



Corporate Governance Guidelines

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1.0 Introduction

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.

The following guidelines reflect the newly incorporated Corporate Governance Code, which was introduced by the Ministry of Industry and Commerce and incorporated in the Central Bank of Bahrain Rulebook, setting the financial industry standards with regards to corporate governance.

2.0 The Board

Bahrain Islamic Bank (“BISB”) must be headed by an effective, collegial and informed Board of Directors (“The Board”).

2.1 Role and Responsibilities

2.1.1 All directors must understand the Board’s role and responsibilities under the Commercial Companies Law and any other laws or regulations that may govern their responsibilities from time to time. In particular:

- (a) The Board’s role as distinct from the role of the shareholders (who elect the Board and whose interests the Board serves) and the role of officers (whom the Board appoints and oversees).
- (b) The Board’s fiduciary duties of care and loyalty to BISB and the shareholders (see HC-2.1 of CBB Rulebook).

2.1.2 The Board’s role and responsibilities include but are not limited to:

- (a) The overall business performance and strategy for BISB.
- (b) Causing financial statements to be prepared which accurately disclose BISB’s financial position.
- (c) Monitoring management performance.
- (d) Convening and preparing the agenda for shareholder meetings.

- (e) Monitoring conflicts of interest and preventing abusive related party transactions.
- (f) Assuring equitable treatment of shareholders including minority shareholders.
- (g) Establishing the objectives of BISB.

2.1.3 As a minimum, the Board must establish and maintain a statement of its responsibilities for:

- (a) The adoption and annual review of strategy.
- (b) The adoption and review of management structure and responsibilities.
- (c) The adoption and review of the systems and controls framework.
- (d) Monitoring the implementation of strategy by management.

2.1.4 The Directors are responsible both individually and collectively for performing the responsibilities outlined above. Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

2.1.5 In its strategy review process as mentioned in (2.1.4) above the Board must:

- a) Review BISB business plans and the inherent level of risk in these plans.
- b) Assess the adequacy of capital to support the business risks of BISB.
- c) Set performance objectives.
- d) Oversee major capital expenditures, divestitures and acquisitions.

2.1.6 BISB must notify the CBB in writing of all major proposed changes to the strategy and/or corporate plan of BISB prior to implementation.

2.1.7 The Board should have effective policies and processes in place for:

- a) Approving budgets and reviewing performance against those budgets and key performance indicators; and
- b) The management of BISB compliance risk.

2.1.8 When a new Director is inducted, the Chairman of the Board, assisted by BISB's legal counsel or compliance officer, should review BISB's role and duties with that person, particularly covering legal and regulatory requirements and Module HC of CBB rulebook.

2.1.9 BISB should have a written appointment agreement with each Director which recites the Director's powers, duties, responsibilities and accountabilities and other matters relating to his appointment including his term, the time commitment envisaged, the committee assignment if any, his remuneration and expense reimbursement entitlement, and his access to independent professional advice when that is needed.

2.1.10 The Board is responsible for ensuring that the systems and controls framework, including the Board structure and organizational structure of BISB, is appropriate for BISB's business and associated risks. The Board should ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which BISB is exposed in its business activities.

2.1.11 The Board must regularly assess the systems and controls framework of BISB. In its assessments, the Board must demonstrate:

a) BISB's operations, individually and collectively are measured, monitored and controlled by appropriate, effective and prudent risk management systems commensurate with the scope of BISB's activities.

b) BISB's operations are supported by an appropriate control environment. The compliance, risk management and financial reporting functions are adequately resourced, independent of business lines and are run by individuals not involved with the day-to-day running of the various business areas. The Board should additionally ensure that management develops, implements and oversees the effectiveness of comprehensive "Know Your Customer" standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice (with particular regard to anti-money laundering measures). The control environment should maintain necessary client confidentiality and ensure that the privacy of BISB is not violated, and ensure that clients' rights and assets are properly safeguarded.

c) If the Board identifies any significant issues related to BISB adopted governance framework, appropriate and timely action should be taken to address any identified adverse deviations from this document or the relevant CBB guidelines.

