

# Al Baraka Islamic Bank

## Corporate Governance Report

31 December 2021

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### 1. Philosophy, Strategy and objectives

Al Baraka Islamic Bank (“AIB” or “the Group”) strongly believes that a good corporate governance and its ongoing development is an essential part of maintaining stability and enhancing the solid foundations of the Group. It is a fundamental part of how the Group discharge its duties and responsibilities towards protecting and enhancing shareholder’s value as well as ensuring the achievement of long-term sustainable financial performance. The Group’s governance framework extends beyond legislative and regulatory compliance, and aims at creating a strong governance culture across all segments to protect the interests of stakeholders. The Group aspires to the highest ethical standards by delivering promise to clients, reporting financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Group’s business.

The Group’s governance and compliance strategies, objectives, and structures are designed to ensure that it complies with all relevant legislations and simultaneously extending beyond accountability and assurance issues to value creation and resource utilization issues. Internally the function has expanded into five complementary directions:

- Enterprise-wide corporate governance;
- Business governance;
- Corporate accountability and ethics;
- Sustainability management and reporting; and
- Compliance.

The Group’s Compliance Department works closely with Legal, Company Secretary, Risk Management, and Internal Audit departments in promoting a strong culture of governance and compliance within the Group. The Group has taken all necessary steps to continuously enhance its corporate governance to ensure conformity with best-established market practices.

The Board of Directors adopted and approved its Corporate Governance Policy (“the Policy”) covering bank-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain (“CBB”) on Corporate Governance for Islamic Retail Licensed Institutions (“HC Module”). Moreover, the Group conducts a detailed self-assessment on annual basis to ensure its compliance with HC Module requirements, and sets specific milestones for implementation of any shortfalls whenever they exist, including continuous reviews and upgrades for strong corporate governance practices, and any amendments to any requirements and milestones set are reported to the CBB, shareholders, the Board of Directors. Corporate governance is a fixed item on the agenda of the Annual General Meeting since 2011.

These disclosures should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021. To avoid any duplication, information required under the CBB Rulebook PD Module but already disclosed in other sections of the annual report have not been reported in these disclosures.

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## 2. Governance Framework

### 2.1. Ownership Structure

Al Baraka Islamic Bank is a Bahraini licensed Islamic Retail Bank and operates as a subsidiary of Al Baraka Banking Group (“ABG” or “Ultimate Parent”). ABG is the dominating shareholder. The existing shareholding structure is transparent and consists entirely of ordinary shares, which is the only class of shares issued. The Group confirms that the non-controlling interests are sufficiently represented in the Board of Directors, either directly or through independent Directors.

There has been no trading of the Group shares during 2021 by any Director or member of Executive Management. As at 31 December 2021, the composition and distribution of shares are set out in the following table:

	Name	Relation	Nationality	No. of shares	Share %
1	ABG	Ultimate Parent	Bahraini	1,255,755	92.0254
2	Abdullatif Abdulrahim Janahi	Non-executive Director	Bahraini	1,250	0.0916
Other than the above, none of the other directors at the end of 2021 had any interest in the Group shares or its subsidiaries. Other shareholders are as follows:					
3	Hussain Mohsin Alharthe	Shareholder	Saudi	50,000	3.6641
4	Bahrain Islamic Bank	Shareholder	Bahraini	10,000	0.7328
5	Ibdar Bank	Shareholder	Bahraini	10,000	0.7328
6	Suleiman Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.3664
7	Saleh Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.3664
8	Abdulla Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.3664
9	Mohamed Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.3664
10	Heirs of Dr. Hassan Abdulla Kamel	Shareholder	Saudi	5,000	0.3664
11	Dubai Islamic Bank	Shareholder	UAE	5,000	0.3664
12	Saeed Ahmed Lotah & Sons Group	Shareholder	UAE	5,000	0.3664
13	Jordan Islamic Bank	Shareholder	Jordan	2,500	0.1832
14	Sheikh Saleh Abdulla Kamel	Shareholder	Saudi	73	0.0053
	<b>Total</b>			<b>1,364,578</b>	<b>100.00</b>

### 2.2. Ownership by nationality:

Country	No. of shares	Share %
Bahrain	1,277,005	93.56
Jordan	2,500	0.18
Saudi Arabia	75,073	5.52
UAE	10,000	0.74
<b>Total</b>	<b>1,364,578</b>	<b>100.00</b>

### 2.3. Ownership by size of shareholding:

Country	No. of shares	Share %
Less than 1%	58,823	4.33
1% up to less than 5%	50,000	3.66
5% and above	1,255,755	92.01
<b>Total</b>	<b>1,364,578</b>	<b>100.00</b>

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### 3. The Board of Directors

The adoption and implementation of a sound corporate governance practice is the direct responsibility of the Board of Directors (“the Board” or “the Director” or “Directors”) who shall continue its endeavor to enhance shareholder’s value, protect their interests, and defend their rights.

Risk Management strategy is based on principles approved by the Board, and is underpinned by a system of delegations passing from the Board to the Board Committees, to the Chief Executive Officer (“CEO”), to the Executive Management Committees, and to all departments within the Group.

The Board is accountable to the shareholders and Executive Management is accountable to the Board. Directors apply due care in exercising their duties to the Group and are subject to fiduciary duties, they ensure that Executive Management acts in the best interest of the Group and its shareholders by working to enhance the Group’s performance. The Board authorizes Executive Management to execute approved strategies. The Board oversees the conduct of the Group’s business activities to ensure that Executive Management is properly managing these activities with highest standards of professionalism.

#### 3.1. Principal functions of the Board

- Review and approves Executive Management proposals on strategic plans including business plans and activities, and monitor the implementation of such strategies.
- Approves the annual budget and conducts a regular business performance reviews and ensures that business activities and action plans are within the guidelines of the Group’s overall strategy.
- Sets up Group’s corporate values and lines of responsibility/ accountability, and ensures that such lines are properly communicated across the Group.
- Ensures the existence of a proper and effective process for selecting and appointing Executive Management team based on qualifications and professional competence, and approves a succession planning policy.
- Ensures the implementation of an effective internal controls and processes to measure and manage all business risks.
- Establishing comprehensive policies and processes to ensure compliance with Sharia principles in all activities.
- Sets up an effective audit functions staffed with qualified personnel to perform audit activities that covers financial, management and Sharia audits.
- Establishes procedures to avoid self-serving practices and conflicts of interests.
- Assures equitable treatment of shareholders including non-controlling interests.
- Ensures protection of the interests of depositors (particularly Equity of Investment Accountholders).
- Establishes and ensures the effectiveness of Board Committees.
- Ensures that operations of the Group are conducted within the framework of relevant regulations, laws and policies.
- Ensures that the Group has a beneficial influence on the economic well-being of its community.
- Approves material transactions outside the normal course of business or in excess of the Executive Management delegated limits.

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### 3. *The Board of Directors (continued)*

#### 3.1. *Principal functions of the Board (continued)*

The Board has approved certain policies, which authorizes the Executive Management to approve certain transactions. The Board has delegated specific authority to the CEO and to Management Committees to manage the activities of the Group within its pre-defined limits. All credit and investment applications exceeding these pre-defined limits in the form of amount or tenor requires approval of the Board. Board meetings are held on a scheduled basis ensuring relevant policies, strategy, and business performance issues are discussed and accordingly tracked and monitored. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened whenever needed.

#### 3.2. **The term of the Board of Directors**

The current term of the Board of Directors started in March 2020 and will expire on March 2023. In March 2021, the Annual General Meeting (“AGM”) approved the ABG’s request to substitute its representative Mr. Adnan Ahmed Yousif with Mr. Hamad Abdulla Al Oqab, whose appointment was also been approved by the CBB. This report contains information and dates of membership of both Mr. Adnan Ahmed Yousif and Mr. Hamad Abdulla Al-Oqab.

