 Jul | 16 Jul | 16 Sep | 17 Sep | 28 Oct | 19 Dec |
|--|--------|--------|--------|-------|--------|--------|--------|--------|--------|
| Abdul Razaq Al-Qassim<br>(Joined 05 June 2013) |        |        |        | ✓     | ✓      | ✓      | ✓      | ✓      | ✓      |
| Khalid Al-Mannaei<br>(Joined 11 June 2013)     |        |        |        | ✓     | ✓      | ✓      | X      | ✓      | ✓      |
| Fatima Budhaish<br>(Joined 05 June 2013)       |        |        |        | ✓     | ✓      | ✓      | ✓      | ✓      | ✓      |
| Mohammed Abdulla<br>(Joined 11 June 2013)      |        |        |        | ✓     | ✓      | ✓      | ✓      | ✓      | ✓      |
| Talal Al-Zain<br>(Joined 07 July 2013)         |        |        |        | ✓     | ✓      | X      | X      | ✓      | ✓      |
| Khalil Nooruddin<br>(Joined 07 July 2013)      |        |        |        | X     | ✓      | ✓      | ✓      | ✓      | ✓      |
| Ebrahim Hussain<br>(Joined 07 July 2013)       |        |        |        | ✓     | ✓      | ✓      | ✓      | ✓      | ✓      |
| Othman Al-Askar<br>(Joined 07 July 2013)       |        |        |        | ✓     | X      | ✓      | ✓      | ✓      | ✓      |
| Moh'd Alzarroq Rajab                           | X      | X      | X      | X     | X      | X      | X      | X      | X      |
| Khalid Al-Bassam<br>(Resigned 07 July 2013)    | ✓      | ✓      | ✓      |       |        |        |        |        |        |
| Nabeel Amin<br>(Resigned 20 May 2013)          | ✓      | ✓      |        |       |        |        |        |        |        |
| Khalid Najeebi<br>(Resigned 07 July 2013)      | ✓      | ✓      |        |       |        |        |        |        |        |
| Ali Al Olaimi<br>(Resigned 07 July 2013)       | ✓      | ✓      | ✓      |       |        |        |        |        |        |
| Ghassan Al-Baraheem<br>(Resigned 07 July 2013) | ✓      | ✓      | ✓      |       |        |        |        |        |        |
| Abdulla Al-Homaidhi<br>(Resigned 20 May 2013)  | ✓      | ✓      |        |       |        |        |        |        |        |
| Adnan Al-Nisif<br>(Resigned 20 May 2013)       | ✓      | ✓      |        |       |        |        |        |        |        |
| Ismaeel Amin<br>(Resigned 07 July 2013)        | ✓      | ✓      | ✓      |       |        |        |        |        |        |

Due to the change in the shareholders structure of the Bank, the following committees have been restructured and notified to the CBB.

### Board Committees, Members and Objectives

| Board Committee  | Members  | Objectives  |
|--|--|---|
| Executive Committee  | <p>Khalid Mohammed Al-Mannaei<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>Fatima Abdulla Budhaish</li> <li>Khalil Ebrahim Nooruddin</li> <li>Mohammed Ebrahim Mohammed (CEO) – Non-voting member</li> </ul> | <p>Review of strategy and performance</p> <p>Review of new investment proposals, credit proposals, and exit strategies</p> <p>The committee meets six times per year</p>  |
| Audit Committee<br>(including Corporate Governance Committee responsibilities) | <p>Ebrahim Hussain Ebrahim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>Othman Ebrahim Al-Askar</li> <li>Moh'd Alzarroq Rajab</li> </ul>   | <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 Razaq Abdulla Al-Qassim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>Khalid Mohammed Al-Mannaei</li> <li>Mohammed Ahmed Abdulla</li> </ul>  | <p>Oversight of the compensation and remuneration policy</p> <p>Oversight of recruitment &amp; promotion of key personnel and Board members</p> <p>The committee meets two times per year</p>   |