2.1.12 The Board has adopted a formal Board charter specifying matters, which are reserved to it, which includes the specific requirements and responsibilities of Directors. A summary of responsibilities of the Board should be disclosed publicly, in the annual report which is submitted to the CBB.

2.2 Decision Making Process

2.2.1 The Board should be collegial and deliberative, to gain the benefit of each individual Director's judgment and experience.

2.2.2 The Chairman should take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

2.2.3 The Board must meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All Directors must attend the meetings whenever possible and the Directors must maintain informal communication between meetings.

2.2.4 Individual Board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Voting and attendance proxies for Board meetings are prohibited at all times.

2.2.5 The absence of Board members at Board and Committee meetings must be noted in the meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when Board members stand for re-election (e.g., Board member XYZ attended 95% of scheduled meetings this year).

2.2.6 In the event that a Board member has not attended at least 75% of Board meetings in any given financial year, BISB must immediately notify the CBB indicating which member has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance.

2.2.7 To meet its obligations under (2.2.3) above, the full Board should meet once every quarter to address the Board's responsibilities for management oversight and performance monitoring. Furthermore, Board Members should step down if they are not actively participating in Board meetings. Non-attendance at Board meetings does not absolve the Board Members of their responsibilities as Directors. It is important that each individual Director should allocate adequate time and effort to discharge his responsibilities. All Directors should contribute actively to the work of the

Board in order to discharge their responsibilities and should make every effort to attend Board meetings where major issues are to be discussed. Participation in board meetings by means of video or telephone conferencing should be regarded as attendance and may be recorded as such.

2.2.8 BISB is required to submit, on an annual basis, as an attachment to the year-end quarterly PIR, a report recording the meetings during the year by their Board of Directors.

2.2.9 The Chairman should be responsible for the leadership of the Board, and for the efficient functioning of the Board. The Chairman must ensure that all Directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each Board meeting and when necessary between meetings. Therefore, it is vital that the Chairman commit sufficient time to perform his role effectively. All Directors must receive the same Board information. At the same time, Directors have a legal duty to inform themselves and they must ensure that they receive adequate and timely information and must study it carefully.

2.2.10 The Board should comprise of a minimum of 8 directors and a maximum of 10 directors, 6 of whom should be elected by the shareholders at the Annual General Meeting. Further, any person holding 10% of the shares has the right to be a director. The Board should regularly review its size and composition to assure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The Board should recommend changes in Board size to the shareholders when a needed change requires amendment of BISB's Memorandum of Association.

2.2.11 Potential non-executive Directors should be made aware of their duties before their nomination, particularly as to the time commitment required. The Nomination Committee should regularly review the time commitment required from each non-executive Director and should require each non-executive Director to inform the Committee before he accepts any Board appointments to another company.

2.2.12 No Board member may have more than one Directorship of Retail Bank or Wholesale Bank without specific CBB approval in this regard. This means an effective cap of a maximum of two Directorships of financial institutions inside Bahrain. Two Directorships of licensees within the same Category (e.g. "Retail Bank") are not permitted by CBB. BISB may approach the CBB for exemption

from this limit where the Directorships concern Banks or financial institutions that are associates of BISB.

2.2.13 Any Director should not hold more than three Directorships in public companies in Bahrain, without specific CBB approval in this regard with the provision that no conflict of interest may exist, and The Board should not propose the election or reelection of any Director who does.

2.3 Independence of Judgment

2.3.1 Every Director must bring independent judgment to bear in decision-making. No individual or group of Directors must dominate the Board's decision-making and no one individual should have unfettered powers of decision.

2.3.2 Executive Directors must provide the Board with all relevant business and financial information within their cognizance, and must recognize that their role as a Director is different from their role as a member of management.

2.3.3 Non-executive Directors must be fully independent of management and must constructively scrutinize and challenge management including the management performance of executive Directors.

2.3.4 Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment.

2.3.5 At least half of BISB's Board should be non-executive Directors and at least three of those persons should be independent Directors.

2.3.6 The Chairman of The Board should be an independent Director, so that there will be an appropriate balance of power and greater capacity of The Board for independent decision-making.