#### 3.3. **Termination of Board membership**

The termination of membership from the Board of Directors is stated in Article (32) of the Articles of Association as follows:

- 3.3.1. If the member was appointed in violation to the provisions of the law.
- 3.3.2. If the member loses any of the conditions provided for in the Articles (e.g. lack of legal capacity, convicted in bankruptcy, crimes of honor or breach of trust).
- 3.3.3. If a member uses his membership to conduct a competitive business or causes real damages to the Group.
- 3.3.4. If a member is absent from the Board meeting for four consecutive meetings without legitimate reason.
- 3.3.5. If a member resigns or discharged from office.
- 3.3.6. If a member occupies another salaried position other than an executive position, which the Board decided to pay salary to him.

If the office of a Director becomes vacant, the Board may appoint a temporary Director to fill the vacancy. Such an appointment shall be presented to the ordinary AGM in its first meeting for ratifying the appointment.

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### 3. The Board of Directors (continued)

#### 3.4. Composition of the Board of Directors

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has nine members, comprising five independent non-executive directors (including the Chairman), three non-executive directors, and one executive director. The Board meets on quarterly basis to review and evaluate corporate strategy, major operational and financial plans, risk policies, financial performance, and monitors the implementation and performance to ensure it is in line with all applicable laws and regulations and within best-established market practice.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman and the CEO ensures a balance of power and authority, which provides a safeguard against the exercise of unrestrained powers in decision-making. The Chairman is responsible for ensuring the Board's effectiveness, as well as representing the Board to the shareholders. The CEO acts in accordance with the authorities delegated by the Board. Board composition, independence of Directors, and membership in the Board Committees are set out below:

Director's name	Nationality	Board Membership Designation & Position	Board Committees			
			Audit	Nomination, Remuneration, and Governance	Executive	Risk Management
Saleh Salman Al-Kawari	Bahraini	Chairman, Independent	-	Chairman	-	Member
Adnan Ahmed Yousif <sup>(1)</sup>	Bahraini	Vice Chairman, Executive	-	-	-	-
Yousif Ali Bin Fadil <sup>(2)</sup>	Emirati	Member, Independent	-	-	Chairman	-
Abdullatif Abdulrahim Janahi	Bahraini	Member, Non-Executive	-	-	Member	-
Abdulrahman Abdulla Mohamed	Bahraini	Member, Independent	Chairman	-	-	Member
Dr. Khalid Abdulla Ateeq	Bahraini	Member, Non-Executive	Member	-	-	Member
Abdulrahman Abdulla Al-Sayed	Bahraini	Member, Independent	-	Member	-	Chairman
Abdulrazzaq Abdulkhaleq Abdulla	Bahraini	Member, Non-Executive	-	-	Member	-
Adnan Abdulla Al-Bassam	Bahraini	Member, Non-Executive	Member	Member	-	-
Hamad Abdulla Al-Oqab <sup>(3)</sup>	Bahraini	Member, Executive	-	-	Member	-

- (1) His membership expired on 28 March 2021.  
(2) Appointed as Vice Chairman on 28 March 2021.  
(3) Appointed as a Director on 28 March 2021.

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### 3. The Board of Directors (continued)

#### 3.4. Composition of the Board of Directors (continued)

As per CBB's new rules, an independent Director who has served three consecutive terms on the Board will lose his independence status. The Group has obtained permission and approval on exceptional basis to consider two members as independent directors (namely Yousif Ali Bin Fadil and Abdulrahman Abdulla Mohamed). All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal and Corporate Secretary who (together with the Head of Compliance) is responsible for ensuring that Board complies with the applicable rules and regulations.

#### 3.5. Induction and engagement letters

In line with CBB Rulebook, the Group conducts a formal induction program for its new members. Re-elected members also attend such induction. The induction program includes detailed presentation on the business of the Group, its activities, and Organizational Structure. It also covers the duties and responsibilities of the Board in accordance with the Memorandum and Articles, the Charter of the Board, and the CBB Rulebook.

In addition, all members of the Board signs individual letters of engagement with the Group specifying their rights, duties and entitlements. All members are provided with copies of the corporate governance code, the policy on entitlements, and confidentiality and non-disclosure undertaking along with all Charters of the Board Committees.

#### 3.6. Board meetings and attendances

In line with the nature and demand of the Group's business, the Board meets at least every quarter unless further meetings are required. During 2021, the Board held six meetings (the minimum required number of meetings that must be held during the year is four meetings), and the number of meetings attended by each member were as follows:

Director's name	Meeting Dates					
	21 Feb	28 Mar	06 May	11 Aug	20 Oct	14 Dec
Saleh Salman Al-Kawari	✓	✓	✓	✓	✓	✓
Adnan Ahmed Yousif <sup>(1)</sup>	✓	-	-	-	-	-
Yousif Ali Bin Fadil	✓	✓	✓	✓	✓	✓
Abdullatif Abdulrahim Janahi	✓	✓	✓	✓	✓	✓
Abdulrahman Abdulla Mohamed	✓	✓	✓	-	✓	✓
Dr. Khalid Abdulla Ateeq	✓	✓	✓	✓	✓	✓
Abdulrahman Abdulla Al-Sayed	✓	✓	✓	✓	✓	✓
Abdulrazzaq Abdulkhaleq Abdulla	✓	✓	✓	✓	✓	✓
Adnan Abdulla Al-Bassam	✓	✓	✓	✓	✓	✓
Hamad Abdulla Al-Oqab <sup>(2)</sup>	-	✓	✓	✓	✓	✓

(1) His membership expired on 28 March 2021.

(2) Appointed as a Director on 28 March 2021.

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### 3. *The Board of Directors (continued)*

#### 3.7. **Performance evaluation**

In line with its Corporate Governance Policy, the Group adopts a procedure undertaken by the Board evaluate its own performance and that of its committees and individual Directors. At the end of each financial year, the Board distributes evaluation forms to all members to evaluate:

- The Board of Directors itself;
- The Committees of the Board of Directors;
- The Chief Executive Officer;
- The Secretary of the Board.

The result of the evaluations forms are then discussed in the Nomination, Remuneration, and Governance Committee (“NRGC”), and in the Board of Directors meeting, and during the AGM.

#### 3.8. **Remuneration**

In line with CBB issued regulations concerning Sound Remuneration Practices, the Group’s compensation strategy, which includes variable remuneration policy, sets out its policy on remuneration for Directors and Executive Management along with the key factors that are taken into account in setting the policy.

#### 3.9. **Remuneration strategy**

The quality and long-term commitment of employees is fundamental to the Group’s success. There is a robust and effective governance framework in place to ensure that the Group operates within clear parameters of its compensation strategy and policy for remunerating Board of Directors, Sharia Supervisory Board, and Executive Management in accordance with the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by NRGC.

The Group’s basic compensation philosophy is to provide a competitive level of compensation to attract and retain qualified and competent employees who are committed to maintain a career with the Group, and who will perform their role in the long-term interest of the Group and its shareholders. The Group’s reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Group’s variable remuneration policy is performance-based driven primarily by a culture that aligns employee interests with those of the Group’s shareholders. These elements support the achievement of the Group objectives through balancing rewards for short-term results with long-term sustainable performance. Our strategy is designed to share success and align employees’ incentives with risk framework and outcomes.

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### 3. *The Board of Directors (continued)*

#### 3.9. *Remuneration strategy (continued)*

In order to ensure alignment between compensating people and business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives summarized as part of its performance management system. This assessment also considers adherence to the Group's values, risks and compliance measures, and above all, ethics and integrity. Performance is evaluated based on short-term and long-term achievements as well as on how it is achieved, the NRCG believes the latter contributes to the long-term sustainability of the business. In particular, the Group uses capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

The Group's remuneration policy considers the role of each employee and set's guidance on whether an employee is a Material Risk-taker or an Approved Person in a business line, control function, or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of his/her role within the Group. An employee is considered a Material Risk-taker if he/she is the Head of a significant business line or an individual who has (within his/her control) a material impact on the Group's risk profile.

