

Corporate Governance

Overview of Policies and Controls

Ithmaar Holding follows the Central Bank of Bahrain's (CBB) requirements stipulated under the High Level Controls (HC) Module of the Rulebook issued by the CBB as well as the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, Ithmaar Holding's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and international best practices, where applicable, as well as the regulatory requirements of Bahrain Bourse, Dubai Financial Market and Boursa Kuwait.

Ithmaar Holding follows the Group's internal policies on corporate governance. This Policy provides guidance on engaging with stakeholder groups.

Recognising its fundamental stewardship role towards shareholders, it is the Group's policy to treat shareholders, major and minor, equally and fairly in line with the governing laws and regulatory guidelines. The overarching goal is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term. The Group adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

Ithmaar Holding adheres to a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct, Anti Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, The Group's corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Group, as well as to promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interest of stakeholders.

The "Comply or Explain" Principle:

The CBB Rulebook requirements in the High-Level Controls (HC) Module specify that the Company must comply with the Guidelines of the HC Module, or explain its non-compliance in the Annual Report. As part of its commitment to adherence with CBB regulations, Ithmaar Holding wishes to explain the following:

The Chairman is a non-executive director but not an independent director, as defined by the CBB, due to his position as the Chairman of the Board of Supervisors of Dar Al-Maal Al-Islami Trust (DMIT), the Company's controller.

Developments in regulations

On an ongoing basis, Ithmaar Holding monitors updates in the CBB requirements, including those stipulated under the HC Module, and implements the necessary updates to its processes and procedures in response to those regulatory changes. There were no material changes introduced to the HC Module by the CBB during the year 2019.

Board of Directors

The Board of Directors of Ithmaar Holding comprises ten members, of whom five are independent. Independence is determined based on the Central Bank of Bahrain (CBB) definition of "Independent Director", which is stipulated in the Glossary section of the CBB Rulebook.

The Board is committed to the role and responsibilities prescribed by the Commercial Companies Law of 2001 (as amended).

The Board's role and responsibilities include, but are not limited to, the overall business performance and strategy for the Company; causing financial statements to be prepared which accurately disclose Ithmaar Holding's financial position; monitoring management's performance; monitoring conflicts of interest and preventing abusive related party transactions; and assuring equitable treatment of shareholders including minority shareholders. In particular, the Board, among other things, ensures that Ithmaar Holding's goals are clearly established, and that strategies are put in place towards achieving those goals.

Members of the Board are responsible, both individually and collectively, for performing these responsibilities, including the following in relation to Ithmaar Holding:

- Maintaining overall responsibility for performance;

- Establishing policies for strengthening performance, including ensuring that management is pro-actively seeking to build the business through innovation, initiative and the development of its business capital;
- Selecting, appointing, monitoring and evaluating management's performance;
- Appointing the Chief Executive Officer and management, as well as setting the terms of their employment;
- Reviewing the performance and compensation of the management;
- Reviewing the structure and succession plan of the management;
- Managing and advising the management;
- Monitoring and managing actual and potential conflicts of interest;
- Deciding on whatever steps are necessary to protect Ithmaar Holding's financial position and viability;
- Ensuring that the financial statements are true and fair, and otherwise conform with applicable law;
- Ensuring that high standards of ethics and corporate governance are adhered to;
- Ensuring that appropriate risk management and regulatory compliance policies are in place;
- Monitoring the effectiveness of the governance, compliance, and internal control framework;
- Ensuring timely and adequate legal and regulatory disclosures;
- Arranging the shareholders' annual, ordinary and extraordinary general meetings; and
- Ensuring equitable treatment of minority shareholders.

Some of the responsibilities of the Board of Directors are delegated to the Committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. In general, all business decisions relating to strategic investment, and financing exceeding certain limits, including business relationship with connected counterparties, require the Board's approval. All transactions that require Board approval have been approved by the Board as per applicable regulations.

The Board's functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association and Corporate Governance Policy of Ithmaar Holding, which complies with applicable statutory and regulatory rules. Board members serve three-year terms. At the end of each term, a new Board is to be elected (or appointed, as applicable) at Ithmaar Holding's annual general meeting. The next election of the Board of Directors will take place during the annual general meeting to be held in 2022.

Structure and Composition of the Board

Ithmaar Holding is managed at the high level by the Board. The size of the Board is subject to Ithmaar Holding's Articles of Association and the rules and regulations decreed by the Ministry of Industry, Commerce and Tourism and the Central Bank of Bahrain.