2.3.7 The Chairman and/or Deputy Chairman must not be the same person as the Chief Executive Officer.

2.3.8 The Chairman must not be an Executive Director.

2.3.9 The Board should review the independence of each Director at least annually in light of interests disclosed by them, and their conduct. Each independent Director shall provide The Board with all necessary and updated information for this purpose.

2.3.10 To facilitate free and open communication among independent Directors, each Board meeting should be preceded or followed with a session at which only independent Directors are present, except as may otherwise be determined by the independent Directors themselves.

2.4 Representation of all Shareholders

2.4.1 Each Director must consider himself as representing all shareholders and must act accordingly. The Board must avoid having representatives of specific groups or interests within its membership and must not allow itself to become a battleground of vested interests. If BISB has controllers or a group of controllers acting in concert, the latter must recognize its or their specific responsibility to the other shareholders, which is direct and is separate from that of the Board of Directors.

2.4.2 If BISB has a controller, at least one-third of the Board must be independent Directors. Minority shareholders must generally look to independent Directors diligent regard for their interests, in preference to seeking specific representation on the Board.

2.4.3 If BISB has controllers, both controllers and other shareholders should be aware of controllers. Specific responsibilities regarding their duty of loyalty to BISB and conflicts of interest and also of rights that minority shareholders may have to elect specific Directors under the Company Law. The Chairman of the Board should take the lead in explaining this with the help of BISB's lawyers.

2.5 Director's Access to Independent Advice

2.5.1 The Board must ensure by way of formal procedures that individual Directors have access to independent legal or other professional advice at BISB's expense whenever they judge this necessary to discharge their responsibilities as Directors and this must be in accordance with BISB's policy approved by the Board.

2.5.2 Individual Directors should also have access to BISB's corporate secretary, who has the responsibility for reporting to the Board on Board procedures. Both the appointment and removal of the corporate secretary must be a matter for the Board as a whole, not for the CEO or any other officer.

2.5.3 Whenever a Director has serious concerns, which cannot be resolved concerning the running of BISB or a proposed action, he should consider seeking independent advice and should ensure that the concerns are recorded in the Board minutes and that any dissent from a Board action is noted or delivered in writing.

2.5.4 Upon resignation, a non-executive Director should provide a written statement to the Chairman, for circulation to the Board, if he has any concerns such as those in Paragraph 2.5.3.

2.6 Director's Communication with Management

2.6.1 The Board must encourage participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the CEO believes should have exposure to the Directors.

2.6.2 Non-executive Directors should have free access to BISB's management beyond that provided in Board meetings. Such access should be through the Chairman of the Audit Committee or CEO.

The Board should make this policy known to management to alleviate any management concerns about a Director's authority in this regard.

2.7 Committees of the Board

2.7.1 The Board must create specialized committees when and, as such committees are needed. In addition to the Audit Committee and the Nomination and Remuneration Committee these include an Executive Committee, whose role is to assist the Board of Directors of BISB in fulfilling its responsibilities with regard to lending, investment, as well as any other organizational matter not delegated to a specific Board Committee. In addition, the Executive Committee is also responsible for

developing and recommending changes from time to time on BISB's Corporate Governance policy framework.

2.7.2 The Board or a committee may invite Non-Directors to participate in, but not vote at a committee's meetings so that the committee may gain the benefit of their advice and expertise in financial or other areas.

2.7.3 Committees must act only within their mandates and therefore the Board must not allow any committee to dominate or effectively replace the whole Board in its decision-making responsibility.

2.7.4 Committees may be combined if no conflict of interest might arise between the duties of such committees, subject to CBB's prior approval.

2.7.5 Every committee must have a formal written charter.

2.7.6 Where committees are set up, they should keep full minutes of their activities and meet regularly to fulfill their mandates. The establishment of committees should not mean that the role of the Board is diminished, or that the Board becomes fragmented.

2.8 Evaluation of the Board and Each Committee

2.8.1 At least annually, the Board must conduct an evaluation of its performance and the performance of each committee and each individual Director. BISB has set up a procedure in this regard which should be followed. The evaluation process will include:

- a) Assessing how the Board operates.
- b) Evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee.
- c) Reviewing each Director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making.
- d) Reviewing the Board's current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the Board.

e) Recommendations for new Directors to replace long-standing members or those members whose contribution to BISB or its committees is not adequate.