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

### Executive Committee Meetings and Attendance

| Members             | 6 Jan | 28 Jan | 11 Feb | 26 Mar | 13 May | 24 Jul | 4 Aug | 26 Sep | 27 Oct | 10 Dec | 15 Dec |
|---------------------|-------|--------|--------|--------|--------|--------|-------|--------|--------|--------|--------|
| Khalid Al-Mannaei   |       |        |        |        |        | ✓      | ✓     | ✓      | ✓      | ✓      | ✓      |
| Fatima Budhaish     |       |        |        |        |        | ✓      | ✓     | ✓      | ✓      | ✓      | ✓      |
| Khalil Nooruddin    |       |        |        |        |        | ✓      | ✓     | ✓      | ✓      | ✓      | ✓      |
| Khalid Najibi       | ✓     | ✓      | ✓      | ✓      | ✓      |        |       |        |        |        |        |
| Nabeel Amin         | ✓     | ✓      | ✓      | ✓      | ✓      |        |       |        |        |        |        |
| Ghassan Al-Baraheem | ✓     | ✓      | ✓      | ✓      | ✓      |        |       |        |        |        |        |
| Mohammed Ebrahim    | ✓     | ✓      | ✓      | ✓      | ✓      | ✓      | ✓     | ✓      | ✓      | ✓      | ✓      |

### Audit Committee Meetings and Attendance

| Members                 | 11 Feb | 26 Mar | 14 Jul | 27 Oct |
|-------------------------|--------|--------|--------|--------|
| Ebrahim Hussain Ebrahim |        |        | ✓      | ✓      |
| Othman Ebrahim Al-Askar |        |        | ✓      | ✓      |
| Mohammed Rajab          | X      | X      | X      | X      |
| Ali Al-Olaimi           | ✓      | ✓      |        |        |
| Abdulla Al-Homaidhi     | ✓      | ✓      |        |        |
| Ismaeel Amin            | ✓      | ✓      |        |        |

### Risk Committee Meetings and Attendance

| Members                 | 8 Sep | 23 Oct | 10 Dec |
|-------------------------|-------|--------|--------|
| Talal Ali Al-Zain       | ✓     | ✓      | ✓      |
| Fatima Abdulla Budhaish | ✓     | ✓      | ✓      |
| Mohammed Ahmed Abdulla  | ✓     | ✓      | ✓      |

### Nomination & Remuneration Committee Meetings and Attendance

| Members                       | 15 Jan | 19 Dec |
|-------------------------------|--------|--------|
| Abdul Razaq Abdulla Al-Qassim |        | ✓      |
| Khalid Mohammed Al-Mannaei    |        | ✓      |
| Mohammed Ahmed Abdulla        |        | ✓      |
| Khalid Al-Bassam              | ✓      |        |
| Khalid Najeebi                | ✓      |        |
| Nabeel Amin                   | X      |        |

### 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 2013 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 31<sup>st</sup> December 2013 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 2013 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

#### Shari'a Supervisory Board's Chairman and Shari'a Supervisory Executive Committee Chairman

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

#### Shari'a Supervisory Board Member and Vice Chairman

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- 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**

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- 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 Nedham Mohamed Saleh Yacoubi**

#### **Shari'a Supervisory Board Member**

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- Member of the Shari'a Supervisory Board at:
  - Bahrain Islamic Bank – 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**

