

بنك السلام  
Al Salam Bank



# Corporate Governance

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Guidelines

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# 1. Bank Overview

Al Salam Bank-Bahrain ("ASBB" or "the Bank") was established on 19 January 2006 in the Kingdom of Bahrain with a paid-up capital of BD 120 million (US\$ 318 million) and was the largest Initial Public Offering (IPO) in the Kingdom's history with subscriptions reaching over BD 2.7 billion (US\$ 7 billion). The Bank commenced commercial operations on 17 April 2006. ASBB was listed in Bahrain Bourse on 27 April 2006 and subsequently in Dubai Financial Market (DFM) on 26 March 2008.

Following a resolution of ASBB's Extraordinary General Assembly meeting held on 4 May 2009, ASBB completed its merger with the Bahraini Saudi Bank (BSB) on 22 December 2011. On the 2nd of February 2014, ASBB and BMI Bank B.S.C (c) confirmed the conclusion of a business combinations between the two institutions after receiving the approval from their shareholders at their respective extraordinary general assembly meetings by way of exchanging 11 ASBB shares for each BMI Bank share wherein ASBB acquired 58,533,357 BMI Bank shares of BD1 each and issued 643,866,927 ASBB shares of 100 fils each. As of the 30 March 2014, both Banks updated their respective CRs to give effect to the share swap and consequently BMI Bank became a wholly owned subsidiary of ASBB.

ASBB offers its customers a complete range of innovative and unique Shari'a-compliant financial products and services through its extended strong network of branches and ATMs utilizing the latest technologies to meet various banking requirements. In addition to its retail banking services, the Bank also offers corporate banking, private banking, asset management as well as treasury services. The Bank's high-caliber management team comprises of a highly qualified and internationally experienced professionals with proven expertise in key areas of banking, finance and related fields.

## **ASBB Corporate Governance Policy**

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Bank's which includes relevant rules from the High-Level Controls (HC) Module and public disclosures (PD) Module as required by the Central Bank of Bahrain (CBB).

The Board of Directors ("the Board) has adopted a Board of Directors Charter which, together with the Bank's Memorandum and Articles of Association and the charters of Board Sub-Committees, provides the authority and practices for governance of the Bank.

Further, the Board has appointed a Corporate Governance Officer, in charge of the overall guidance and oversight of the Corporate Governance Framework of the Bank, in conjunction with the Board as well as the Nomination and Corporate Governance Committee.

## **Vision**

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

## **Mission**

- Become the "one-stop-shop" for Islamic financial products and services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic Financial shaper.
- Achieve high returns for stakeholders based upon their specific risk appetite.

## 2. ASBB Board of Directors

The Board shall provide central leadership to the Bank, establish its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors shall determine the future of the Bank; protect its assets and reputation. They will consider how their decisions relate to “stakeholders” and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be 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 constituencies, including its customers, correspondent, employees, suppliers and local communities. 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. 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.

### **Mandate of the Board of Directors and Directors’ Roles and Responsibilities**

The principal role of the Board is to oversee the implementation of the Bank’s strategic initiatives and its functioning within the agreed framework, 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 control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall 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 Corporate Governance Report
- Approving the annual operating plan and budget;
- Ensuring regulatory compliance;
- Reviewing the adequacy and integrity of internal controls; and
- Approving all policies pertaining to the Bank’s operations and functioning.

### **Board Composition**

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Directors with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and 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 approval by the Shareholders and the Central Bank of Bahrain. The classification of “executive”, “non-executive” and “independent non- executive” directors is as per definitions stipulated by the Central Bank of Bahrain.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of ASBB Directors (including the Chairman and/or Vice Chairman) are required to attend the Board meetings in order to ensure a quorum.

### **Board Elections System**

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

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.
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 vote shall be forfeited for the percentage he has exercised to appoint his representative. If a percentage is left after exercising his right to nominate, he may use such percentage to vote.
3. Other members of the Board shall be elected by the Shareholders, at the Annual General Meeting, by a secret ballot.