2.8.2 While the evaluation is a responsibility of the entire Board, it should be organized and assisted by an internal Board committee and, when appropriate, with the help of external experts.

2.8.3 The Board should report to the shareholders, at each annual shareholder meeting, that evaluations have been done and report its findings.

3.0 Approved Persons Loyalty

The Directors must have full loyalty to BISB.

3.1 Personal Accountability

3.1.1 BISB is subject to a wide variety of laws, regulations and codes of best practice that directly affect the conduct of business. Such laws involve the Bahraini Bourse Law, the Labour Law, the Commercial Companies Law, occupational health and safety, environment and pollution laws, as well as the Law, codes of conduct and regulations of the Central Bank. The Board sets the “tone at the top” of BISB, and has a responsibility to oversee compliance with these various requirements. The Board should ensure that the staff conduct their affairs with a high degree of integrity, taking note of applicable laws, codes and regulations.

Corporate Ethics, Conflicts of Interest and Code of Conduct

3.1.2 Each Director should understand that under the Company Law he is personally accountable to BISB and the shareholders if he violates his legal duty of loyalty to BISB.

3.1.3 The Board has established Code of Conduct for Directors and employees. These standards must be communicated throughout BISB, so that the Directors and staff understand the importance of conducting business based on good corporate governance values and understand their accountabilities to the various stakeholders of BISB. Directors and staff of BISB should be informed of and be required to fulfill their fiduciary responsibilities to BISB’s shareholders.

3.1.4 The Code of Conduct outlines the practices that Directors and staff should follow in performing their duties and includes:

- a) Commitment by the Board and Management to the code: The code of conduct is linked to the objectives of BISB, and its responsibilities and undertakings to customers, shareholders, staff and the wider community.
- b) Commitment to the law and best practice standards: This commitment would include commitments to following accounting standards, industry best practice (such as ensuring that information to clients is clear, fair, and not misleading), transparency, and rules concerning potential conflicts of interest.
- c) Employment practices: This includes rules concerning health and safety of employees, training, policies on the acceptance and giving of business courtesies, prohibition on the offering and acceptance of bribes, and potential misuse of BISB's assets.
- d) How BISB deals with disputes and complaints from clients and monitors compliance with the code.
- e) Confidentiality: Disclosure of client or BISB information is prohibited, except where disclosure is required by law.

3.1.5 The Board and its members individually and collectively should:

- a) Act with honesty, integrity and in good faith, with due diligence and care, with a view to the best interest of BISB and its shareholders and other stakeholders.
- b) Act within the scope of their responsibilities (which should be clearly defined and not participate in the day-to-day management of BISB).
- c) Have a proper understanding of, and competence to deal with the affairs and products of BISB and devote sufficient time to their responsibilities.
- d) To independently assess and question the policies, processes and procedures of BISB, with the intent to identify and initiate management action on issues requiring improvement. (i.e. to act as checks and balances on management).

3.1.6 The Directors and employees of BISB should not use property of BISB for their personal needs as though it was his own property, should not disclose confidential information of BISB or use it for his personal profit, should not take business opportunities of BISB for himself, should not compete in business with BISB, and should not serve BISB's interest in any transactions with a company in which he has a personal interest.

3.1.7 A Director should be considered to have a “personal interest” in a transaction with a company if:

- a) He himself, or
- b) A member of his family (i.e. spouse, father, mother, sons, daughters, brother or sisters), or
- c) Another company of which he is a Director or controller is a party to the transaction or has a material financial interest in the transaction. (Transactions and interests which are minimal or insignificant in value should not be included).

3.2 Avoidance of Conflicts of Interest

3.2.1 Directors must make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with BISB.

3.2.2 The Board should establish and disseminate to its members and management, policies and procedures for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest, including rules concerning connected party transactions and potential conflicts of interest. In particular, any decisions to enter into transactions, under which Directors would have conflicts of interest that are material, should be formally and unanimously approved by the full Board.

A Director should:

- a) Not enter into competition with BISB.
- b) Not demand or accept substantial gifts from BISB for himself or his associates.
- c) Not misuse BISB’s assets.
- d) Not use BISB’s privileged information or take advantage of business opportunities to which BISB is entitled, for himself or his associates.
- e) Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice or which involves a subject or (proposed) transaction where a conflict of interest exists.