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

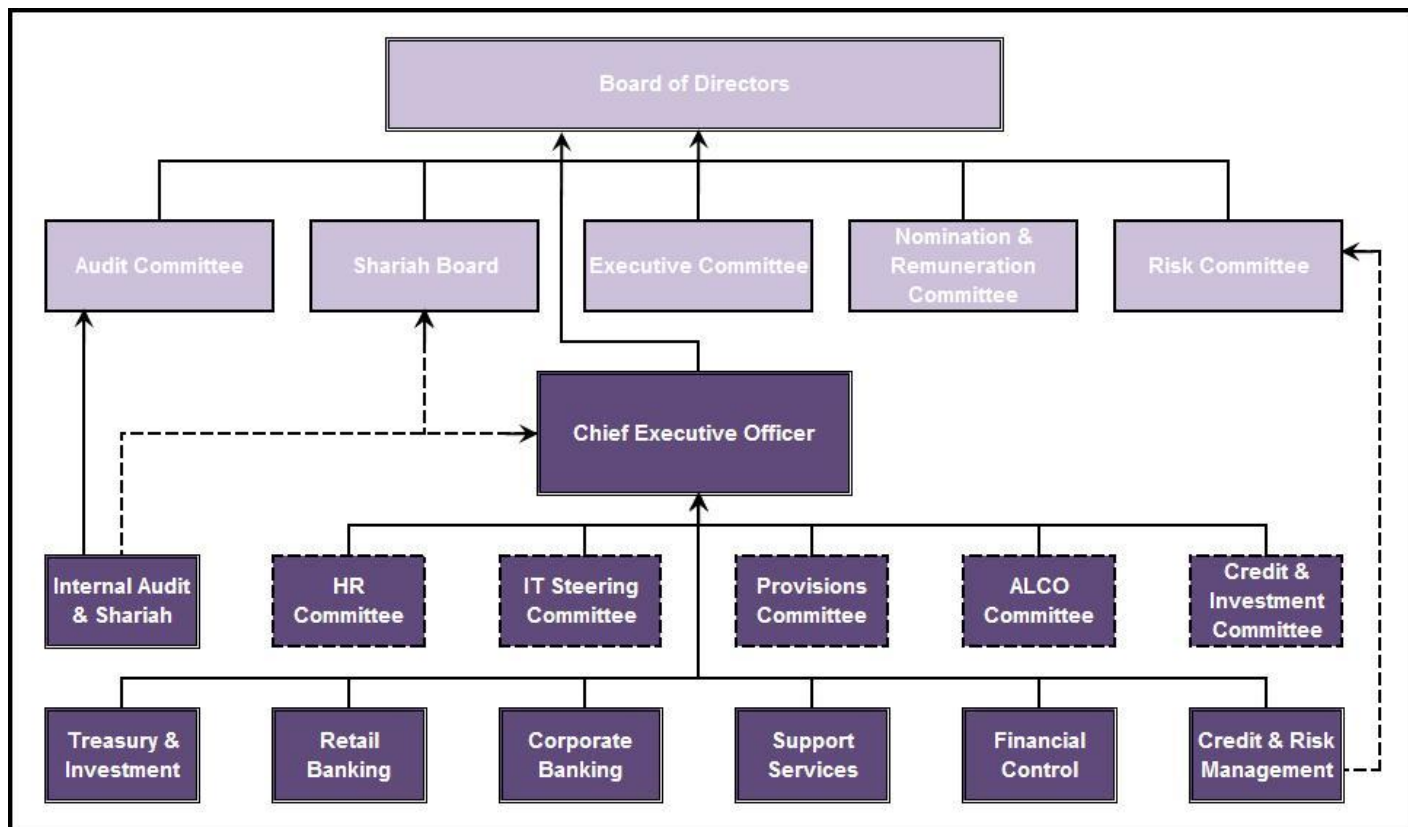
## Shari'a Supervisory Board Members and its Objective

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                  | 10 Mar | 02 Jun | 03 Dec | 26 Dec |
|--------------------------|--------|--------|--------|--------|
| Sh. Abdulatif Al-Mahmood | ✓      | ✓      | ✓      | ✓      |
| Sh. Moh'd Al-Jufairi     | ✓      | ✓      | ✓      | ✓      |
| Sh. Adnan Al-Qattan      | ✓      | ✓      | ✓      | ✓      |
| Sh. Nidham Yacoubi       | X      | X      | ✓      | ✓      |
| Sh. Dr. Esam Al-Enizi    | ✓      | ✓      | ✓      | ✓      |