Duties of Board Members

The Board members, individually and collectively, are bound by distinct fiduciary duties to Ithmaar Holding and its shareholders. The Board members owe their fiduciary duty to Ithmaar Holding as a corporate entity in its own right and not just individual shareholders and/or group of shareholders. These duties apply to all the Board members whether they are appointed or elected.

The main duties owed by Board members to Ithmaar Holding are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

The Board members are required to act in accordance with Ithmaar Holding's rules and policies to further its goals and objectives. In addition, the Board members must comply with all relevant laws and regulations. The duty of obedience forbids the Board members from acting outside the scope of Ithmaar Holding's internal authorities and policies.

Duty of Care

The Board members are under duty to exercise, in carrying out their responsibilities in good faith, the same level of care, skill and diligence that an ordinary, prudent person would exercise in the same position or under similar circumstances. Accordingly, the Board members must act in a manner that they reasonably believe is in the best interest of Ithmaar Holding.

Duty of Loyalty

This duty requires the Board members to act in good faith, solely and collectively, in the best interest of Ithmaar Holding. The Board

members should not act out of expedience, avarice or self-interest. The Board members are barred from using Ithmaar Holding properties and assets for their personal needs or seeking business opportunities for personal benefit.

Ithmaar Holding provides insurance to indemnify the Board members for negligence, default, breach of duty or breach of trust, provided that the Board member was acting in good faith.

The above duties are detailed in the Corporate Governance Policy and Code of Ethics and Business Conduct, which is approved by the Board.

Board Members' Election and Evaluation System

Any shareholder who owns ten percent or more of the issued share capital of Ithmaar Holding (rounded up to the nearest integer) shall have the right to appoint a representative on the Board, being one representative for each ten percent owned. However, if a shareholder exercises this right, they shall lose their right to vote in the annual general meeting Board elections for the percentage of which they used to appoint a Board member.

Subject to the foregoing, the shareholders shall elect members of the Board by a secret cumulative ballot in the annual general meeting. A cumulative ballot means each shareholder has one vote for each share held. The shareholder can use their shares to vote for a single member, or divide their shares to vote for multiple Board members.

All appointments to the Board of Directors are governed by and subject to Ithmaar Holding's Memorandum of Association, Articles of Association, the Corporate Governance Policy and the laws, rules, regulations, policies and charters in place, as amended from time to time.

The Remuneration and Nomination Committee reviews the composition and performance of the Board of Directors annually. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board include, among other things, assessing the skills required for the Board members to competently perform their responsibilities and meet their objectives as well as developing and implementing a plan to identify, assess and enhance the Board members' competencies.

The arrangements for the termination of membership in the Board of Directors are stipulated in the Articles of Association of Ithmaar Holding. In the event of a vacancy, termination or resignation on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board for the appointment of a director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Board members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

Board members also receive a copy of the Code of Ethics and Business Conduct.

The Board, its Committees and individual members are regularly assessed with respect to their effectiveness and contribution.

Board Induction and Development Programme

Ithmaar Holding prepares an all-day induction programme for newly appointed and elected Board members, which starts with a welcome note from the Chief Executive Officer. Thereafter, members of the Executive Management of Ithmaar Holding and Ithmaar Bank introduce Ithmaar Holding in detail, covering the Company's history, group structure, subsidiaries, strategy, financial performance and organisational chart. This is followed with presentations from the heads of various departments in respect of their role and function within Ithmaar Holding. Ithmaar Holding also arranges training sessions throughout the year for Board members and Executive Management, to keep them abreast with recent developments, including legal, regulatory, market, technological and others, in the investment sector.

Board Members' Conflict

When the Board deliberates an agenda wherein a conflict of interest arises, the conflicted director declares his or her conflict and abstains from voting or deliberation. Article 189 of the Commercial Companies Law of 2001 (as amended) requires that members of the Board and Management should not have personal direct or indirect interest in transactions and contracts concluded by Ithmaar Holding, without the authorisation of the General Assembly, otherwise such transaction or contract shall be deemed null and void.