3.3 Disclosure of Conflicts of Interest

3.3.1 Directors must inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. Any approval of

a conflicted transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision. In any case, all Directors must declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board on an annual basis.

3.3.2 BISB should have formal Board approved procedures for:

- a) Periodic disclosure and updating of information by each Director on his actual and potential conflicts of interest.
- b) Advance approval by Directors or shareholders who do not have an interest in the transactions in which any particular Director(s) have a personal interest. The Board should require such advance approval in every case.

3.4 Disclosure of Conflicts of Interest to Shareholders

3.4.1 BISB must disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and must disclose to its shareholders any authorization of a conflict of interest contract or transaction, in accordance with the Company Law.

4.0 Audit Committee and Financial Statements Certification

The Board must have rigorous controls for financial audit and reporting, internal control, and compliance with law.

4.1 Audit Committee

4.1.1 The Board must establish an audit committee of at least three Directors of which the majority must be independent including the Chairman. The committee must:

- a) Review BISB's accounting and financial policies and practices.
- b) Review the integrity of BISB's financial and internal controls and financial statements. The information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Audit Committee.
- c) Review BISB's compliance with legal requirements.

- d) Recommend the appointment, compensation and oversight of BISB's external auditor.
- e) Recommend the appointment of the internal auditor.

4.1.2 In its review of the systems and controls framework in above Paragraph, the audit committee must:

- a) Make effective use of the work of external and internal auditors: The audit committee must ensure the integrity of BISB's accounting and financial reporting systems through regular independent review (by internal and external audit). Audit findings must be used as an independent check on the information received from management about BISB's operations and performance and the effectiveness of internal controls.
- b) Make use of self-assessments, stress/scenario tests, and/or independent judgments made by external advisors. The Board should appoint supporting committees, and engage senior management to assist the audit committee in the oversight of risk management.
- c) Ensure that senior management has put in place appropriate systems of control for the business of BISB and the information needs of the Board; in particular, there must be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of BISB, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.

4.1.3 BISB must set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.

4.1.4 The CEO must not be a member of the audit committee.

4.2 Audit Committee Charter

4.2.1 The Audit Committee has a formal written charter, which states the duties outlined in paragraphs above.

4.2.2 A majority of the Audit Committee must have the financial literacy qualifications such that there should be sufficient technical expertise to enable the committee to perform its functions effectively, which includes ability to read and understand corporate financial statements, ability to understand accounting principles applicable to BISB's financial statements, ability to evaluate financial

statements of level of complexity as that of BISB's financial statements and understanding of the internal controls and procedures and the audit committee's controls and procedures for financial reporting. There must be at least one qualified and appropriately experienced accountant in the committee.

4.2.3 The Board should adopt a "whistleblower" program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the program, concerns may be communicated directly to Chairman of Audit Committee or, alternatively, to CEO who will report directly to the Audit Committee on this point.

4.3 CEO and CFO Certification of Financial Statements

4.3.1 To encourage management accountability for the financial statements required by the Directors, BISB's CEO and Chief Financial Officer must state in writing to the audit committee and the Board as a whole that BISB's interim and annual financial statements present a true and fair view, in all material respects, of BISB's financial condition and results of operations in accordance with applicable accounting standards.

5.0 Appointment, Training and Evaluation of the Board

BISB must have rigorous and transparent procedures for appointment, training and evaluation of The Board.

5.1 Nominating Committee

5.1.1 The Board must establish a Nominating Committee of at least three directors which must:

a) Identify persons qualified to become members of the Board of directors or Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of BISB considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee in accordance with Paragraph HC-3.2.1 of CBB Rulebook.

b) Make recommendations to the whole Board of directors including recommendations of candidates for Board membership to be included by the Board of directors on the agenda for the next annual shareholder meeting.

5.1.2 The committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. This is consistent with international best practice and it recognizes that the Nominating Committee must exercise judgment free from personal career conflicts of interest.