The Group provides fixed annual fees to the Sharia Supervisory Board and does not provide any performance linked incentives.

The NRCG oversees all reward policies of the Group employees. The NRCG is the supervisory and governing body for the compensation policy, practices and plans. NRCG is responsible for determining, reviewing and proposing the variable remuneration policy that is approved by the Board, it is also responsible for setting the principles and governance framework for all compensation decisions. The remuneration policy is periodically reviewed to reflect changes in market practices, business plans, and the risk profile of the Group. The NRCG ensures that all employees are remunerated fairly and responsibly.

In addition to its responsibilities mentioned elsewhere in this report, NRCG is entrusted with specific and detailed responsibilities with regard to the Group's variable remuneration policy and oversight of its implementation. These includes (but not limited to) ensuring that the system operates as intended especially for Material Risk-takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back-testing results. The NRCG is also responsible for ensuring that Approved Persons in Financial Control, Risk Management, Internal Audit, Sharia Review, Internal Sharia Audit, Compliance, and Operations functions have the mix of fixed and variable remuneration with more weight in favor of fixed remuneration. In addition, NRCG recommends Board remuneration based on their attendance and performance in compliance with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto.



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### 3. The Board of Directors (continued)

#### 3.9. Remuneration strategy (continued)

The NRCG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remains uncertain. The NRCG demonstrates that its decisions are consistent with an assessment of the Group's financial condition and future prospects.

The Board is satisfied that all Non-Executive Directors are independent, including the NRCG members. The aggregate remuneration paid to NRCG members during the year (in the form of sitting fees) amounted to USD 36 thousand [2020: USD 45 thousand] for four meetings held during the current and prior year.

#### 3.10. Board remuneration

Remuneration for the Group's Board of Directors is determined in line with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto. Board remuneration is subject to the approval of the shareholders during the AGM. Remuneration of Non-Executive Directors does not include performance-related elements (e.g. share grants, share options, deferred share-related incentive schemes, bonuses, or pension benefits, etc.).

Non-Executive Directors level of remuneration reflects the experience and level of responsibilities they take in the Group. As for the CEO, the remuneration is structured to link the remuneration and other rewards and benefits to contributions and achievements, in line with the Group's and the Ultimate Parent's corporate objectives, culture, and strategy.

Except for contracts mentioned in related section of the Group's financial statements, no director has received (or become entitled to receive) any benefit from contracting with the Group or its related entities, or from entities in which a Director is a member, or from any entity in which a Director has a substantial financial interest.

#### 3.11. Directors' interests in the Group shares

Director's name	Shareholding during 2021		
	1 January	31 December	Changes
Abdullatif Abdulrahim Janahi	1,250	1,250	-

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### 3. The Board of Directors (continued)

#### 3.12. Board of Directors, Sharia Supervisory Board, and CEO remuneration:

	2021	2020
<b><u>Directors</u></b>		
Remuneration <sup>(1)</sup>		
Sitting fees		
Allowances and others <sup>(2)</sup>		
<b>Total</b>		
<b><u>Sharia Supervisory Board members</u></b>		
<b><u>Staff inclusive of Chief Executive Officer</u></b>		
<b><u>Fixed remuneration:</u></b>		
Approved Persons and Material Risk-takers (Business lines)		
Approved Persons (Others)		
Other staff (Bahrain Operations)		
Staff (Overseas subsidiary)		
<b>Total fixed remunerations</b>		
<b><u>Variable remuneration:</u></b>		
Approved Persons and Material Risk-takers (Business lines)		
Approved Persons (Others)		
Other staff (Bahrain Operations)		
Staff (Overseas subsidiary)		
<b>Total variable remunerations</b>		
<b>Total staff remunerations</b>		

(1) The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance.

(2) Others includes reimbursement of air tickets and per-diem for attending Board and its Committees meetings.

Total fixed remuneration for covered persons affected by the policy, having salaries and benefits exceeding BD 100 thousand amount to USD 1,836 thousand (2020: USD 1,936 thousand) applicable to five employees (2020: six employees). Total variable remuneration during 2021 paid to these employees was USD 618 thousand (2020: USD 458 thousand), such remuneration comprises upfront cash amounted to USD 247 thousand (2020: USD 183 thousand) and deferred shares amounted to USD 371 thousand (2020: USD 275 thousand). Furthermore, total outstanding deferred remuneration as at 31 December 2021 is USD 371 thousand (2020: USD 275 thousand). Total amount paid as severance or retirement benefits to covered persons retired during 2021 was USD 301 thousand (2020: nil).

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### 3. *The Board of Directors (continued)*

#### 3.13. **Staff variable remuneration**

The Group's variable remuneration is performance-related and consists primarily of the annual performance bonus. As a part of the Group's staff variable remuneration, annual bonus compensates for the delivery of annual operational and financial targets, employees individual performance in achieving such targets and their contribution to delivering the Group's strategic objectives.

The Group has adopted a Board approved framework that assures a transparent link between variable remuneration and performance. The framework is designed on meeting both satisfactory financial performance and achieving other non-financial factors that will (assuming all other factors being equal) deliver a target bonus pool for employees prior to consideration of any allocation to business lines and employees individually. Within this framework, NRGC aims to balance the distribution of the Group's profit between shareholders and employees.

Key performance metrics at the Group-level consists of a combination of short-term and long-term measures including profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Group starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to account for risks using risk-adjusted measures (including forward-looking considerations).

The Group uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit-base could be adjusted based on the discretion of the NRGC.

For the Group to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensures that total variable remuneration is considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linked with the framework.

#### 3.14. **Remuneration of control functions**

The staff remuneration level in control and support functions allows the Group to employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and not determined by business financial performance they monitor.

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### 3. *The Board of Directors (continued)*

#### 3.14. *Remuneration strategy (continued)*

The Group's performance management system plays a major role in deciding the performance of the support and control units based on the objectives set for them. Such objectives are more focused on non-financial targets that includes risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks, which are specific to each unit.

#### 3.15. **Alignment with risk**

The policy aims to align variable remuneration to the risk profile of the Group. In its endeavor to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the designed remuneration policy reduces employee incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRCG considers whether the variable remuneration policy is in line with the Group's risk profile and ensures that through the Group's ex-ante and ex-post risk assessment framework and processes, remuneration practices (where potential future revenues whose timing and likelihood remain uncertain) are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk, and cost of capital. The Group undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Group ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Group's current capital position and ICAAP.

The bonus pool takes into account the performance of the Group, which is considered within the context of its risk management framework. This ensures that the variable pool is shaped by risk considerations and Bank-wide notable events.

The size of variable remuneration pool and its allocation within the Group takes into account the full range of current and potential risks, including:

- Cost and quantity of capital required to support the risks taken;
- Cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

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### 3. The Board of Directors (continued)

#### 3.15. Alignment with risk (continued)

The NRCG keeps itself abreast with the Group's performance against risk management framework. NRCG will use this information when considering remuneration to ensure alignment of returns, risks, and remuneration. The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Group's total variable remuneration;
- At an individual level, poor performance by the Group means individual KPI's are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards; and
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

Based on Board's approval, NRCG can rationalize and make the following discretionary decisions:

- Increase/decrease the ex-post adjustment;
- Consider additional deferrals or increase the quantum of non-cash awards; and
- Recovery through malus and clawback arrangements.

The Group's malus and clawback provisions in the policy allow the NRCG to determine that (if appropriate) unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration be recovered in certain situations. The intention is to allow the Group to appropriately respond to performance factors (on which reward decisions were based) if they turned out not to reflect the corresponding performance in the long-term. All deferred compensation awards contain provisions that enables the Group to reduce or cancel awards of employees whose individual behavior had a materially detrimental impact on the Group during the concerned performance year.

