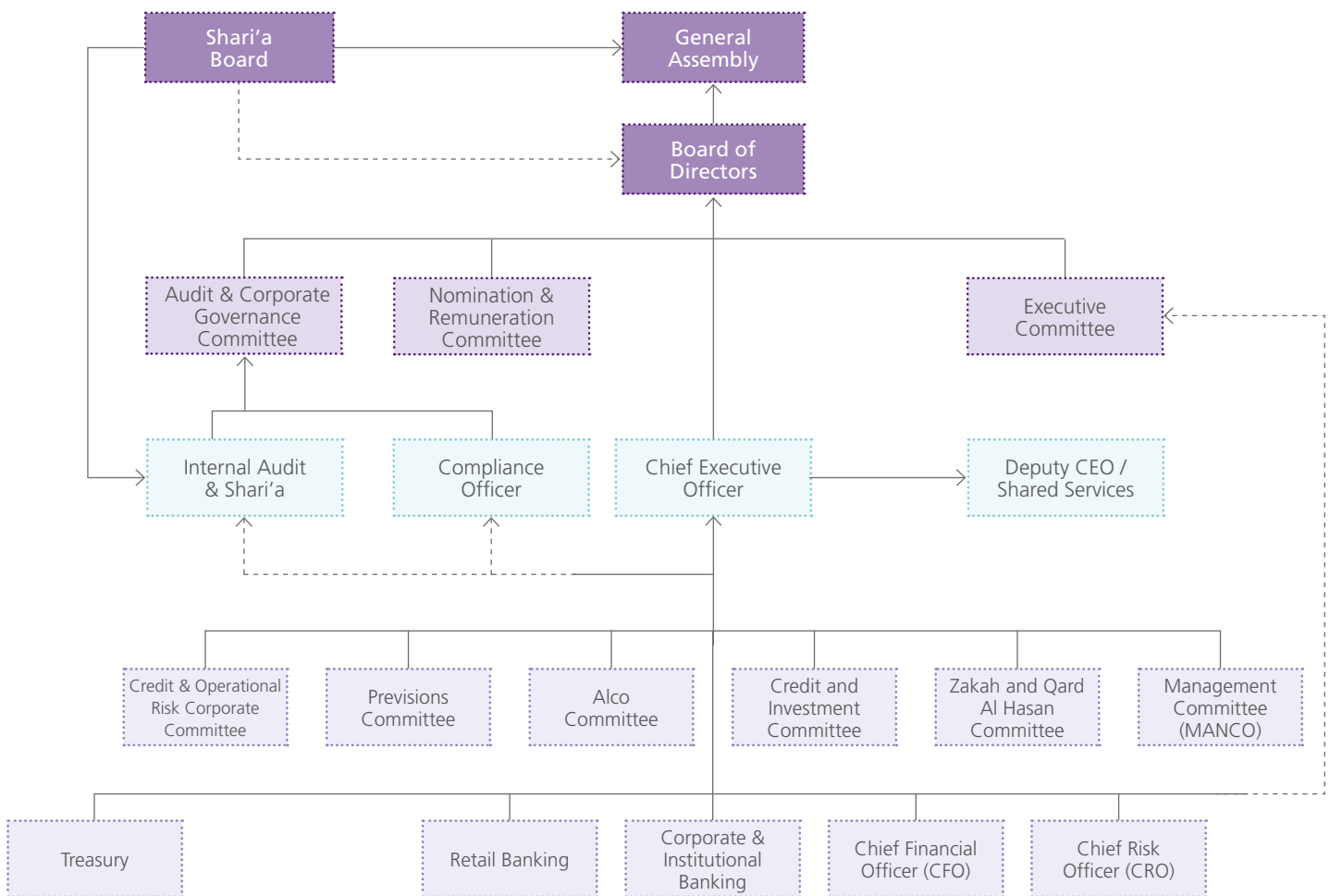


Corporate Governance Review

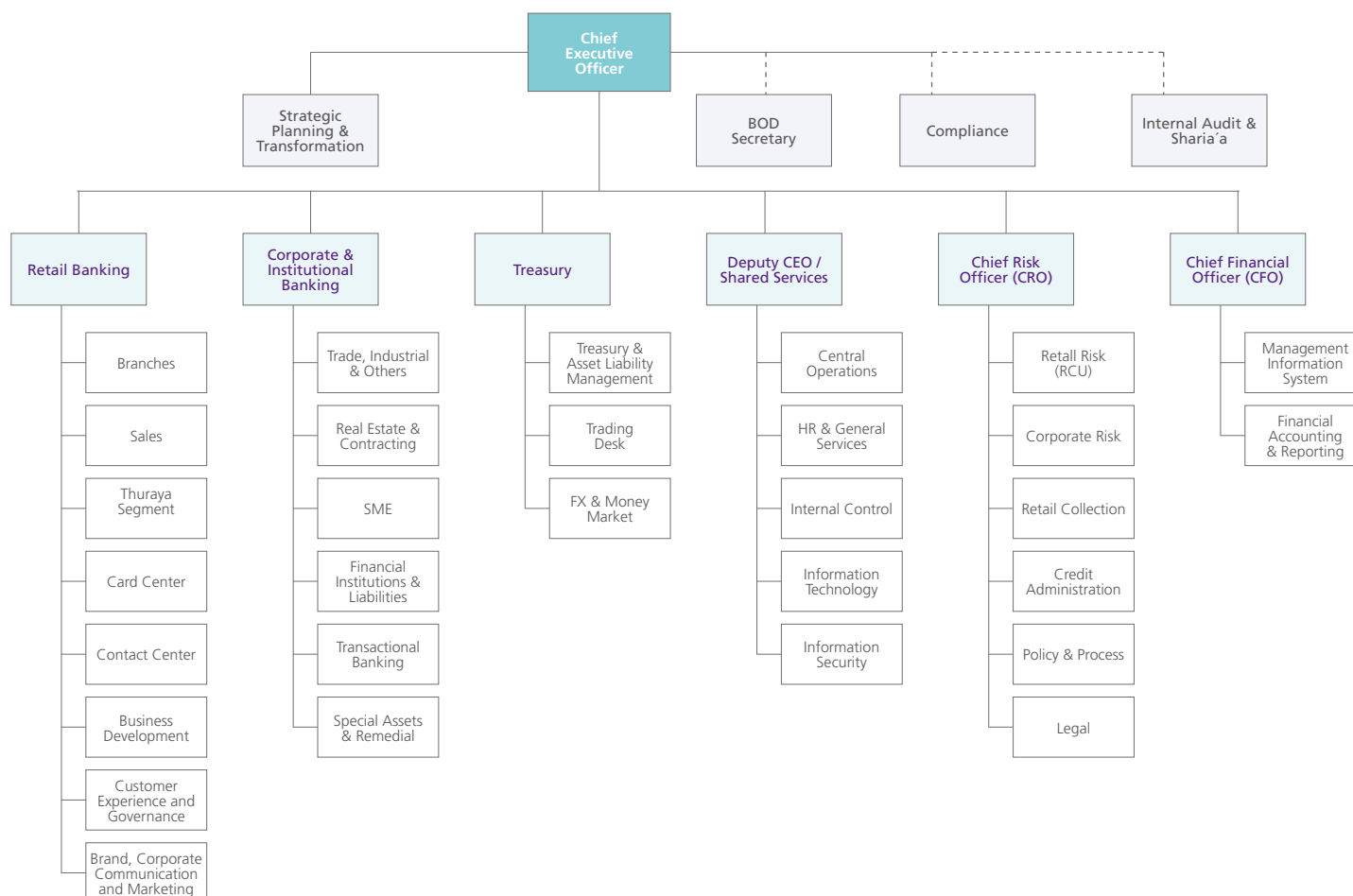
BisB is committed to uphold the highest standards of corporate governance, and the Central Bank of Bahrain’s High- Levels Control Module (and its amendments). The Bank seeks to balance entrepreneurship, compliance and industry best practice, while creating value for all stakeholders. This includes, but 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. The Bank remains unwavering in its commitment to good corporate governance and will consistently and transparently communicate with its regulators, shareholders and stakeholders. Committed to achieve high standards of Compliance, the Bank introduced a series of training and awareness courses on different banking areas including corporate governance, policies & procedures, and a specialized anti-fraud courses.