5.2 Nominating Committee Charter

5.2.1 The Nominating Committee must adopt a formal written charter which must, at a minimum, state the duties outlined in Paragraph HC-4.2.1 of CBB Rulebook and the other matters included in Appendix B to this Module.

5.3 Board Nominations to Shareholders

5.3.1 Each proposal by the Board to the shareholders for election or reelection of a director must be accompanied by a recommendation from the Board, a summary of the advice of the Nominating Committee, and the following specific information:

- a) The term to be served, which may not exceed three years (but there need not be a limit on reelection for further terms).
- b) Biographical details and professional qualifications.
- c) In the case of an independent director, a statement that the Board has determined that the criteria of independent director have been met.
- d) Any other directorships held.
- e) Particulars of other positions which involve significant time commitments.
- f) Details of relationships between:
 - (i) The candidate and BISB.
 - (ii) The candidate and other directors of the BISB.

5.3.2 The chairman of the Board should confirm to shareholders when proposing re-election of a director that, following a formal performance evaluation, the person's performance continues to be

effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board. Serving more than six years is relevant to the determination of a non-executive director's independence.

5.4 Induction and Training of Directors

5.4.1 The chairman of the Board must ensure that each new director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction must include meetings with senior management, visits to BISB's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel.

5.4.2 All continuing directors must be invited to attend orientation meetings and all directors must continually educate themselves as to BISB's business and corporate governance.

5.4.3 Management, in consultation with the chairman of the Board, should hold programs and presentations to directors respecting BISB's business and industry, which may include periodic attendance at conferences and management meetings. The Nominating Committee shall oversee director's corporate governance educational activities.

6.0 Remuneration of Approved Persons:

BISB must remunerate approved persons fairly and responsibly.

6.1 Remuneration Committee

6.1.1 The Board must establish a remuneration committee of at least three directors which must:

a) Review BISB's remuneration policies for the approved persons, which must be approved by the shareholders and be consistent with the corporate values and strategy of BISB.

b) Make recommendations regarding remuneration policies and amounts for approved persons to the whole Board, taking account of total remuneration including salaries, fees, expenses and employee benefits.

c) Recommend Board member remuneration based on their attendance and performance.

6.1.2 The committee may be merged with the nominating committee.

6.2 Remuneration Committee Charter

6.2.1 The committee must adopt a written charter which must, at a minimum, state the duties in Paragraph HC-5.2.1 of CBB Rulebook and other matters in Appendix C of this Module.

6.2.2 The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognizes that the remuneration committee must exercise judgment free from personal career conflicts of interest.

6.3 Standard for all Remuneration

6.3.1 Remuneration of approved persons must be sufficient enough to attract, retain and motivate persons of the quality needed to run BISB successfully, but BISB must avoid paying more than is necessary for that purpose.

6.4 Non-Executive Director's Remuneration

6.4.1 Remuneration of non-executive directors must not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

6.5 Senior Management's Remuneration

6.5.1 Remuneration of senior management must be structured so that a portion of the total is linked to BISB's and individual's performance and aligns their interests with the interests of the shareholders.

6.5.2 Such rewards may include grants of shares, share options and other deferred stock-related incentive schemes, bonuses, and pension benefits which are not based on salary.

6.5.3 If a senior manager is also a director, his remuneration as a senior manager must take into account compensation received in his capacity as a director.

6.5.4 All share incentive plans must be approved by the shareholders.

6.5.5 All performance-based incentives should be awarded under written objective performance standards which have been approved by the Board and are designed to enhance shareholder and BISB's value, and under which shares should not vest and options should not be exercisable within less than two years of the date of award of the incentive.

6.5.6 All plans for performance-based incentives should be approved by the shareholders, but the approval should be only of the plan itself and not of the grant to specific individuals of benefits under the plan.

7.0 Management Structure

The Board must establish a clear and efficient management structure.

7.1 Establishment of Management Structure

7.1.1 The Board must appoint senior management whose authority must include management and operation of current activities of BISB, reporting to and under the direction of the Board. The senior management must include at a minimum:

- a) A CEO.
- b) A chief financial officer.
- c) A corporate secretary.
- d) An internal auditor, and must also include such other approved persons as the Board considers appropriate, and as a minimum, must include persons occupying controlled functions outlined in Module LR of CBB Rulebook.