Interested member have a duty to inform the Board of any matter which presents a conflict and are then restricted from participating in deliberations of or voting on the matter. Such declaration is to be recorded in the meeting minutes. The Chairman shall inform the General Assembly of the results of such contracts in the annual general meeting following execution of the transactions and such notification is to be accompanied by a special report of an external auditor in respect of the nature and details of the matter, and the extent of interest of the respective member. Violating this Article shall render the member and the Board jointly liable for

compensation for any damage caused by the breach. This provision is reflected in Ithmaar Holding's Articles of Association which specify that directors shall not have any direct or indirect interest in any transaction or contract relating to Ithmaar Holding without the approval of the annual general meeting. Any transaction or contract contrary to the above is deemed null and void, unless later confirmed by the majority vote of disinterested directors subject to CBB approval. The Articles of Association specifies that violations of such restriction shall permit the shareholders to claim compensation from the conflicted director for damage caused to Ithmaar Holding or profit realised by the conflicted director.

Board Members' Remuneration

The Board members' sitting fees for 2019 amounted to US\$ 354,000 (2018: US\$ 405,000). Sharia Supervisory Board sitting fees for 2019 was US\$ 8,000 (2018: US\$ 4,000).

Remuneration strategy

The Variable Remuneration Policy is not applicable to investment companies and hence, post the reorganisation, Ithmaar Holding is not subject to any Remuneration Strategy and the Remuneration Balances were transferred, as part of the reorganisation, to Ithmaar Bank.

Employment of relatives of approved persons

The Human Resources Policy indicates that any employee who is a first degree relative of an existing Approved Person is required to declare the relationship in writing to the Human Resources Department.

Board Committees

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

Audit, Governance and Risk Management Committee (AGRMC)

The AGRMC is chaired by an Independent Director and comprised:

- Ms Elham Ebrahim Hassan - Chairperson
- Dr. Amani Khaled Bouresli – Member
- Mr. Abdullellah Ebrahim Al-Qassimi – Member
- Sheikh Osama Bahar – Member*

* Sheikh Bahar is a Sharia Supervisory Board Member with a voting right in respect of the agendas relating to Corporate Governance

The AGRMC meets a minimum of four times in a year.

The aggregate sitting fees paid to its members in 2019 was US\$36,000 (2018: US\$45,000).

The AGRMC is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors and coordinating the implementation of the Corporate Governance Policy framework.

The Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors, among other things the interim and annual consolidated financial results; status updates on compliance with various regulatory requirements; implementation on various regulatory reports; internal and external audit reports and status of their implementation (as appropriate); as well as new accounting and regulatory pronouncements and their implications.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The objectives of the Committee also include making recommendations to the Board in relation to the overall risk appetite and tolerances and the risk policies within which to manage them. These policies cover credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories Ithmaar faces in carrying out its activities.

The Committee also recommends and monitors the overall risk management framework which involves all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board.

The key matters reviewed and, as appropriate, approved and/or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department;
- Providing oversight for the Corporate Governance, Compliance and Regulatory requirements;
- Updating and aligning all risk policies in line with changes in the regulatory requirements;
- Establishing new risk limits for better control of credit, market, liquidity and concentration risks; and
- Internal Capital Adequacy Assessment Process (ICAAP) report for review.

Remuneration and Nomination Committee (RNC)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues. The Remuneration and Nomination Committee reviews and, as appropriate, approves and/or recommends for the approval of the Board of Directors:

- Candidates for Board election
- The appointment of new senior management executives
- The remuneration policies as well as guidelines for increments and promotions

The RNC meets at least twice a year.

The aggregate sitting fees paid to its members in 2019 was US\$18,000 (2018: US\$18,000).

The RNC comprises:

- Mr. Abdullellah Ebrahim Al-Qassimi, Chairman
- Sheikh Zamil Abdullah Al-Zamil, Member
- Tunku Yaacob Khyra, Member

The Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting, search or compensation firms used to

- identify candidates and
- evaluate the compensation of directors, the CEO or other approved persons, without seeking the approval of the Board or management.

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board, and
- Recommending the organisation chart and succession plan.

There were no significant issues arising during the period.

