



AL SALAM BANK

البحرين Bahrain



Corporate Governance Report

2018

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1. Corporate Governance Practice

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy, transparency, and maintaining full compliance with the laws and regulations that govern the Bank's business. Since the introduction of the Corporate Governance Code in the Kingdom of Bahrain, the Bank has continuously implemented measures to enhance its compliance with the code.

Shareholders

Major Shareholders as of 31 December 2018

Name	Country of origin	No. of shares	% Holding
Bank Muscat (S.A.O.G.)	Oman	315,494,795	14.74
First Energy Bank B.S.C.	Bahrain	134,384,098	6.28
Overseas Investment S.P.C.	Bahrain	128,773,381	6.01
Al Rushd Investments W.L.L.	UAE	105,000,000	4.9
Tasameem Real Estate Company L.L.C.	UAE	102,264,615	4.78
United International Representation of Companies L.L.C	UAE	77,450,000	3.62
Royal Court Affairs, Sultanate of Oman	Oman	70,825,359	3.31
Securities and Investment Company B.S.C. (c)	Bahrain	65,976,177	3.08
Sayed Hussain Ali Alawy AlQatary	UAE	47,028,051	2.2
Alfateh Investment	Bahrain	40,687,500	1.9
Bond Investment Limited	UAE	38,300,000	1.79
Khalifa Buti Omair Al Muhairi	UAE	38,000,000	1.77
Al Salam Bank - Bahrain B.S.C	Bahrain	37,737,634	1.76
Saeed Mohammed Butti Al Qubisi	UAE	26,551,784	1.24
Al Sueban Company	Bahrain	26,250,000	1.23

Shareholding – 31 December 2018

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	810,548,142	22,507	37.86
1% to less than 5%	751,730,336	15	35.11
5% to less than 10%	263,157,479	2	12.29
10% to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	2,140,930,752	22,746	100.00

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage*
Bahraini		
Government	-	-
Institutions	476,308,756	22.25
Individuals	159,020,045	7.43
GCC - Excluding Kingdom of Bahrain		
Government	-	-
Institutions	463,104,129	21.63
Individuals	893,789,677	41.75
Other		
Institutions	3,546,479	0.17
Individuals	145,161,666	6.78
Total	2,140,930,752	100.00

* Percentages are rounded.

2. Board of Directors

The Board of Directors provides central leadership to the Bank, establishes the Bank's objectives and develops the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors are accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse stakeholders including its customers, correspondents, employees, suppliers and the local community. 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 and its stakeholders. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior management and, its external advisors and auditors.

Board Composition

The Board consists of members who possess both the required skills and expertise to govern the Bank in a manner that would achieve the objectives of all stakeholders. Furthermore, in compliance with relevant regulations, the Board Committees consist of Directors with adequate professional background and experience. The Board periodically reviews its composition, the contribution of Directors and the performance of its various Committees. The appointment of Directors is subject to prior screening by the Nomination and Corporate Governance Committee and the Board of Directors, as well as the approval of both the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent" directors is as per the definitions stipulated in the Central Bank of Bahrain Rulebook.

Each Director is elected for a three year term, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. Board Meeting attendance is as per the regulations stipulated in the Central Bank of Bahrain Rulebook.

Mandate of the Board of Directors and their Roles and Responsibilities

The principal role of the Board is to oversee the implementation of the Bank's strategic initiatives in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated the responsibility of the day-to-day management of the Bank to the Chief Executive Officer ("CEO").

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes:

- Reviewing the strategic plan of the Bank;
- Performance reviews of the Senior Management (all approved persons);
- Performance assessment of the Board, Board Sub-Committees and the Shari'a Supervisory Board;
- Approving material acquisition and disposal of assets;
- Approving capital expenditure;
- Approving authority levels;
- Appointing auditors and, reviewing the financial statements and financing activities;
- Reviewing the Corporate Governance Report
- Approving the annual operating plan and budget;
- Ensuring regulatory compliance through its various committees;
- Reviewing the adequacy and integrity of the internal controls; and
- Approving all policies pertaining to the Bank's operations and functioning.

3. Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The company shall be administered by a Board of Directors consisting of not less than five (5) members elected by the shareholders by means of cumulative voting by secret ballot and in accordance with the provisions of the Commercial Companies Law, after obtaining the approval of the Central Bank of Bahrain for their appointment. Members of the Board of Directors shall be appointed or elected to serve for a term not exceeding three (3) years renewable. A cumulative vote shall mean that each shareholder shall have a number of votes equal to the number of shares he owns in the Company, and shall have the right to vote for one candidate or to distribute them among his chosen candidates.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to votes shall be forfeited for the percentage he has appointed representatives. If a percentage is left that does not qualify him to appoint another member, he may use such percentage to vote.
3. The Board of Directors shall elect, by secret ballot, a Chairman and one Vice Chairman or more, three years renewable. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him. The Ministry of the Industry, Commerce and Tourism and the Central Bank of Bahrain shall be provided with a copy of the resolution electing the Chairman and the Deputy Chairman.

Article 29 of the Bank's Articles of Association covers the "Termination of Membership in the Board of Directors". Which states the following:

A Director shall lose his office on the Board in the event that he:

1. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
2. Resigns his office by virtue of a written request;
3. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;;
4. Is elected or appointed contrary to the provisions of the Law; and
5. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.
6. If he has been convicted before any court for theft, embezzlement, fraud, forgery or issuing dishonored cheques or any crime as provided in the law
7. If he declares bankruptcy
8. If any of the shareholders have terminated his appointment to any of their representatives on the Board of Directors or if the shareholders of the General Assembly vote for his removal in accordance with this Article 44; or
9. If the Central Bank of Bahrain considers him not eligible for the position.

4. Independence of Directors

An independent Director is a Director whom the Board has specifically determined has no material relationship, which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during the year ending 31st December 2018, they have met all the conditions Required by the various regulatory authorities to be considered independent.

In 2018, the members of the Board were:

Non-executive Members

Mr. Khaleefa Butti Omair Almuhairei	Chairman
H.E. Shaikh Khalid bin Mustahail Al Mashani	Vice Chairman
Mr. Matar Mohamed Al Blooshi	Board Member

Independent Members

Mr. Hussain Mohammed Al Meeza	Board Member
Mr. Salim Abdullah Al Awadi	Board Member
Mr. Alhur Mohammed Al Suwaidi	Board Member
Mr. Khalid Salem Al Halyan	Board Member
Mr. Zayed Ali Al-Amin	Board Member
Mr. Salman Saleh Al Mahmeed	Board Member
Mr. Khalid Shehab Eddin Madi	Board Member
H.H Shaikha Hessa Bint Khalifa Al Khalifa	Chairman*
Mr. Essam Bin Abdulkadir Al Muhaidib	Board Member**
Mr. Sulaiman Bin Mohammed Al Yahyai	Board Member***
Mr. Hisham Saleh Al Saie	Board Member****
Mr. Mohammed Shukri Ghanem	Board Member*****

All current Directors were elected for a three-year term on 22 March 2018.

- * Her. Highness Shaikha Hessa Al Khalifa did not participate in the 2018 AGM Director elections and hence Her Highness is no longer a Board member since 22nd March 2018.
- ** Mr. Essam Al Muhaidib did not participate in the 2018 AGM Director elections and hence Mr. Essam is no longer a Board member since 22nd March 2018.
- *** Mr. Sulaiman Al Yahyai has resigned since 13th February 2018.
- **** Mr. Hisham Al Saie did not participate in the 2018 AGM Director elections and hence Mr. Hisham is no longer a Board member since 22nd March 2018.
- ***** Mr. Mohammed Shukri Ghanem did not participate in the 2018 AGM Director elections and hence Mr. Mohammed is no longer a Board member since 22nd March 2018.

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2018 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/Committees. The concerned Director abstains from the discussion/voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to 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. This disclosure includes all material facts in the case of a contract or transaction involving the Director. A report detailing the absence from voting relating to conflict of interest is made available to shareholders upon their request.

Induction and Orientation for New Directors

When new Directors are appointed, they shall be provided with an appointment letter and the Directors' Handbook containing information relevant to the performance of their duties as members of the Board. The Handbook includes the Corporate Governance Guidelines, Charters of the Board and Committees, key policies, etc. The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board.