Any decision to take back an employee's award can only be made by the NRCG. The Group's malus and clawback provisions allow the NRCG to determine that (if appropriate) vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations.

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### 3. The Board of Directors (continued)

#### 3.15. Alignment with risk (continued)

These events includes:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Group to suffer a material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss, or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

#### 3.16. Incentive plans

The employees of the Group are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current/future performance. In this respect, the separate short-term incentive plans ("STIP") and long-term incentive plans ("LTIP"), are duly devised in the light of prevailing laws and regulations. The main components of said remuneration are:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of three years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of three years.

All deferred awards are subject to malus provisions. All awarded phantom shares are released to the employee after a six-month retention period from the date of vesting.

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### 3. The Board of Directors (continued)

#### 3.16. Incentive plans (continued)

The employees in business lines and other functions can avail remuneration, under the short-term incentive plan (“STIP”), as follows:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 Months	Yes	Yes
Deferred cash	10%	3 Years	-	Yes	Yes
Deferred share awards	50%	3 Years	6 Months	Yes	Yes

The NRCG (based on its assessment of role, profile, and risk taken by an employee) could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonuses awarded during the current and prior year.

In addition to non-cash short-term incentives and in order to motivate and align employee with its long-term business plans, the Group may decide to selectively award LTIP to employees contingent on the delivery of future performance targets. The NRCG will confirm the employees eligible for the LTIP scheme on annual basis. The performance horizon and quantum of awards will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered as non-cash instruments and are delivered on assessment of results achieved at the end of the performance period. LTIP vest immediately at the end of the performance period (a minimum of three years) and are subject to a six-month retention period post vesting.

Currently, the Group has decided to remunerate all covered staff having annual salary exceeding BD 100 thousand and those who occupies grade 3 level, by using the LTIP. In this respect, the following table further elaborates on the remuneration scheme:

Element of variable remuneration	Constitutions	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

#### 3.17. External consultants

The Group may appoint consultants to advice on amendments to its variable remuneration policy to ensure its compliance with CBB’s sound remuneration practices and industry norms.

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### 3. *The Board of Directors (continued)*

#### 3.18. Board Committees

According to its Charter, the Board (principally through its Committees) is responsible to oversee the establishment of risk management systems by approving accounting policies, financial statements and reports, credit and risk management policies, and systems of internal controls, taking into account the Group's risk appetite, the overall business strategy, management expertise, and the external environment. The Board has defined general parameters to manage its Bank-wide risk profile to comply with the approved Group's risk appetite and tolerances, which considers both downside risk and opportunities.

The Board has approved policies that support the implementation of a risk oversight and management framework for the Group. Board Committees oversees these policies with each Committee operating under a Board approved charter that is reviewed during each term of the Board unless there is a need for earlier review.

Each Committee has established a reporting structure that describes relevant responsibilities in respect to oversight and monitoring of Board-approved risk management policies. These Committees evaluate developments in respect to the Group's structure and operations, as well as economic, industry, and market developments that may affect the Group's risk management.

The Board Committees meet regularly and consists of independent, executive, and non-executive directors. The Board Committees in operation during the year under review are:

##### 3.18.1. Audit Committee

The Audit Committee (appointed by the Board of Directors) consists of three members. The Head of Internal Audit directly reports to the Chairman of the Committee. Audit Committee regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigation as well as significant regulatory and compliance matters. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- Monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- Monitoring processes designed to ensure the existence of an appropriate internal control system, including compliance with legal and regulatory requirements; and
- Monitoring the activities and performance of the internal audit function.



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### 3. The Board of Directors (continued)

#### 3.18. Board Committees (continued)

##### 3.18.1. Audit Committee (continued)

The Audit Committee reviews and (as appropriate) approves and recommends for the approval of the Board of Directors:

- The interim and annual consolidated financial results;
- Status updates on implementation on various regulatory reports;
- Internal and external audit reports and status of their implementation (as appropriate);
- New accounting and regulatory pronouncements and their implications.

The Committee used to assist the Board in fulfilling its governance responsibility by monitoring the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board. This function has been entrusted with the NRGC in November 2021. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates			
	03 Feb	06 May	05 Aug	09 Nov
Abdulrahman Abdulla Mohamed (Chairman)	✓	✓	✓	✓
Yousif Ali Bin Fadil (Member) <sup>(1)</sup>	✓	-	-	-
Dr. Khalid Abdulla Ateeq (Member)	✓	✓	✓	✓
Adnan Abdulla Al-Bassam (Member) <sup>(2)</sup>	-	✓	✓	✓

(1) Was a member until 28 March 2021.  
(2) Become a member in 28 March 2021.

Sheikh Esam Ishaq (Chairman of Sharia Supervisory Board) is a member of the Audit Committee with a voting right in respect of Sharia governance issues. He attends at least one meeting during the year or whenever necessary to provide guidance and advice on Sharia related matters, he also coordinate and link complementary roles and functions of corporate governance and Sharia Supervisory Board.

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## Corporate Governance Report

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### 3. The Board of Directors (continued)

#### 3.18. Board Committees (continued)

##### 3.18.2. Nomination, Remuneration & Governance Committee

This Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors and individual Directors' performance;
- Effectiveness of (and compliance with) the Group's corporate governance policies and practices;
- Succession planning for the Board and Executive Management;
- Staff remuneration policy and fees for Non-Executive Directors and Sharia Supervisory Board;
- Approve, monitor, and review the remuneration system to ensure the system operates as intended;
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-term profit but take different amount of risk on behalf of the Group;
- Ensure that for Material Risk-takers, variable remuneration forms a substantial part of their total remuneration;
- Review the stress testing and back-testing results before approving total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Committee will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that (for approved persons in Financial Control, Risk Management, Internal Audit, Sharia Review, Internal Sharia Audit, Compliance, and Operations functions) the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board members remuneration based on their attendance and performance and in compliance with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto; and
- Make sure that appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

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## Corporate Governance Report

31 December 2021

### 3. The Board of Directors (continued)

#### 3.18. Board Committees (continued)

##### 3.18.2. Nomination, Remuneration & Governance Committee (continued)

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to (attract and retain) and at the same time link the rewards to clearly articulate corporate and individual performance parameters. In November 2021, this Committee was entrusted with the task of advising the Board on governance issues. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates				
	03 Feb	24 Mar	27 May	30 Sep	01 Dec
Saleh Salman Al-Kawari (Chairman) <sup>(1)</sup>	-	-	✓	✓	✓
Abdulrahman Abdulla Al-Sayed (Member)	✓	✓	✓	✓	✓
Adnan Abdulla Al-Bassam (Member) <sup>(2)</sup>	-	-	✓	✓	✓
Yousif Ali Bin Fadil <sup>(3)</sup>	✓	✓	-	-	-
Dr. Khalid Abdulla Ateeq <sup>(4)</sup>	✓	✓	-	-	-

(1) Becomes the Chairman in 28 March 2021.  
(2) Becomes a member in 28 March 2021.  
(3) Was the Chairman until 28 March 2021.  
(4) Was a member until 28 March 2021.

##### 3.18.3. Executive Committee

The primary purpose of this Committee is to consider specific matters delegated by the Board and make recommendations thereto or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates					
	10 Feb	25 Apr	14 Jun	10 Aug	10 Oct	07 Dec
Yousif Ali Bin Fadil (Chairman) <sup>(1)</sup>	-	✓	✓	✓	✓	✓
Adnan Ahmed Yousif <sup>(2)</sup>	✓	-	-	-	-	-
Abdullatif Abdulrahim Janahi	✓	✓	✓	✓	✓	✓
Abdulrazzaq Abdulkhaleq Abdulla	✓	✓	✓	✓	✓	✓
Hamad Abdulla Al-Oqab <sup>(3)</sup>	-	✓	✓	✓	✓	✓

(1) Appointed as Chairman on 28 March 2021.  
(2) His membership expired on 28 March 2021.  
(3) Appointed as a Director on 28 March 2021.