7.2 Titles, Authorities, Duties and Reporting Responsibilities

7.2.1 The Board must adopt by-laws and issue formal letters of appointment prescribing each senior manager's title, authorities, duties, accountabilities and internal reporting responsibilities. This must be done with the advice of the Nominating Committee and in consultation with the CEO, to whom the other senior managers should normally report.

7.2.2 These provisions must include but should not be limited to the following:

a) The CEO must have authority to act generally in BISB's name, representing BISB's interests in concluding transactions on BISB's behalf and giving instructions to other senior managers and BISB employees.

b) The chief financial officer must be responsible and accountable for:

(i) The complete, timely, reliable and accurate preparation of BISB's financial statements, in accordance with the accounting standards and policies of BISB.

(ii) Presenting the Board with a balanced and understandable assessment of BISB's financial situation.

c) The corporate secretary's duties must include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose.

d) The internal auditor's duties must include providing an independent and objective review of the efficiency of BISB's operations. This would include a review of the accuracy and reliability of BISB's accounting records and financial reports as well as a review of the adequacy and effectiveness of BISB's risk management, control, and governance processes.

7.2.3 The Board should also specify any limits which it wishes to set on the authority of the CEO or other senior managers, such as monetary maximums for transactions which they may authorize without separate Board approval.

7.2.4 The corporate secretary should be given general responsibility for reviewing BISB's procedures and advising the Board directly on such matters. Whenever practical, the corporate secretary should be a person with legal or similar professional experience and training.

7.2.5 At least annually the Board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the CEO, both in emergencies and in the normal course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.

7.3 Compliance

7.3.1 For guidance on compliance risk and the compliance function, BISB should follow the Basel Committee publication, "Compliance and the compliance function in Banks". BISB should carry out review of its compliance with the principles in this paper on a regular basis. The expression "Compliance Function" is used to describe staff carrying out compliance duties. The expression „Compliance Risk“ refers to the risk of legal or regulatory sanctions, material or financial loss, or loss to reputation a Bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to its activities, rather than compliance with a Bank's internal limits or procedures.

8.0 Communication between Board and Shareholders

BISB must communicate with shareholders, encourage their participation, and respect their rights.

8.1 Conduct of Shareholder's Meetings

8.1.1 The Board must observe both the letter and the intent of the Company Law's requirements for shareholder meetings. Among other things:

- a) Notices of meetings must be honest, accurate and not misleading. They must clearly state and, where necessary, explain the nature of the business of the meeting.
- b) Meetings must be held during normal business hours and at a place convenient for the greatest number of shareholders to attend.
- c) Notices of meetings must encourage shareholders to attend shareholder meetings and, if not possible, to participate by proxy and must refer to procedures for appointing a proxy and for directing

the proxy how to vote on a particular resolution. The proxy agreement must list the agenda items and must specify the vote (such as “yes,” “no” or “abstain”);

d) Notices must ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of Directors.

e) The Board must propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not “bundled” together.

f) In meetings where Directors are to be elected or removed the Board must ensure that each person is voted on separately, so that the shareholders can evaluate each person individually.

g) The Chairman of the meeting must encourage questions from shareholders, including questions regarding BISB’s corporate governance guidelines.

h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting.

i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.

8.1.2 BISB should ensure that all Directors attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, Nomination and Remuneration committees are ready to answer appropriate questions regarding matters within their committee’s responsibility (confidential and proprietary business information may be kept confidential).

8.1.3 BISB should ensure its external auditor attends the annual shareholder’s meeting and be available to answer shareholder’s questions concerning the conduct and conclusions of the audit.

8.1.4 BISB should maintain a website. BISB should dedicate a specific section of its website to describing shareholder’s rights to participate and vote at each shareholder’s meeting, and should post significant documents relating to meetings including the full text of notices and minutes.

8.1.5 In notices of meetings at which Directors are to be elected or removed BISB should ensure that:

- a) Where the number of candidates exceeds the number of available seats, the notice of the meeting should explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes.
- b) The notice of the meeting should fairly represent the views of candidates.