Code of Conduct

- The Board has an approved Code of Conduct for Directors, as follows: To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to 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 consider themselves as a representative of all Shareholders and act accordingly;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;

- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflicts of interests; and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest

Evaluation of Board Performance

The Board has adopted a 'Performance Assessment Framework' designed to provide Directors with an opportunity to assess their performance on an annual basis. The self-assessment consists of three categories, such as:

- Assessment of the Board as a unit;
- Assessment of the Committee as a unit; and
- Self-assessment of individual Directors.

The results of the annual performance assessment shall be communicated to the Shareholders at the Annual General Meeting. The directors self-assessment results were either above expectation or satisfactory in most areas.

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the regulatory authorities.

The Board, based upon the recommendation of the Remuneration Committee and subject to the laws and regulations, determines the form and amount of Director compensation subject to final approval of the shareholders' at the Annual General Meeting. The Remuneration Committee shall conduct an annual review of Directors' compensation.

As per the Directors Remuneration Policy approved by the Shareholders, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attended during the year.

The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Meeting.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as Directors and Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit and Risk Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

5. Board Meetings and Attendances

The Board of Directors meets at the summons of the Chairman or his Deputy (in the event of his absence or disability) or if requested to do so as per the Bank's Board Charter. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2018, the Directors that were present at the Annual General Meeting are detailed in the minutes of the 2018 Annual General Meeting. The details of the Board meetings held during 2018 are as follows:

Board Meetings in 2018 - Minimum Four Meetings per Annum

Members	13 Feb	22 Mar*	13 May	4 Oct	5 Dec
Mr. Khaleefa Butti Al Muhairi	N/A	√	√	√	√
H.E. Shaikh Khalid bin Mustahail Al Mashani	√	√	√	√	√
Mr. Alhur Mohammed Al Suwaidi	N/A	-	√	√	√
Mr. Husein Mohamed Al Meeza	√	√	√	√	√
Mr. Khaled Shehabeddin Madi	N/A	-	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√	√
Mr. Matar Mohamed Al Blooshi	N/A	-	√	√	√
Mr. Salim Abdullah Al Awadi	N/A	√	√	√	√
Mr. Salman Saleh Al Mahmeed	√	√	√	√	√
Mr. Zayed Ali Al Amin	N/A	√	√	√	√
H.H. Shaikha Hessa bint Khalifa Al Khalifa**	√	N/A	N/A	N/A	
Mr. Essam Abdulkadir Al Muhaidib**	√	N/A	N/A	N/A	N/A
Mr. Sulaiman Mohammed Al Yahyai**	√	N/A	N/A	N/A	N/A
Mr. Mohamed Shukri Ghanem**	-	N/A	N/A	N/A	N/A
Mr. Hisham Saleh Al Saie**	√	N/A	N/A	N/A	N/A

*The second Board meeting was held immediately following the AGM meeting and there was no official invitation for it.

**Director in the previous Board term.

Directors' Interests

Directors' shares ownership in two-year comparison as on 31 December:

Members	No. of shares	
	2018	2017
Mr. Khaleefa Butti Al Muhairi	168,392,817*	22,000,000
H.E. Shaikh Khalid bin Mustahail Al Mashani	0	0
Mr. Matar Mohamed Al Blooshi	0	0
Mr. Hussain Al-Meeza	462,819	462,819
Mr. Salim Abdullah Al Awadi	0	0
Mr. Alhur Mohammed Al Suwaidi	0	0
Mr. Khalid Salem Al Halyan	10,000	10,000
Mr. Zayed Ali Al-Amin	100,000	100,000
Mr. Salman Saleh Al Mahmeed	100,000	100,000
Mr. Khalid Shehab Madi	0	0

* Mr. Khaleefa Butti Al Muhairi's shareholding consists of his personal shareholding and accounts under his guardianship.

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 31 - related party transaction.

Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Material Contracts and Financing Involving Directors and Senior Management during 2018

The Bank's dealings with its directors/ associated entities are conducted on an arms-length basis and at prevailing commercial terms in respect of its exposure to and deposits received from them. All financing facilities to senior management members are governed by the policies applicable to staff, which are reviewed and approved by the Board Remuneration & Nomination Committee. Material Financing Facilities involving directors and senior management are as follows:

- BD 16.32 Million, which constitute financing extended to and Sukuk purchased from N.M.C Health Care L.L.C a public company which is related to a Director.
- BD 2.6 Million financing provided to Ali Rashid Al Amin Co., which is related to a Director.
- BD 150 thousand financing provided to Maalem Holding B.S.C which is related to a Director.
- Financing Facilities provided to certain Directors of the Board with a total amount of BD 122 thousand.
- Financing Facilities provided to senior management with a total amount of BD 409.7 thousand.

All related party transactions are disclosed in note 31 of the consolidated financial statements for the year ending 31 December 2018.

Directorships held by Directors on Other Boards

The High Level Controls Module of the Central Bank of Bahrain Rulebook provides that no Director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement and are approved by the Central Bank of Bahrain.

Board Committees

Consistent with the industry's best practice, the Board has established four Committees with defined roles and responsibilities. The Standing Committees of the Board are Executive Committee, Audit and Risk Committee, Remuneration Committee and, Nomination and Corporate Governance Committee.

Certain information relating to the work of certain Board Committees during the year 2018, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

Executive Committee

The Committee operates under the delegated authority of the Board and provides direction to the executive management on business matters, as delegated by the Board, to address matters arising between the Board meetings. The Committee is responsible for reviewing business matters concerning credit and market risks, strategy review and providing recommendation to the Board.

Committee Meetings in 2018 - Minimum four meetings per annum.

Four Committee meetings were held during 2018 as follows:

Members	5 Feb	17 Apr	4 Oct	11 Nov
Mr. Khaleefa Butti Al Muhairi (Chairman)	N/A	√	√	√
Mr. Alhur Mohammed Al Suwaidi	N/A	√	√	√
Mr. Salim Abdullah Al Awadi	N/A	√	√	√
Mr. Zayed Ali Al Amin	N/A	√	√	√
Mr. Hussein Mohamed Al Meeza *	√	N/A	N/A	N/A
Mr. Essam Abdulkadir Al Muhaidib*	√	N/A	N/A	N/A
Mr. Mohamed Shukri Ghanem*	√	N/A	N/A	N/A
Mr. Yousif Abdulla Taqi*	√	N/A	N/A	N/A

**Member of the Committee during the previous term.*

Audit and Risk Committee

The Committee's responsibility is to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also acts as a liaison between the external auditor, internal auditor and the Board. The Committee is also charged with the responsibility of handling whistleblowing complaints and monitoring related party transactions.

Committee Meetings in 2018 - Minimum four meetings per annum.

Four Committee meetings were held during 2018 as follows:

Members	30 Jan	7 May	1 Oct	1 Nov
Mr. Salman Saleh Al Mahmeed (Chairman)	√	√	√	√
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√
Mr. Matar Mohamed Al Blooshi	N/A	√	√	√
Mr. Khaled Shehabeddin Madi	N/A	√	√	√
Mr. Khalid Salim Al Halyan	√	N/A	√	√
Mr. Zayed Ali Al Amin	N/A	√	N/A	N/A

Note: Mr. Khalid AlHalyan joined Audit Committee as a member on Jun 2018 replacing Mr. Zayed Al Amin.

Remuneration Committee

The Committee's role is to provide a formal and transparent procedure for developing a compensation policy for the Board, Group Chief Executive Officer and Senior Management (approved persons and material risk takers); ensures that compensation offered is competitive, in line with the market/peer group and consistent with the responsibilities assigned to employee. In addition, the Committee recommends to the Board special compensation plans, including annual performance bonus and short/long term incentives to attract, motivate and retain key employees.

Committee Meetings in 2018 - Minimum two meetings per annum.

Three meetings were convened during 2018:

Members	12 Feb	28 May	1 Oct
H.E. Shaikh Khalid bin Mustahail Al Mashani (Chairman)*	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√
Mr. Khaled Shehabeddin Madi	N/A	√	√
H.H. Shaikha Hessa bint Khalifa Al Khalifa**	√	N/A	N/A
Mr. Hisham Saleh Al Saie**	√	N/A	N/A

** Attended the meeting*

*** Member of the Committee during the previous term.*

Nomination and Corporate Governance Committee

The Committee's role is to evaluate and nominate candidates to the Board, as well as facilitate the assessment of the performance of the Board, Committees and individual Directors. In addition, the Committee is responsible to ensure that Directors receive adequate training during the year so as to be able to perform their duties on the Board and the Committees they serve on. The Committee is also charged with the responsibility of ensuring that the Corporate Governance Framework of the Bank is adequate and in compliance with the prevailing regulations. The Committee liaises with the Bank's Corporate Governance Officer to manage the governance related activities.