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## Corporate Governance Report

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### 3. The Board of Directors (continued)

#### 3.18. Board Committees (continued)

##### 3.18.4. Risk Management Committee

The Board Risk Management Committee (“BRMC”) is mandated to ensure that integrated risk management functions within the Group are effectively discharged. The Committee has the following overall responsibilities:

- Ensure that sound risk management policies and practices are in place for a bank-wide risk management framework addressing the Group’s material risks, and report the results of the Committee’s activities to the Board of Directors.
- Ensures day-to-day operations are executed within the boundaries set by the business and risk strategy, and risk appetite. Breaches of the risk appetite will result in immediate action at the appropriate management level.
- Ensure that management understand and accepts its responsibility for identifying, assessing and managing risk.
- Periodically review and monitor risk mitigation processes and periodically review and report to the Board of Directors:
  - the magnitude of all material business risks;
  - the processes, procedures and controls in place to manage material risks; and
  - the overall effectiveness of the risk management process.

The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director’s name	Meeting Dates			
	24 Mar	30 Jun	26 Sep	05 Dec
Saleh Salman Al-Kawari <sup>(1)</sup>	✓	✓	✓	✓
Abdulrahman Abdulla Mohamed	✓	✓	✓	✓
Dr. Khalid Abdulla Ateeq <sup>(2)</sup>	-	✓	✓	✓
Abdulrahman Abdulla Al-Sayed (Chairman) <sup>(3)</sup>	✓	✓	✓	✓
Adnan Abdulla Al-Bassam <sup>(4)</sup>	✓	-	-	-
(1) Was the Chairman until 28 March 2021. (2) Becomes a member in 28 March 2021. (3) Becomes the Chairman in 28 March 2021. (4) Was a member until 28 March 2021.				

#### 3.19. Conflict of interest

Directors avoid any action, position, or interest that conflicts with an interest of the Group, or gives the appearance of a conflict. The Group annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations towards the Group. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Group’s Compliance Officer.

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#### 4. Management Committees

In addition to the Board Committees, the Group has in place the following management committees with the CEO and/or his delegate functioning as the Chairman of these committees. Members of committees comprise of heads of relevant departments and functions.

##### 4.1. Executive Management Committee (“EMC”)

EMC role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures.

##### 4.2. Credit Committee (“CC”)

The management of credit risk starts with appointing experienced key personnel. The CC approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All financing applications of significant amounts are approved at the Head Office or by the CC, while experienced senior credit officers at branches are given authority to approve financing with lower-risk exposure.

##### 4.3. Asset Liability Management Committee (“ALCO”)

ALCO is the primary committee responsible for liquidity and funding risk management. The ALCO make decisions and proposes guidance to force the structure of the Group’s assets and liabilities, funding requirements, and liquidity management in line with its overall strategic objectives.

##### 4.4. Special Assets Committee (“SAC”)

The primary purpose of the SAC is to timely monitor and manage non-performing credit exposures, which show signs of weaknesses or default and place into question the full and timely recovery of all amounts due to the Group, in addition to monitoring the repossessed assets and investments and recommending action plans and classifications.

##### 4.5. Provisioning Committee (“PC”)

The PC is responsible for ensuring proper implementation of FAS 30 approved policy. It is mainly responsible to take decisions related to provisioning on the Group’s non-performing assets.

##### 4.6. Digital and IT Information Committee (“ITSC”)

The ITSC role is to govern the Group’s short and long-term information technology strategies, investments, projects and initiatives to ensure they are enabling the Group’s business objectives and aligned with the its strategies.

##### 4.7. Executive Compliance Committee (“ECC”)

The ECC role is to ensure compliance with all relevant guidelines including internal policies, CBB guidelines, audit related observations, and AML programs.

##### 4.8. Human Resources and Compensation Committee (“HRC”)

The objective of HRC is to setup and maintain a sound human resources framework and to oversee the Group’s recruitment and compensation processes to ensure its alignment with its overall strategy and objectives.

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#### 4. Management Committees (continued)

##### 4.9. Human Resources and Compensation Committee (“HRC”)

The objective of HRC is to setup and maintain a sound human resources framework and to oversee the Group’s recruitment and compensation processes to ensure its alignment with its overall strategy and objectives.

##### 4.10. Zakat and Charity Committee (“ZCC”)

The primary purpose of ZCC is to manage the Group’s zakat and charity payments and contributions.

##### 4.11. Executive Risk Management Committee (“ERMC”)

The primary purpose of ERMC is to support the Executive Management in performing the role of risk oversight, framework development, policy and methodology formulation, and independent monitoring and reporting of key risk issues.

##### 4.12. Anti-fraud and Cyber Security Committee (“CSC”)

The primary purpose of CSC is to oversee the development and implementation of necessary policies, procedures, guidelines, standards and controls to protect the Group from possible fraud and Cyber Security risks, to be in line with the overall Group acceptable risk appetite and management frameworks. CSC is further responsible to review the effectiveness of Information and Cyber Security controls, data governance, privacy protection and related compliance requirements.

##### 4.13. Business Continuity Planning Committee (“BCPC”)

The BCPC is responsible for the development and implementation of strategic framework to ensure the effective continuance of the Group operations in the event of a major crises or potential catastrophic event. It is further responsible for regular testing of the effectiveness of the business continuity planning activities across the Group premises, and the development, implementation and maintenance of the emergency management, response plans and related training.

##### 4.14. Follow-up Committee for pending internal and external issues

The primary purpose of this Committee is to prompt the closure and resolution of pending internal and external findings reported by multiple stakeholders.

There is a clear division of responsibility between the Board and Management. The CEO is supported by his team of Executive Management team who is responsible for the implementation of Board resolutions, overall responsibilities of day-to-day operations, and operational efficiency. The Directors are kept abreast of the Group’s performance through various monthly reports presented during the Board and its Committee’s meetings.

# Al Baraka Islamic Bank

## Corporate Governance Report

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### 5. Internal Control

The Board is responsible for the adequacy and effectiveness of the Group's system of internal control, which is supported by segregation of duties, enhanced system of internal control across all aspects of business, as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources, and strategy. Such system must be designed to manage the Group's key risk areas within an acceptable risk profile rather than eliminating the risk of failure to achieve the policies and business objectives. The Group's system of Internal Control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to Executive Management and the Board.
- A risk management function with responsibility to ensure that risks are identified, assessed, and managed throughout the Group.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management, and business continuity planning.
- An annual budgeting and monthly financial reporting system for all business units, which enables monitoring progress against plans, trends to be evaluated, and variances to be justified.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal control with respect to financial reporting include the following:

- Board established committees that assist in ensuring the effectiveness of the Group's daily operations, and ensures they are in accordance with the corporate objectives, strategic plans and annual budgets as well as approved policies and business directions.
- The Internal Audit Department checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audit is carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of audits are submitted to the Committee for review during their periodic meetings.
- The Board Audit Committee reviews internal control issues identified by the Internal Audit Department, regulatory authorities, Executive Management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the internal audit function with particular emphasis on the scope and quality of internal audit. The minutes of the Committee meetings are presented to the Board of Directors on periodic basis.

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## Corporate Governance Report

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### 5. *Internal Control (continued)*

The governance arrangements, systems and controls employed by the Group also ensure Sharia compliance and how these meets applicable standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Group is committed to avoid recognizing any income generated from non-Sharia compliant sources. Accordingly, all non-Sharia compliant income is transferred to a charity fund where the Group uses these funds for social welfare activities. The statement of sources and uses of charity fund (disclosed within the Annual Report) provides further information.