## Management 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 Ebrahim Mohammed   | CEO                   | Banker     | 36                  | Master degree in Business Administration from University of Glamorgan- Wales      |
| Mohammed Ahmed Hassan       | GM – Support Services | Banker     | 45                  | Advance Management for Senior Decision Makers                                     |
| Abdul Rahman Mohammed Turki | GM – Retail Banking   | Banker     | 41                  | Master Degree in Business Administration from University of Strathclyde, Scotland |
| Dr. Mohammed                | AGM – Credit & Risk   | Banker     | 30                  | PhD, M.Com (India),   |

|                              |                                |            |    |   |
|------------------------------|--------------------------------|------------|----|---|
| Shabuddin Belgami            | Management                     |            |    | FRM – GARP, USA   |
| Khalid Mohammed Al Dosari    | Chief Financial Officer        | Accountant | 30 | CPA from American Institute of Certified Public Accountants                     |
| Khalid Mahmood Abdulla       | AGM – Internal Audit & Shari’a | Accountant | 19 | CPA from American Institute of Certified Public Accountants                     |
| Yousif Mohammed Abdul kareem | AGM – Corporate Banking        | Banker     | 41 | Master degree in Business Administration from University of Glamorgan, Wales.   |
| Nader Mohammed Al Bastaki    | S. Manager – Investment        | Banker     | 14 | Bachelor Degree in Accounting   |
| Sameer Abdul Aziz Qaedi      | S. Manager – Treasury          | Banker     | 29 | Master degree in Business Administration from Sacramento Regent University, USA |

## Management Committees

| Board Committee                      | Members  | Objectives   |
|--------------------------------------|--|--|
| Asset & Liability Committee (ALCO)   | <p>Mohammed Ebrahim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>• A. Rahman Turki</li> <li>• Yusuf Abdul kareem</li> <li>• Dr. Mohammed Belgami</li> <li>• Khalid Al Dossari</li> <li>• Nader Al Bastaki</li> </ul> | The main objective of ALCO is to manage and monitor the liquidity risk of the Bank on a coordinated and consistent basis.  |
| Credit & Investment Committee (C&IC) | <p>Mohammed Ebrahim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>• A. Rahman Turki</li> <li>• Yusuf Abdul kareem</li> <li>• Nader Al Bastaki</li> </ul>  | The main objectives of C&IC 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. |

|  |   |   |
|--|---|---|
|  | <ul style="list-style-type: none"> <li>• Dr. Mohammed Belgami</li> </ul>  |   |
| Information Technology Steering Committee  | <p>Mohammed Ebrahim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>• Mohammed Hassan</li> <li>• Khalid Al Dossari</li> <li>• A. Rahman Turki</li> <li>• Dr. Mohammed Belgami</li> <li>• Khalid Mahmood</li> </ul>   | 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.   |
| Human Resource Committee (HR)              | <p>Mohammed Ebrahim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>• Mohammed Hassan</li> <li>• Khalid Al Dossari</li> <li>• A. Rahman Turki</li> <li>• Yusuf Abdul kareem</li> <li>• Dr. Mohammed Belgami</li> <li>• Khalid Mahmood</li> <li>• Nader Al Bastaki</li> </ul> | 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.                    |
| Qard Al Hassan, Donation & Zakah Committee | <p>Mohammed Hassan<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>• Saleh Al Mehri</li> <li>• Hamad Farooq</li> <li>• Ali Hassan</li> </ul>   | 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. |
| Provisioning Committee                     | <p>Mohammed Ebrahim<br/>Chairman</p> <p>Members</p> <ul style="list-style-type: none"> <li>• Dr. Mohammed Belgami</li> <li>• Khalid Al Dossari</li> </ul>   | 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                           |

|  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"> <li>Khalid Mahmood</li> </ul> | strategic risk level objectives of the bank. |
|--|--|--|

## 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 sitting fees was BD 48 thousands for the year 2013.

### Senior Management Aggregate Remuneration

The aggregate Senior Management remuneration was BD 895 thousands including basic salaries, fixed allowances and bonus distribution for the year 2013.