Furthermore, BisB has introduced an automated Compliance Management solution where it links all the Bank’s departments to a centralized regulatory data bank that provides guidance on the latest regulatory obligations and requirements. The “Compliance Management System” is part of BisB’s ‘Ishraq’ Back to Basics internal transformation strategy which focuses on five main pillars introduced to optimize and develop aspects of the Bank’s processes with an aim to grow the Bank’s foundations and achieve its vision and mission.



Corporate Governance Review

(Continued)



Developments in 2017

- AGM of 2016 held on 23 March 2017.
- Board structure remained unchanged, except for new appointed representatives of SIO, Brig. Ebrahim Abdulla Al Mahmood (Deputy Chairman) replacing Brig. Khalid Mohammed Al Mannai (former Deputy Chairman).
- Appointed world class trainers to deliver Anti-Money Laundering and Anti-fraud courses.
- Online AML training rolled out for all relevant staff as per CBB's requirements stipulated in Financial Crimes (FC) Module.
- Responded to the following CBB Consultation Papers:
 - Proposed Netting Law 2017
 - Proposed Amendments to the Takeovers, Mergers and Acquisitions Module (Module TMA) Volume 6
 - Proposed Amendment to Module CM
 - Proposed Regulatory Sandbox
 - Proposed Fees and Charges for Retail Customers
 - Proposed methodology for calculating Financial Penalties to be imposed upon CBB licensees
 - Financing Based Crowdfunding Directives
 - Proposed Internal Audit Requirements under the High Level Controls Module (Module HC)
 - Secured Transactions Law
 - Recent trends in termination of foreign correspondent banking relationships
 - Impact Assessment of BCBS Standards on Interest Rate Risk in the Banking Book
 - Notarisation Law

Board of Directors

Role and Responsibilities of the Board

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of the shareholders; and to balance the interests of BisB's 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 approves and oversees the implementation of the Bank's strategies; and reviews and approves the Bank's strategic plan. As part of its strategic review process, the Board reviews major plans of action and business plans; sets performance objectives; and oversees major investments, divestitures and acquisitions. Every year, at an annual Board strategy session, the Board formally reassesses the Bank's objectives, strategies and plans. The Board's responsibilities are described in more detail in the Corporate Governance Report published on the Bank's website, and in the Charter of the Board of Directors.

Board Composition

The Board of Directors of BisB comprises nine Non- Executive Directors, of which four are Independent Directors. Each term of the Board of Directors consists of three years. The last re-election of the Bank's Board of Directors was held at the Bank's Annual General Meeting (AGM) on 23 March 2016. Profiles of Board Members are listed on page 8 & 9 of this annual report.

1. Dr. Esam Abdulla Fakhro (Appointed on: 23-03-2016)
2. Brig. Ebrahim Abdulla Al Mahmood (Appointed on: 28-05-2017 replacing Brigadier Khalid Mohammed Al Mannai).
3. Khaled Yusuf AbdulRahman (Appointed on: 23-03-2016)
4. Mohammed Ahmed Abdulla (Re-appointed on: 23-03-2016)
5. Talal Ali Al Zain (Re-elected on: 23-03-2016)
6. Khalil Ebrahim Nooruddin (Re-elected on: 23-03-2016)
7. Ebrahim Husain Ebrahim Aljassmi (Re-elected on: 23-03-2016)
8. Othman Ebrahim Naser Al Askar (Re-elected on: 23-03-2016)
9. Muhammad Zarrug Rajab (Re-appointed on: 23-03-2016).

Induction of new directors

The approved Corporate Governance Policy by the Board of Directors requires each new Director to receive a formal and tailored induction from the Chairman and Senior Management, with respect to BisB's vision and strategic direction; core values including ethics; corporate governance practices; and financial matters and business operations.

Board Committees

The Board constitutes three Committees - Executive Committee, Audit & Corporate Governance Committee and Nomination & Remuneration Committee. Each of these committees has its own Charter that describes the responsibilities of its members.