The Board of Directors shall elect, by secret ballot, a Chairman and one or more Vice Chairman every three years. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covered the "Termination of Membership in the Board of Directors". It provided 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.

### **Board Meetings and Attendances**

The Board of Directors meets at the summons of its Chairman or their Deputy (in event of his absence or disability) or at least two Directors. According to the Bahrain Commercial Companies Law and the Bank's Articles of Associations, 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.

### **Induction and Orientation for New Directors**

When new Directors are appointed to the Board of the Bank, 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. This includes:

### **Code of Conduct**

- The Board has an approved Code of Conduct for ASBB 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.

The Directors' adherence to this Code of Conduct is periodically reviewed. Additionally, this Code of Conduct shall be published in the Annual Report and on the Bank's external website, with copies also available on request.

### **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.

### **Remuneration of the 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 Minister of Industry and Commerce."

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.

### **Compliance**

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse, the Dubai Financial Market, the Emirates Securities & Commodities Authority, including anti- money laundering, prudential and insider trading reporting. The Bank is in compliance with the High Level Controls "HC" Module issued by the Central Bank of Bahrain.

### **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 and for monitoring its effectiveness on a periodic basis. Every employee of the Bank participates in the internal control process and contribute effectively by identifying risk at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the Senior Management (i.e., approved persons) and corrective actions are taken.

## **3. 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.

### **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.

### **Audit and Risk Committee**

The Committee's responsibility 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.

### **Remuneration Committee**

The Committee's role is to provide a formal and transparent procedure for developing a compensation policy for the Board, 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.

### **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 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.

## **4. Shari'a Supervisory Board**

ASBB 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 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.



## 5. 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 six 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.

## 6. 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:

### **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**

TSC oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy for the Bank, to the 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 an 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 ISC is to strengthen the Information Security Department's capabilities.

#### **Social Responsibility Committee**

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.

The social causes that are supported by the Bank are:

- Medical assistance;
- Care for the less fortunate; and
- Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.

## **7. Key policies of the Bank**

In addition to the policies and procedures developed for each function in the Bank, following are the key policies which form part of the governance framework:

#### **Gifts and entertainment policy**

This policy outlines the procedures for both accepting and providing gifts or entertainment to external parties by the Directors / Shari'a Supervisory Board members and all employees of the Bank. The guidelines specify acceptable gifts/entertainment that may be accepted or provided and also lays down situations where prior approval is to be sought. All gifts/entertainment accepted and provided, regardless of their value, shall be communicated to the Human Resources Department.

#### **Related party transactions**

This Policy defines who are considered related parties, which includes both natural persons as well as legal entities and how to approach transactions with such related parties. This Policy is applicable to Directors / Shari'a Supervisory Board members and all employees of the Bank. The Corporate Governance Officer and the Audit and Risk Committee are responsible for overseeing and preparing a report on related party transactions executed during the year for reporting to the Shareholders at the Annual General Meeting by the Board.

### **Employment of relatives**

This Policy defines who are 'relatives' and how to deal with employment of relatives of existing employees / Directors / Shari'a Supervisory Board members. The Bank is committed to protecting the Bank from conflict of interests that may arise from such appointment and has laid down procedures to handle such employments.

### **Conflict of interest management policy**

This Policy defines the procedures for handling conflict of interests of a Director / Shari'a Supervisory Board member or Senior Management member. All individuals under the scope of the Policy shall submit an annual independence and conflict of interest declaration form to the Corporate Secretary, and refrain from discussions on the issues where they are conflicted. The Bank endeavors to mitigate conflicts at all times, and shall even consider excluding itself from an engagement or relationship, if conflicts that may arise due to the engagement or relationship cannot be mitigated.

### **Whistleblowing 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.

### **Key Persons Policy**

This Policy defines who are 'Key Persons' and aims to prevent abuse of inside information by ensuring that the Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares.

### **Delegation of Authority Limits**

Approving limits for the Board, Board Committees, Shari'a Supervisory Board, Management Committees, Senior Management members and other designated individuals are incorporate into the Delegation of Authority Limits. The authorities are established for both financial and operational activities.

## **8. 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.