### 6. Risk Management

#### 6.1. Risk Management Framework

The Group is committed to comply with Basel and IFSB guidelines and to CBB requirements. Risk management framework aims at proactive management of risks throughout the life cycle of a financial transaction including its operating circumstances from origination to final disposal from the books of the Group.

The Group's risk management framework is regularly reviewed and continuously enhanced to facilitate a comprehensive assessment of the various types of risk that the Group is (and may be) exposed to; risks such as credit, market, operational, liquidity, profit rate, concentration, reputation, compliance, etc.

The contagion effect of Covid-19 pandemic has continued during 2021 affecting the global economy. In order to minimize the impact of pandemic-related stress in the Kingdom of Bahrain, the Government and CBB have continued to provide support and several forbearance measures, including deferral of instalments, relaxations on Expected Credit Losses, as well as relief on liquidity ratios and capital buffers. Keeping in mind the uncertain market conditions, the Group has been closely monitoring its liquidity and funding profile, the impact of the pandemic on its financing customers. The Group also carried out extensive stress testing to assess its ability to withstand continued and even worsening economic conditions. The results of the stress tests and scenario analysis reinforced the strength of the Group's capital and liquidity profile.

In line with the regulatory guidelines and best practices, the Group has taken initiatives to enhance its risk management framework, which consists of aligning policies and procedures, reviewing various processes and controls, creating awareness sessions, and enhancing reporting culture across the Group. The Group's already established Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP") continued to aid the management of both daily and larger, strategic risks.



# Al Baraka Islamic Bank

## Corporate Governance Report

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### 6. Risk Management (continued)

#### 6.1. Risk Management Framework (continued)

The aim of the Group's ICAAP and ILAAP is to manage all risks that could impact the capital and liquidity positions in a structured way, using internally developed approaches to measure, monitor, and manage these risks at all times. The Group maintains a prudent and disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes, and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

Risk management governance originates at the Board level, and cascades through to the CEO and business units, via policies and delegated authorities, which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.

The Board has an overall responsibility for validating and approving the policies, defining the risk tolerance, and establishing the risk strategy for an effective risk management framework. The responsibility of risk governance lies with the different Board and Management Committees, who in turn, define and monitor the relevant risks to the organization (both financial and non-financial risks, including credit, market, liquidity, operational, compliance, strategic, reputational, and legal). The Group has constituted various management committees with specific roles and responsibilities to review and endorse relevant risk parameters on an ongoing basis.

The Group follows a policy of Enterprise-wide Risk Management ("ERM"), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties that the Group may face in its ongoing efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications, and transparency. The risk management framework of the Group is structured upon:

- Core risk principles - overriding principles governing all activities and risk monitoring procedures; and
- Specific risk policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Group is exposed.

The Group's ERM process is based on three lines of defense:

- **Business and Support Management.** Each of the Group's business and support units, including Material Risk-takers, own and manage the risks, including compliance risks, inherent-in/or arising-from the business process, and are responsible for having controls in place to mitigate key risks and promoting a culture of compliance and control.

# Al Baraka Islamic Bank

## Corporate Governance Report

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### 6. Risk Management (continued)

#### 6.1. Risk Management Framework (continued)

- **Independent Control Functions.** The Group's independent control functions, including Compliance, Legal, Information Security, and Risk, set standards according to which the Group and its business units are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. The Risk Management Department ("RMD") is responsible for formulating and monitoring the Group's policies related to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to Basel requirements under CBB rules, and guidelines of the Ultimate Parent. RMD is also responsible for introducing and implementing risk measurement software/tools, monitoring the Group's compliance with risk measurement standards, providing the management with reports on various risks, and providing subject matter expertise on their respective risk areas. The Head of RMD reports directly to the BRMC and provides regular updates on the Group's risk profile and recommendations. In addition, among other things, the independent control functions provide advice and training to the Group's businesses and establish tools, methodologies, processes, and oversight of controls used by the businesses to foster a culture of compliance and control, and to satisfy risk management standards.
- **Internal Audit.** The Group's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the Board of Directors.

The risk appetite statement reflects the level and type of risk that the Group is willing to assume, in order to achieve its strategic and business objectives, keeping in mind the obligations to its stakeholders. The Group has a well-defined risk appetite framework, which consists of the risk appetite statement (with both qualitative and quantitative measures) along with:

- Well-defined performance metrics in the form of KPI's;
- Risk limits, exposure criteria, restrictions and controls, financing and investment standards as laid out in the internal risk policies and procedures manual;
- Capital and liquidity benchmarks monitored in the ALCO meetings;
- Key business and risk management objectives, goals, and strategy, defined in business, investment, and risk management strategies; and
- Management and oversight structures in the Group through Executive Management and Board Committees. The risk appetite defines the desired performance levels, which in turn are embedded into management of the various risks within the Group as well as the capital of the Group and is integrated into the strategic, capital, and risk management planning process across the business verticals.

# Al Baraka Islamic Bank

## Corporate Governance Report

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### 6. Risk Management (continued)

#### 6.1. Risk Management Framework (continued)

Further, the Board periodically reviews the risk management policies, limits, and risk strategies to cope with the changing economic environment and Group's risk appetite.

The Group believes that accurate, reliable, and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the Group will also continue to strengthen its risk management processes and invest in relevant risk management infrastructure in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including review of credit and market risk analysis systems, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade-processing systems and staff supporting systems. Further, it employs Information and cyber security measures to protect the confidentiality, integrity, and availability of Group's information when required by the business.

Data reconciliation is established to provide the integrity of the information used and appropriate security controls around all systems. The Group has a Board approved comprehensive business continuity framework in place and the plan is tested periodically to ensure that the impact of any potential disaster on its operations is minimal.

The Group is committed to meet the highest standards of ethics in all areas of its operations. The Compliance Department ensures that the Group's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the regulatory bodies, advises and keeps Executive Management informed on the implication of compliance laws and regulations on the Group's operations.

#### 6.2. Credit Risk Management

The Group's risk management philosophy is based on a well-defined policy, trained and experienced employees, and effective systems. The Credit Risk Management Policy dictates the credit risk strategy. This policy spells out the target markets, risk acceptance/avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. The Group has tailored credit approval processes to suit the customer, product, sector and exposure types. The credit policy articulates the Credit Risk Management Framework, including:

- key credit risk management principles;
- delegation of authority;
- credit risk management program;
- counterparty credit risk management for financing, trading and investment activities;
- aggregate limits, beyond which credit applications requires higher level of approvals ; and
- single name/aggregation exposures, beyond which exposures must be reported to the Board.

# Al Baraka Islamic Bank

## Corporate Governance Report

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### 6. Risk Management (continued)

#### 6.2. Credit Risk Management (continued)

The credit policy is reviewed regularly to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Group has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact. The Group uses a state-of-the-art rating system to support the internal credit models to estimate Probability of Default, Loss Given Default, and Exposure at Default parameters.

RMD tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported regularly and are evaluated on various verticals such as product, branch, industry levels, etc., Branch performance and targets include arrear targets, appropriately balanced with sales and profit targets.

Proactive Credit Risk Management practice in the form of studies of rating distribution, portfolio analysis of all financing assets, periodic review of industry, country, currency, counter-party, single-obligor and concentration of exposures are only some of the prudent measures; the Group is engaged in mitigating risk exposures.

#### 6.3. Market, Liquidity, and Profit Rate Risk Management

The Group manages market, liquidity, and profit rate risks through its ALCO process. The ALCO is primarily entrusted with the task of market and liquidity risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits and monitors them, articulates Group's profit rate view and determines the Group's business strategy.