Attendance

2019 Board of Directors / Board Committees Meetings Attendance

	Board of Directors		Audit, Governance & Risk Management Committee		Remuneration & Nomination Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
HRH Prince Amr Mohammed Al Faisal	5	5	-	-	-	-
Tunku Yaacob Khyra	5	5	-	-	1	1
Sheikh Zamil Abdullah Al-Zamil	5	4	1	1	2	2
Governor Abdelhamid Abomoussa	5	4	-	-	-	-
Mr. Mohammed A. Rahman Bucheerei	5	5	-	-	-	-
Mr. Abdullellah Ebrahim Al-Qassimi	5	5	4	4	2	2
Dr. Amani Khaled Bouresli	5	5	4	4	-	-
Mr. Abdulshakoor Hussain Tahlak (Resigned 25 March 2019)	2	2	-	-	1	1
Sheikh Mohamed Abdullah Elkhareiji	5	5	-	-	-	-
Ms. Elham Ebrahim Hasan	5	5	3	3	-	-
Mr. Omar Abdi Ali	5	5	-	-	-	-
Dates of meeting during 2019						
	4 March		4 February		4 March	
	20 March		4 May		30 September	
	24 June		4 August			
	30 September		4 November			
	4 December					

Notes:

- Sheikh Osama Bahar, a member of the Sharia Supervisory Board, is also a member of the Audit, Governance and Risk Management Committee.
- In accordance with the Central Bank of Bahrain requirement and Ithmaar Holding's Articles of Association, the Board of Directors shall meet at least four times a year and each Board member is required to attend at least 75 percent of all Board meetings in a financial year.
- All Board members satisfied the minimum attendance percentage required.

Sharia Supervisory Board

The Sharia Supervisory Board (SSB) is an independent board of specialised scholars in Sharia and Fiqh of financial transactions according to Sharia requirements. The SSB contributes in the guidance and development of Ithmaar Holding's activities and monitors its business to ensure it is compliant with Islamic Sharia principles.

The SSB is appointed, in compliance with licensing requirements of the Central Bank of Bahrain (CBB) and Ithmaar Holding's Memorandum and Articles of Association, by the shareholders at the General Meeting based on recommendations of the Board of Directors through the Remuneration and Nomination Committee. The SSB serves a three-year term.

The SSB has full authority to achieve its goals and responsibilities. It is also allowed to view all records and transactions from any sources without restrictions including access to the Board and to the management personnel, professional and legal consultants and employees.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the website.

SSB members are entitled to remuneration comprising sitting fees paid per meeting attended.

This remuneration is recommended by the Remuneration and Nomination Committee, the structure of which is approved by the shareholders.

Currently, Ithmaar Holding does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all SSB members are included in the Sharia Supervisory Board section.

All SSB members receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described.

SSB members also receive a copy of the Code of Ethics and Business Conduct.

Communications with stakeholders

The Board acknowledges the importance of regular communication with stakeholders and particularly investors through a number of means to promote greater understanding and dialogue.

Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year on the Bahrain Bourse, Dubai Financial Market and Boursa Kuwait as well as on the Ithmaar Holding website, through which stakeholders have an overview of Ithmaar Holding's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with major shareholders to solicit their views. The Chairman discusses the views of the major shareholders with the Board of Directors.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of Ithmaar Holding are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of Ithmaar Holding's shares on the Bahrain Bourse, Dubai Financial Market and Boursa Kuwait are disclosed in the section on Share Information of the annual report.

Shareholders' Rights

All shares issued have equal rights. Recognising the importance of shareholders, it is Ithmaar Holding's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of the shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, individually. Their rights also include voting on the appointments of Board of directors, the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to enquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholders' rights. This is also in accordance with regulatory directives.

As additional measures to protect minority interests, Ithmaar subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;

- Pre-emptive rights on issuance of new shares;
- Limitations on business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercise rights to elect independent Directors;
- Penalties for insider trading; and
- Necessary provisions on takeovers, mergers, and acquisitions

Services provided by External Auditors

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to Ithmaar Holding's shareholders as per their specific request provided that these disclosures would not negatively impact Ithmaar Holding's interest and its competition in the market.

Code of Ethics and Business Conduct

Ithmaar Holding's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for Ithmaar.

The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to Ithmaar Holding's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board of Directors.

Evaluation of the Board of Directors, Board Committees and the Sharia Supervisory Board:

During the year, performance evaluations were conducted for the Board of Directors, Board Committees, and the Sharia Supervisory Board. The results of the performance evaluations are summarised in the following table.

	Date of Evaluation	Level of Evaluation	Results of Evaluation
Board of Directors	4 December 2019	Board / Committee level / Individual directors level	Satisfactory
Audit, Governance & Risk Management Committee	4 November 2019	Board/Committee level	Satisfactory
Remuneration & Nomination Committee	4 December 2019	Board / Committee level / Individual directors level	Satisfactory
Sharia Supervisory Board	7 November 2019	Board/Committee level	Attendance targets achieved and results satisfactory.