Corporate Governance

(Continued)

Board Committee Membership and Objectives

Board Committee	Members	Objectives
Executive Committee	<p>Brig. Ebrahim Abdulla Al Mahmood* Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Khalil Ebrahim Nooruddin • Khaled Yusuf AbdulRahman • Mohammed Ahmed Abdulla • Hassan Amin Jarrar (non-voting member) <p>*Appointed as Chairman of Executive Committee as per Board resolution dated 27 July 2017, replacing Brig. Khalid Mohammed Al Mannai.</p>	The objective of the Executive Committee of the Bank is to undertake the duties and responsibilities delegated by the Board of Directors to assist the Board in the fulfilment of its duties to the Bank and its shareholders.
Audit & Corporate Governance Committee	<p>Ebrahim Husain Aljassmi Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Othman Ebrahim Al Askar • Muhammad Zarrug Rajab 	The Audit & Corporate Governance Committee has a formal written charter which states the committee's duties of oversight of integrity and reporting of the Bank's quarterly and annual financial statements. It also covers review of risk, provision and impairment, compliance with legal and regulatory requirements.
Nomination and Remuneration Committee	<p>Dr. Esam Abdulla Fakhro Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Talal Ali Al Zain • Ebrahim Husain Aljassmi* <p>* Appointed as member of Nomination & Remuneration Committee as per Board resolution dated 27 July 2017, replacing Brig. Khalid Mohammed Al Mannai.</p>	<p>The Nomination and Remuneration Committee is a Board subcommittee that consists of Board members who shall be responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy framework.</p> <p>In the current committee structure the Chairman is non-independent. Temporary clearance was obtained from the Central Bank of Bahrain for year 2017 and the same will be sought for 2018.</p>

Evaluation of the Board and its Committees

The Nomination and Remuneration Committee carried out an evaluation of the Board and its Committees through the distribution of questionnaires to each Board Member, followed by an assessment of the Committees and Members. The Committee expressed its satisfaction with the positive results.

Directors' Remuneration

The aggregate Board sitting fees, including travel expenses, totaled BD 141 thousands in 2017.

Board Meetings & Attendance in 2017

The Board of Directors met five times during 2017, details of which are given in the following table. This exceeds the minimum requirement of having at least four meetings in any given year, as stipulated by the Central Bank of Bahrain. The table also shows attendance of Directors at Board Committee meetings.

Members	12 Feb	23 Mar	25 Apr	27 Jul	30 Oct
Dr. Esam Abdulla Fakhro (Appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓
Brig. Khalid Mohammed Al Mannai (Replaced by Brig. Ebrahim Abdulla Al Mahmood on: 28 May 2017)	✓	✓	✓	—	—
Brig. Ebrahim Abdulla Al Mahmood (Appointed as SIO's representative replacing Brig. Khalid Mohammed Al Mannai on: 28 May 2017)	—	—	—	✓	✓
Khaled Yusuf AbdulRahman (Appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓
Mohammed Ahmed Abdulla (Re-appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓
Talal Ali Al Zain (Re-elected: 23 Mar 2016)	✓	✓	✓	✓	✓
Khalil Ebrahim Nooruddin (Re-elected on: 23 Mar 2016)	✓	✓	✓	✓	✓
Ebrahim Husain Aljassmi (Re-elected on: 23 Mar 2016)	✓	✓	✓	✓	×
Othman Ebrahim Al Askar (Re-elected on: 23 Mar 2016)	✓	✓	✓	✓	✓
Muhammad Zarrug Rajab (Re-appointed on: 23 Mar 2016)	✓	✓	✓	✓	✓

Executive Committee Meetings & Attendance:

Members	07 Feb	12 Feb	01 Mar	14 Mar	23 May	13 Jun	19 Sep	21 Nov
Brig. Ebrahim Abdulla Al Mahmood	—	—	—	—	—	—	✓	✓
Brig. Khalid Mohammed Al Mannai	✓	✓	✓	✓	—	—	—	—
Khalil Ebrahim Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓
Mohammed Ahmed Abdulla	✓	✓	✓	✓	✓	✓	✓	✓
Khaled Yusuf AbdulRahman	✓	✓	✓	✓	✓	✓	✓	✓
Hassan Amin Jarrar	✓	✓	×	✓	✓	✓	✓	✓

Corporate Governance Review

(Continued)

Audit & Corporate Governance Committee Meetings & Attendance

Members	26 Jan	24 Apr	21 May	10 Jul	24 Jul	29 Oct	10 Dec	11 Dec
Ebrahim Husain Aljassmi	✓	✓	✓	✓	✓	✓	✓	✓
Othman Ebrahim Al Askar	✓	✓	✓	✓	✓	✓	✓	✓
Muhammad Zarrug Rajab	✓	✓	✓	✓	✓	✓	✓	✓