The Group has a well-established framework for market and liquidity risk management with the asset liability management, Funds Transfer Pricing ("FTP"), profit rate risk and the Treasury Policies forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Group's net profit in the short run and equity value in the long run for enhancing shareholders wealth.

According to Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: (1) normal business, reflecting day-to-day expectations regarding the funding of the Group; and (2) crisis scenario, reflecting simulated extreme business circumstances in which the Group's survival may be threatened. The Group also carries out behavior analysis of customer funds to measure the retention rate of funds with different time buckets, using statistical techniques. The important aspect of market risk management includes profit rate risk management and the pricing of assets and liabilities.

# Al Baraka Islamic Bank

## Corporate Governance Report

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### 6. Risk Management (continued)

#### 6.3. Market, Liquidity, and Profit Rate Risk Management (continued)

ALCO has determined the most appropriate liquidity horizon for the Group as three months for the normal business scenario and six months for the crisis business scenario. This means that holding sufficient liquid funds for three months is acceptable for normal business purposes but six months would be more prudent in the event of a liquidity crisis.

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Group continues to strengthen its liquidity management activities in order to ensure that it maintains a stable funding base and strong liquidity during the prevailing period of global market crisis.

In addition, the Group ensures the availability of adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focus on more stable funding sources. The Group implements regular stress testing and review of its liquidity strategy and report results regularly to the Board.

#### 6.4. Operational Risk Management

The objectives of operational risk management is to identify, measure, mitigate, and monitor operational risk, and promote risk awareness and a healthy risk culture within the Group. Risk quantification and awareness helps management set priorities in their actions and allocate people and resources.

The Group manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. The Group systematically reviews its business areas to minimize the risk of financial losses due to sanctions, claims, or reputational damages resulting from non-compliance with legislation, rules, and standards.

Operational risk management within the Group aims to have a healthy balance between the exposure to these risks and tools to manage them. The Group has established a consistent framework for monitoring, assessing, and communicating operational risks and the overall operating effectiveness of the internal control environment. The operational risk management framework has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed, and reported in a structured, systematic, and consistent manner.

The management of operational risk has two key objectives:

- To minimize the impact of operational losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the Group and strengthen its brand and external reputation through efficient delivery of services.

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### 6. Risk Management (continued)

#### 6.4. Operational Risk Management (continued)

A key component of the operational risk framework is a set of a core operational risk standards, which provides guidance on the baseline control to ensure a controlled and sound operating environment. The process for operational risk management includes the following steps:

- Identify and assess key operational risks;
- Design controls to mitigate identified risks;
- Establish key risk and control indicators;
- Implement a process for early problem recognition and timely escalation;
- Produce a comprehensive operational risk report; and
- Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

The Group has a comprehensive system of internal controls, systems and procedures to monitor and mitigate risk, it also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (“IT”) risk is managed in accordance to an IT policy (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance). Centralized functional control is exercised over all computer system developments and operations. The Group employs information and cyber security controls in accordance to regulatory requirements and best practices to manage the risk and ensure protection of the Group products and services from all cyber threats, in line with the business directions and digital transformation strategy.

Moreover, the Group has a security operations center, digital protection and threat informed intelligence tools to proactively protect the business with the increase demand on data protection, privacy and continuity of services. The Group closely monitors cyber threats and data privacy, and as mitigating actions:

- Continues to strengthen and significantly invest to enhance its ability to prevent, detect, and respond to the ever-increasing and sophisticated threat of cyber-attacks. Specifically, the Group enhanced its capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage prevention, and enhanced security event detection and incident response processes.
- Cyber risk is a Board priority topic and is regularly reported at Board-level to ensure appropriate visibility, governance, and executive support for ongoing cybersecurity program.
- Participate in intelligence sharing with both law enforcement and industry schemes to help improve understanding of/and ability to respond to the evolving threats faced by the Group and peers within industry.

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### 6. Risk Management (continued)

#### 6.4. Operational Risk Management (continued)

The Compliance Officer, who is approved by CBB, manages compliance in the Group. The main responsibility of the Compliance function is to ensure that the Group is complied with all applicable rules and regulations. The Internal Audit function through the Risk-based Internal Audit, compliments the Group's ability to control and mitigate risk.

The Group has nominated a dedicated officer to look after the business continuity framework on an ongoing basis and carryout periodic tests to ensure its preparedness to manage the operations with minimum/no disruptions in the event of any unforeseen situation.

The Group continually refines and strengthens existing policies, procedures, and internal control measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in Group's size and complexity.

#### 6.5. Capital Management

Capital management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Group has implemented a dedicated capital management system, which calculates the capital adequacy ratios in line with CBB and Basel guidelines. Using this system, exposures are measured so that account level data is correctly used for calculating risk weights, credit conversions and allocation of credit risk mitigants.

#### 6.6. Compliance

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory, and supervisory requirements are not adhered to, inefficient, or ineffective. The Group manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements;
- Monitoring and reporting on the level of compliance with legislative requirements; and
- Providing assurance that the risks related to regulatory requirements are identified, understood, and effectively managed.

The Group is committed to (and requires all its employees to display) the highest standards of integrity, professionalism, and ethical behavior, and to comply with all relevant laws, rules, and standards when conducting the business. The Group's Compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on compliance risk. The Risk Management Department (together with Internal Audit and Compliance Departments) provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

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### 7. Code of Business Conduct and Ethics for members of the Board of Directors

The Group maintains a Board approved policy on the employment of relatives, which establishes minimum standards regarding the employment of immediate family members or other relatives throughout every phase of the employment relationship (such as recruiting, hiring and internal transfers). The Group needs to obtain NRGC approval for any appointment of first or second-degree relatives if they relate to any Board member, Sharia Supervisory Board, or Executive Management. Recruitment of third or fourth degree relatives may be allowed. However, should not work in positions where there is an actual, potential, or perceived conflict of interest or opportunity for collusion, this includes (but not limited to) where one individual may be able to assign, process, review, approve, audit financial transactions, or otherwise affect the work of the others through direct oversight on each other. Human Resources Department and Risk Management Department are both responsible to examine applications before recruitments to ensure no actual or potential conflict of interest exists according to the approved policies, particularly the Code of Conduct and Conflict of Interest policies. Accordingly, any hiring decision relating to a relative must be made in consultation with the Internal Audit. The principles of this policy also apply to transferring employees from one Department to another, promoted, or upgraded.

The Group's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing for the Group. The Board of Directors and Executive Management acts ethically at all times and acknowledge their adherence to the approved policies. Any waiver of the Code of Business Conduct and Ethics for a Director or Executive Officer may be granted only by the Board or the appropriate Board Committee, and must be promptly disclosed to the shareholders.

The Code is intended to focus the Board and each Director on areas of ethical risks, provide guidance to Directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each Director must comply with this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee. Violations will be investigated by the Board or by a person delegated by the Board and appropriate action will be taken in the event of any violations of the Code.

The Code is intended to serve as a source of guiding principles for Directors, who are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

#### 7.1. Expectations from the Board

- Adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships
- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed with the regulatory authorities;
- Compliance with applicable laws, rules, and regulations;
- To redress misuse or misapplication of the Group's assets and resources;
- The highest level of confidentiality and fair dealing within and outside the Bank.