## 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      | 242,038,206      | 25.74%     |
| Islamic Development Bank                              | Saudi Arabia | 165,956,945      | 17.66%     |
| Social Insurance Organization (Military Pension Fund) | Bahrain      | 121,113,559      | 12.89%     |
| Social Insurance Organization (GOSI)                  | Bahrain      | 121,147,267      | 12.89%     |
| Kuwait Awqaf Public Foundation                        | Kuwait       | 68,013,739       | 7.24%      |

### Distribution of Ownership of Shares by Nationality

| Country                 | Percentage      | Number of Shares   |
|-------------------------|-----------------|--------------------|
| Kingdom of Bahrain      | 68.52%          | 643,901,479        |
| Kingdom of Saudi Arabia | 18.54%          | 174,179,592        |
| Kuwait                  | 9.08%           | 85,278,340         |
| United Arab Emirates    | 3.60%           | 33,793,459         |
| Qatar                   | 0.16%           | 1,527,003          |
| Others                  | 0.05%           | 489,037            |
| <b>Total</b>            | <b>100.000%</b> | <b>939,673,499</b> |

### Distribution of Ownership shares of Directors, Shari'a Members and Senior Management

| Directors                    | Shares as of 31 <sup>st</sup> Dec 2012 | Shares as of 31 <sup>st</sup> Dec 2013    |
|------------------------------|--|---|
| AbdulRazaq Abdulla Al-Qassim | Joined 05 June 2013                    | 100,000                                   |
| Khalid Mohamed Al-Mannaei    | Joined 11 June 2013                    | No Shares Transferred As of December 2013 |
| Mohammed Ahmed Abdulla       | Joined 11 June 2013                    | No Shares Transferred As of December 2013 |
| Fatima Abdulla Budhaish      | Joined 05 June 2013                    | 100,000                                   |
| Talal Ali Al-Zain            | Joined 07 July 2013                    | No Shares Transferred As of December 2013 |
| Khalil Ebrahim Nooruddin     | Joined 07 July 2013                    | No Shares Transferred As of December 2013 |
| Ebrahim Husain Ebrahim       | Joined 07 July 2013                    | 100,000                                   |
| Othman Ibrahim Al-Askar      | Joined 07 July 2013                    | 100,000                                   |
| Mohammed Al-Zarroq Rajab     | 152,460                                | 152,460                                   |
| Khalid Al-Bassam             | 1,957,639                              | Resigned 07 July 2013                     |
| Khalid Najibi                | 851,709                                | Resigned 07 July 2013                     |
| Ali Mohammed Al-Olaimi       | 402,293                                | Resigned 07 July 2013                     |



|   |         |                       |
|---|---------|-----------------------|
| Nabeel Ahmed Amin                         | 244,750 | Resigned 20 May 2013  |
| Ghassan Al-Baraheem                       | 100,000 | Resigned 07 July 2013 |
| Abdulla Al-Homaidhi                       | 123,750 | Resigned 20 May 2013  |
| Adnan Al-Nisif                            | 110,000 | Resigned 20 May 2013  |
| Ismaeel Amin                              | 100,000 | Resigned 07 July 2013 |
| <b>Shari'a Members</b>                    |         |                       |
| Shaikh Dr. Abdul Latif Mahmood Al Mahmood | 191,405 | 191,405               |
| Shaikh Nedham Mohamed Saleh Yacoubi       | 14,320  | 14,320                |
| <b>Senior Management</b>                  |         |                       |
| Mohammed Ebrahim Mohammed                 | 100,000 | 100,000               |

## 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.