Nomination & Remuneration Committee Meetings & Attendance:

Members	13 Feb	16 Apr	19 Jun
Dr. Esam Abdulla Fakhro	✓	✓	✓
Talal Ali Al Zain	✓	✓	✓
Khalid Mohammed Al Mannai	✓	✓	-

Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage	Type of Ownership
Social Insurance Organization	Bahrain	294,484,927	29.06%	Government owned entity
National Bank of Bahrain	Bahrain	294,482,159	29.06%	Majority shares owned by Government
Islamic Development Bank	Saudi Arabia	146,117,221	14.42%	Owned by participating group of Governments
Kuwait Awqaf Public Foundation	Kuwait	72,729,830	7.17%	Government owned entity

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	73.14%	741,156,096
Kingdom of Saudi Arabia	15.07%	152,743,951
Kuwait	8.66%	87,787,321
United Arab Emirates	2.98%	30,165,940
Qatar	0.13%	1,316,590
Others	0.02%	219,232
Total	100.000%	1,013,389,130

Board Meetings & Attendance in 2017 (Continued)**Changes in Distribution of Ownership shares of Directors, Shari'a Members and Approved Persons**

Directors	Shares as of 31 st Dec 2016	Sold during 2017	Acquired during 2017	Shares as of 31 st Dec 2017
Dr. Esam Abdulla Fakhro	0	0	50,000	50,000
Brig. Ebrahim Abdulla Al Mahmood	0	0	0	0
Mohammed Ahmed Abdulla	0	0	0	0
Khaled Yusuf AbdulRahman	0	0	0	0
Talal Ali Al Zain	0	0	0	0
Khalil Ebrahim Nooruddin	0	0	0	0
Ebrahim Husain Aljassmi	192,044	0	0	192,044
Othman Ebrahim Al Askar	88,044	0	0	88,044
Muhammad Zarrug Rajab	134,232	0	0	134,232
Shari'a Members				
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	168,216	0	908	169,124
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	12,607	0	0	12,607
Shaikh Mohammed Jaffar Al Juffairi	0	0	0	0
Shaikh Adnan Abdulla Al Qattan	0	0	0	0
Shaikh Dr. Essam Khalaf Al Enizi	0	0	0	0
Approved Persons				
Hassan Amin Jarrar – Chief Executive Officer	206,573	0	130,264	336,837
Wesam A.Aziz Baqer – Head of Corporate Banking	22,375	0	48,394	70,769
Dalal Ahmed Al Qais – Head of Retail Banking	0	0	0	0
Khalid Mahmood – Head of Internal Audit & Shari'a	34,705	0	43,024	77,729
Ameer Abdul Ghani Dairi – Acting Chief Financial Officer	0	0	0	0
Fahim Ahmed Shafiqi – Chief Risk Officer	0	(15,000)	19,030	4,030
Dawood Khalil Al Ashhab – Head of Human Resources & General Services	2,918	(22,089)	19,171	0
Hassan A. Wahab Al Khan – Head of Central Operations	10,800	0	23,384	34,184
Hamad Farooq AlShaikh – Head of Shari'a Supervisory Department	0	0	0	0
Mahmood Qannati – Head of Marketing & Corporate Communications	0	0	0	0
Hussain Ebrahim Al Banna – Head of Treasury	0	0	0	0
Osama Ali Nasr – Head of IT	0	0	0	0
Maisa Jawdat Shunnar – Head of Strategy Implementation & Transformation	0	0	0	0
Khaled Waheeb AlNasser – Head of Internal Control	0	0	0	0
Nayef Naser Yusuf – Acting Head of Special Assets & Remedial	11,699	0	2,000	13,699
Khalid A.Rahman Nass – Head of Compliance & AML	0	0	0	0
Mohammed Adnan AlAnsari – Deputy MLRO	0	0	0	0
Hamad Hussain Al Qattan – Deputy MLRO	0	0	0	0

Corporate Governance Review

(Continued)

Performance-Linked Management Incentive Structure

BisB implements a Performance Management Scheme, which is linked to incentives and competencies on an annual basis, for management and staff. The Bank pays monthly salaries, allowances and bonuses for the Chief Executive, General Managers, Senior Managers and Managers.

Senior Management Remuneration

The aggregate Senior Management remuneration, including basic salaries and fixed allowances was BD 1.4 million for 2017.