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### 7. Code of Business Conduct and Ethics for members of the Board of Directors (continued)

#### 7.2. Conflict of interest

A conflict of interest occurs when personal interest of any Board member interferes (or appears to interfere in any way) with the interests of the Group. Every Board member has a responsibility to the Group, its shareholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, however, it demands they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way that do not conflict with the Group's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- **Business interests** - any Board member considers investing in securities issued by the Group's customer, supplier or competitor, must ensure that these investments do not compromise their responsibilities to the Group. Many factors including size and nature of the investment; ability to influence the Group decisions; access to confidential information of the Group or of the other entity, and the nature of the relationship between the Group and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, Board members should disclose to the Group any interest that they have which may conflict with Group's business.
- **Related parties** - as a rule, Board members should avoid conducting Group's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related-party transaction is unavoidable, Board members must fully disclose the nature of the related party transaction to the appropriate authority as per the corporate governance guidelines approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.
- **Use of Group's assets and resources** - each Board member has a duty to the Group to advance its legitimate interests while dealing with Group's assets and resources. Board members are prohibited from:
  - Using the Group property, information, or position for personal gain;
  - Acting on behalf of the Group in any transaction in which they or any of their relative(s) have a significant direct or indirect interest;
- **Gifts** - soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

#### 7.3. Confidentiality

Board members should maintain the confidentiality of information entrusted to them and any other confidential information about the Group that comes to them, from whatever source, in their capacity as a Board members, except when disclosure is authorized or legally mandated.

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### 7. Code of Business Conduct and Ethics for members of the Board of Directors (continued)

#### 7.4. Communications Policy

The Group uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local and regional media (through press releases), for the purposes of advertising and providing information on the Group's progress.

The Group's commitment to provide timely, accurate, and balanced disclosure of all material information to a broad audience is guided by the relevant regulatory guidelines and disclosure policies of the Ultimate Parent.

Furthermore, the Group maintains a website ([www.albaraka.bh](http://www.albaraka.bh)), which includes information of interest to various stakeholders including regulatory authorities. Information available on the website includes annual reports, quarterly reviewed financial statements, and carries updates of any significant events and regulatory requirements. The Group's quarterly results are published in Arabic and English newspapers, are posted on the Group's website.

The Board acknowledges the importance of continuous communication with shareholders, including AGM's. Shareholders are therefore encouraged to participate in such meetings. The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents (e.g. financial statements, etc.).

The Group communicates with shareholders through the annual report and by providing information at the AGM. Individual shareholders can raise matters related to their shareholdings and the business of the Group. The Group provides detailed information about its corporate governance structure and other related information. Shareholders are given the opportunity to ask questions at the AGM.

According to the Group's policy, the Chairman and the CEO are the primary spokespersons responsible for communicating company's information to the community and the media. For the purpose of these guidelines, the community refers to existing and potential investors of the Group, analysts and market professionals. Where appropriate, the Group may authorize other officers to communicate with the community or the media as part of its investor relations or public communications program.

Executive Management and Relationship Managers deals (on case-by-case basis) with investors and customers queries. Additional information for the community is provided through:

- One-to-one meetings and conference calls with Executive Management;
- Road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

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### 8. Customer Centric Initiatives

As always, efficient customer service and customer satisfaction are the primary objectives of the Group in its day-to-day operations. The Group is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products, and skills of its people must be leveraged to deliver superior banking experience to its customers.

The Group is focused towards providing excellent customer service through all delivery channels and has been working to enhance the scope of digital banking services as alternative delivery channels to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving various processes and procedures.

All stakeholders (including investors) may use the Group's website for logging a query or a complaint. The query is automatically channeled to the appropriate responsible department to handle the issues when completed using the online form, or can be sent using the available complaints email.

The Group maintains a comprehensive whistleblowing policy (approved by the Board) for handling of customer complaints. All employees are aware of and abide by this policy. The Group has a designated whistleblowing and customer complaints team for handling all internal and external complaints and its contact details are displayed on the website and at all branches. Persons not directly related to the complaints normally investigate them. The Group endeavors to address all complaints within acceptable timeframe. Wherever this is not possible, the customer is directly contacted and a specific rectification timeframe is advised. A periodical report on status of complaints is also submitted to CBB and the Board of Directors.

#### 8.1. Legal and Regulatory Risk and Anti-Money Laundering

Strict compliance with all relevant regulations is one of the Group's core values. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Group uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Group has designed and implemented a comprehensive set of policies and procedures. Adherence to the Group's policies and procedures is reinforced through periodic and regular staff training, along with internal reviews and external auditors review.

The Anti-Money Laundering ("AML") and Combating Financing Terrorism ("CFT") policy is the foundation on which the Group's implementation of KYC norms, AML standards, CFT measures; and obligation of the Group according to regulation and directives issued by CBB. The roles of the MLRO and his Deputy is to oversee the proper implementation of the requirements of the Anti-Money Laundering Law, as amended, on covered and suspicious transactions as well as freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislations, rules, and industry guidance for the financial services sector. The Group continuously review the policies and the adopted measures to ensure the ongoing application of (and adherence to) best practices. Regular training sessions are conducted on KYC, AML, and CFT guidelines for all the staff.

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### 9. Sharia Compliance and Supervision

Based on Board of Directors recommendations, the Sharia Supervisory Board (“SSB”) is elected for a three-year term by the shareholders during the AGM. The SSB has the following responsibilities:

- Overseeing the operations and activities of the Group to ensure compliance with Islamic Sharia principles;
- Monitoring and supervising transactions to ensure full compliance with the SSB decisions; and
- Reviewing files, records, and documents at any time. SSB can request any information deemed necessary and approves all relevant documents relating to new products and services including contracts, agreements, marketing and promotional material, or other legal documents used in the Group operations.
- The SSB comprises of three scholars specialized in Fiqh Al-Mu’amalat. These members have extensive experience in the Islamic banking and finance and meet the fit and proper criteria specified by the CBB. The structure of the SSB is as follows:

Name	Nationality	Qualifications
Shaikh Essam Mohamed Ishaq (Chairman)	Bahraini	<ul style="list-style-type: none"> <li>○ Graduate from McGill University, Montreal, Canada.</li> <li>○ Member of Board of AAOIFI.</li> </ul>
Shaikh Dr. Nedham Mohamed Yaqoobi (Member)	Bahraini	<ul style="list-style-type: none"> <li>○ Graduate from McGill University, Montreal, Canada.</li> <li>○ Ph.D. in Sharia.</li> </ul>
Shaikh Judge Waleed Abdulmonem Al-Mahmood (Member)	Bahraini	<ul style="list-style-type: none"> <li>○ B.Sc. in Sharia and Law.</li> <li>○ High Diploma in Comparative Fiqh.</li> <li>○ Master’s Degree.</li> </ul>

- SSB meets at least quarterly and each member attends at least  $\frac{3}{4}$  of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairman may convene SSB meetings as and when it is necessary:

Name	Meeting Dates			
	03 Feb	26 May	20 Sep	17 Nov
Shaikh Essam Mohamed Ishaq (Chairman)	✓	-	✓	✓
Shaikh Dr. Nedham Mohamed Yaqoobi (Member)	-	✓	✓	✓
Shaikh Judge Waleed Abdulmonem Al-Mahmood (Member)	✓	✓	✓	✓

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### 9. *Sharia Compliance and Supervision (continued)*

SSB operates in accordance with its internal regulations, which clarify its policies, procedures and responsibilities. In carrying out its duties, the SSB has the full right to communicate with the Board of Directors, the Executive Management, and the management and staff of the Subsidiary. In addition to supervising, advise on Sharia compliance in all products and services. It is worth noting that the Internal Sharia Audit function is an independent department reporting functionally to the SSB, and administratively to the CEO. In addition, the Sharia Coordination and Implementation function is an independent department that reports functionally to the SSB and administratively to the CEO. Sharia Officer and the Head of Sharia Audit are working in conformity with a charter that defines their technical duties in accordance with the instructions of CBB.

The Group places great importance on Sharia compliance, whether in the transactions of the Group or of its subsidiary. The compliance policy of the Group is in compliance with Sharia rules and principles stipulated in the AAOIFI standards and the decisions of the Ultimate Parent Centralized Sharia Supervisory Board. The Group and its subsidiary are committed to comply with AAOIFI Sharia standards and fatwas and decisions circulated by the Sharia Board to the extent that they do not conflict with local laws.