8.2 Direct Shareholder Communication

8.2.1 The Chairman of the Board (and other Directors as appropriate) must maintain continuing personal contact with controllers to solicit their views and understand their concerns. The Chairman must ensure that the views of shareholders are communicated to the Board as a whole. The Chairman must discuss governance and strategy with controllers. The Board should encourage investors, particularly institutional investors, to help in evaluating BISB's corporate governance.

8.3 Controllers

8.3.1 The Chairman and other Directors must actively encourage the Controller nominated Directors to make a considered use of their position and to fully respect the rights of other shareholders.

9.0 Corporate Governance Disclosure

BISB must disclose its corporate governance.

9.1 Disclosure under the Company Law and CBB Requirements

9.1.1 In BISB:

- a) The Board has adopted these written corporate governance guidelines covering the matters stated in relevant CBB Guidelines and other corporate governance matters deemed appropriate by the Board. These guidelines include and refer to the principles and rules of Module HC of CBB rulebook.
- b) BISB should publish the guidelines on its website.

c) At each annual shareholder's meeting, the Board must report on BISB's compliance with its guidelines and Module HC of CBB Rulebook, and explain the extent if any to which it has varied them or believes that any variance or non-compliance was justified.

d) At each annual shareholder's meeting, the Board must also report on further items listed in Module PD of CBB Rulebook. Such information should be maintained on BISB's website or held at BISB's premises on behalf of the shareholders.

9.1.2 The Board must oversee the process of disclosure and communications with internal and external stakeholders. The Board must ensure that disclosures made by BISB are fair, transparent, comprehensive and timely and reflect the character of BISB and the nature, complexity and risks inherent in BISB's business activities. Disclosure policies must be reviewed for compliance with the Central Bank's disclosure requirements.

10.0 The Principles of Islamic Sharia'a

BISB as an Islamic licensed bank must follow the principles of Islamic Sharia'a.

10.1 Governance and Disclosure per Sharia'a Principles

10.1.1 BISB has additional responsibilities to their stakeholders. BISB is subject to additional governance requirements and disclosures to provide assurance to stakeholders that it is following Sharia'a Principles. In ensuring compliance with Sharia'a principles, BISB must establish an independent Sharia'a Supervisory Board consisting of at least three Sharia'a scholars and complying with AAOIFI's Governance Standards for Islamic Financial Institutions No.1 and No.2.

10.1.2 The Board shall set up a Corporate Governance Committee. In this case, the Committee shall comprise at least three members to co-ordinate and integrate the implementation of the governance policy framework.

10.1.3 In addition to its duties outlined in Chapter HC-3 of CBB Rulebook and Appendix A, the Audit Committee shall communicate and co-ordinate with BISB's Corporate Governance Committee and the Sharia'a Supervisory Board ("SSB") (where applicable) to ensure that information on compliance with Islamic Sharia'a rules and principles is reported in a timely manner.

10.1.4 The Corporate Governance Committee established under Chapter HC-9 of CBB Rulebook shall comprise at a minimum of:

a) An independent director to chair the Corporate Governance Committee. The Chairman of the Corporate Governance Committee should not only possess the relevant skills, such as the ability to read and understand financial statements, but should also be able to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the Audit Committee.

b) A Sharia'a scholar who is an SSB member for the purpose of leading the Corporate Governance Committee on Sharia'a -related governance issues (if any), and also to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the SSB.

c) An independent director who can offer different skills to the committee, such as legal expertise and business proficiency, which are considered particularly relevant by the Board of directors for cultivating a good corporate governance culture, and deemed "fit and proper" by the CBB.

10.1.5 The Corporate Governance Committee shall be empowered to:

a) Oversee and monitor the implementation of the governance policy framework by working together with the management, the Audit Committee and the SSB.

b) Provide the Board of directors with reports and recommendations based on its findings in the exercise of its functions.

10.1.6 BISB must comply with all AAOIFI issued accounting standards as well as applicable Sharia'a pronouncements issued by the Sharia'a Board of AAOIFI. BISB must have a separate function of Sharia'a review to verify compliance with the above. The internal Sharia'a review must be carried out in accordance with AAOIFI governance standard No.3. The Sharia'a review function may be located in the internal audit function of BISB.