Management Committees

A number of Management Committees are put in place to assist the CEO and Management Team in carrying out their duties, and to ensure that there is adequate supervision of the Bank's activities.

Management Committees - Membership & Objectives

Board Committee	Members	Objectives
Management Committee (MANCO)	<p>Hassan Amin Jarrar Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Wesam A.Aziz Baqer • Dalal Ahmed Al Qais • Ameer Abdul Ghani Dairi • Fahim Ahmed Shafiqi • Hassan A.Wahab Al Khan • Hussain Ebrahim Al Banna • Dawood Khalil Al Ashhab • Mahmood Qannati • Osama Ali Nasr • Khalid Mahmood • Khalid A.Rahman Nass • Maisa Jawdat Shunnar 	The main objective of the MANCO is to review the Bank's strategy, business performance and updates, follow up on the Bank's internal and external projects. That, in addition to conducting a review of key risks and issues facing the Bank, and issuing resolutions for the smooth execution of work.
Asset & Liability Committee (ALCO)	<p>Hassan Amin Jarrar Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Ameer Abdul Ghani Dairi • Dalal Ahmed Al Qais • Fahim Ahmed Shafiqi • Hussain Ebrahim Al Banna • Wesam A.Aziz Baqer • Maisa Jawdat Shunnar 	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&I)	<p>Hassan Amin Jarrar Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Wesam A.Aziz Baqer • Fahim Ahmed Shafiqi 	The main objectives of C&I is to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the financing portfolio of the Bank and reviewing policies and strategies for achieving investment objectives.
Qard Al Hassan, Donation & Zakah Committee	<p>Mohammed Ahmed Janahi* Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Hamad Farooq AlShaikh • Ali Hassan Duajj • Khaled Waheeb AlNasser <p>* Mohammed Ahmed Janahi last working day was on 24 Aug 2017.</p>	The main objective of Qard Al Hassan, Donation 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.

Management Committees (Continued)

Management Committees - Membership & Objectives (Continued)

Board Committee	Members	Objectives
Provisioning Committee	<p>Hassan Amin Jarrar Chairman</p> <p>Members</p> <ul style="list-style-type: none"> • Mohammed Ahmed Janahi* • Fahim Ahmed Shafiqi • Ameer Abdul Ghani Dairi • Khalid Mahmood (Observer) • Saleh Al Mehri (Secretary) <p>* Mohammed Ahmed Janahi last working day was on 24 Aug 2017.</p>	<p>The main objective of Provisioning Committee is to assist the CEO in reviewing the Bank's provisions. In addition, the Committee would be responsible in formulating provision policies with a view to maintain the strategic risk level objectives of the Bank.</p>

Succession Planning

Succession planning in the Bank is driven by our Business strategy and future focused. The primary objective of the plan is to develop our people to meet future demands of the Bank. The output is better internally resourcing and highly capable people filling our key positions, our process ensure that we meet our regulatory commitments.

Compliance

In accordance with CBB guidelines, the Bank has a designated Head of Compliance, who is independent and reports functionally to the Audit & Corporate Governance Committee and administratively to the Chief Executive Officer. The Head of Compliance has direct access to Senior Management and all confidential information of the Bank. The Compliance function acts as the central coordinator for all regulatory matters relating to the CBB, Bahrain Bourse, and other regulatory bodies. 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 policies.

Anti-Money Laundering

BisB has a designated Money Laundering Reporting Officer (MLRO). The Bank has implemented an anti-money laundering and terrorism financing policy, and annually trains its staff on the identification and reporting of suspicious activities and transactions. BisB follows prudent practices related to 'Customer Due Diligence', 'Beneficial Ownership' and 'Know Your Customer' principles. In accordance with CBB requirements, the MLRO regularly reviews the effectiveness of the Bank's AML/CFT procedures, systems and controls.

Code of 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. The Code applies to directors, management, staff and temporary workers; and independent contractors and consultants, whether engaged by or otherwise representing the Bank and its interests.

Disclosure and 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. As part of its disclosure and communication strategy, the Bank's website (www.bisb.com) is the repository of financial information, together with Board of Directors' reports and financial commentary, financial statements, relevant information on BisB such as its key products and services, and press releases.

Note: Additional information is included in the BisB Corporate Governance report 2017, which is posted on the Bank's website: www.bisb.com.