Committee Meetings in 2018 - Minimum two meetings per annum.

Three meetings were convened during 2018:

Members	12 Feb*	28 May*	3 Oct
Mr. Salim Abdullah Al Awadi (Chairman)	N/A	N/A	√
Mr. Hussein Mohamed Al Meeza	N/A	N/A	√
Mr. Matar Mohamed Al Blooshi	N/A	N/A	√
H.E. Shaikh Khalid bin Mustahail Al Mashani	√	√	N/A
Mr. Khalid Salim Al Halyan**	√	√	N/A
Mr. Khaled Shehabeddin Madi**	N/A	√	N/A
H.H. Shaikha Hessa bint Khalifa Al Khalifa***	√	N/A	N/A
Mr. Hisham Saleh Al Saie***	√	N/A	N/A

**RC & NCG were combined in one committee*

***Members of the combined committee*

**** Member of the Committee during the previous term.*

Note. H.E. Shaikh Khalid Al Mashani attended the meeting

6. Shari'a Supervisory Board

The Bank is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Shari'a Supervisory Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a. Further, the Shari'a Supervisory Board shall review and vet the screening criteria for charitable donations/sponsorships as well as the sponsorship contracts.

The Shari'a Supervisory Board shall also ensure that an internal Shari'a audit function is in place and is adequately performing their duties as stipulated in the Shari'a Governance Module and AAOIFI Standards.

In addition, one designated member from the Shari'a Supervisory Board shall form part of the Nomination and Corporate Governance Committee to ensure that the corporate governance related matters are in compliance with the Islamic Shari'a rules and guidelines.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

Performance assessment of the Shari'a Supervisory Board is done on a self-assessment basis and submitted to the Board for their review and action.

ANNUAL GENERAL MEETING

The Board of Directors report to the Shareholders on the performance of the Bank through the Annual General Meeting. The meeting shall be convened upon an invitation from the Chairman of Board, and be convened during the three months following the end of the Bank's financial year.

All the Directors, especially the Chairs of the Board and Committees, at least one member of the Shari'a Supervisory Board and the external auditors shall be present at this meeting to answer questions from the Shareholder regarding matters within their responsibilities:

At a minimum, the Board shall report on the following to the Shareholders, for their approval, at the Annual General Meeting:

- Audited financial statements of the Bank;
- Related party transactions executed;
- Corporate governance report;
- Corporate social responsibility report;
- Performance assessment of the Board, Committees and individual Directors; and
- Remuneration for the Directors and the Shari'a Supervisory Board members.

7. Executive Management

The Board delegates the authority of managing the Bank to the Chief Executive Officer ("CEO"). The CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Supervisory Board.

Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December is as follows:

Members	Shares	
	2018	2017
Dr. Mohammed Burhan Arbouna	336	336
Mr. Essa Abdulla Bohijji	118,995	118,995
Total	119,331	119,331

Management Committees

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Management Executive Committee	Overseeing the other Management committees and assisting the CEO in various issues or topics as and when required.
Credit / Risk Committee	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee	The Committee oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy of the Bank, to the Group CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.
Remedial Committee	The role of the committee is to assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank.
Human Resources Committee	The role of the committee is to enable the bank's employees to meet their professional and personal goals aligned with the growth of the Bank by focusing on skill enhancement, career development, rewards with performance, and work life balance.
Information Security Committee	The role of the committee is advisory in nature. It assists the relevant stakeholders to develop, review and execute a comprehensive Information Security Management System (ISMS) for the Bank. The role of the Committee is to strengthen the Information Security Department's capabilities as well.
Social Responsibility Committee	<p>This Committee oversees the Corporate Social Responsibility affairs of the Bank, managing donations and sponsorship requests, evaluating the proposals and allocating funds to causes that the Bank is committed to support, in line with the annual corporate social responsibility plan and the Corporate Social Responsibility Policy. Any exceptions to the approved plan are reviewed and recommended to the Board for approval. The Committee is also involved in the preparation of the Corporate Social Responsibility Report, which forms part of the Annual Report, detailing the donations and sponsorships made during the year.</p> <p>The social causes that are supported by the Bank are:</p> <ul style="list-style-type: none"> • Medical assistance; • Care for the less fortunate; and • Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.

Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration Committee subject to Board approval. The Performance Audit for the Compliance, Audit and Risk functions are assessed and approved by both the Audit and Risk Committee and the Remuneration Committee.

COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators.

Due diligence is performed to ensure that the financial activities of the Bank's customers are performed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance its Compliance and Anti Money Laundering systems. The Bank has recently automated the AML monitoring process through a well-known system.

The Bank adheres to the Financial Crimes Module of Central Bank of Bahrain's Rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies. The Bank complied with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by the Central Bank of Bahrain (CBB).

REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Meeting held on 22 March 2018, the shareholders approved the appointment of KPMG as external auditors for the year ending 31 December 2018 and authorized the Board of Directors to determine their remuneration.

INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process. Every employee of the Bank participates in the internal control process and contributes effectively by identifying risks at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee. The latest Key Persons' Policy is posted on the Bank's website.

EMPLOYEE RELATIONS

Al Salam Bank-Bahrain is committed to promoting a diverse and inclusive environment, and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being an equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to

the 4th degree. Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so will subject the employee to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall communication goals, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications. The Bank's formal communication material is provided in both Arabic and English languages.

The annual reports and quarterly financial statements and Corporate Governance reports are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities

WHISTLE BLOWING POLICY

This Policy details the procedures for a whistleblower to escalate a complaint to the designated authority and procedures that are to be followed by the Audit and Risk Committee to ensure that a valid whistleblowing complaint is investigated properly and action taken appropriately, while protecting the whistleblower from any adverse reaction due to their complaint.

DELEGATION OF AUTHORITY LIMITS

Approving limits for the Board, Board Committees and other designated individuals are incorporated into the Delegation of Authority Limits. The authorities are established for both financial and operational activities.

DISCLOSURES

The Bank has a Disclosures Policy in place detailing the Bank's internal as well as external communications and disclosures. The Board oversees the process of disclosure and communication with the internal and external stakeholders.

8. HC Comply or Explain

Sr	Rule	Non Compliance	Current Situation
1	HC-1.3.7- "To meet its obligations under Rule HC-1.3.3 above, the full Board should meet once every quarter to"	The Board did not meet every quarter.	The Board has met more than 4 times in 2018 (minimum is 4 times as per the AOA) which allowed it to effectively discharge its responsibilities.
2	HC-1.4.6- 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.	The Chairman is not an independent Director	Given the Chairman's vast experience and business acumen, the board has seen fit to appoint him as the Chairman. The Current structure is approved by the Central Bank of Bahrain as well and the Chairman abides by the Corporate Governance code and insures all shareholders interests are met.
3	HC-5.3.2 (Remuneration Committee) -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 recognises that the remuneration committee must exercise judgment free from personal career conflicts of interest.	Chairman is Non-Executive Director.	Given the remuneration committee's Chairman banking background and experience, the Board has seen fit to appoint him as the chairman of the remuneration committee. The Current structure is approved by the Central Bank of Bahrain as well and The Chairman abides by the Corporate Governance code and insures all the committees' responsibilities as per the charter are met.
4	HC-2.4.1A- The Chief Executive/ General Manager of the Bahraini Islamic bank licensees must disclose to the board of directors on an annual basis those individuals who are occupying controlled functions and who are relatives of any approved persons within the Bahraini Islamic bank licensee.	Although internally this is documented, this information is not shared to the Board.	This information was shared with the Board in its meeting held in 25 February 2019. It will be shared annually going forward.
5	HC-1.4.9-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.	A Director has missed declaring a company he owns in his annual declarations.	The Director has filled a new form and Submitted it to the Board secretary to be processed as per policy.

9. Organizational Structure



