



ABC ISLAMIC BANK (E.C.)
CORPORATE GOVERNANCE CHARTER

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SECTION – 1

EFFECTIVE DATE AND DEFINED TERMS

1.1 EFFECTIVE DATE

This Charter shall become effective on 8 December 2011, whereupon the existing Corporate Governance Principles and Guidelines of the Company shall be replaced by this Charter (as amended from time to time). The mandates of the Audit Committee of the Board, the Board Risk Committee and the Nominations, Compensation and Corporate Governance Committee of the Board shall be stated in accordance with the mandates set forth in Appendix B, Appendix C and Appendix D of this Charter respectively (as amended from time to time).

1.2 DEFINED TERMS

In this Charter the following capitalised terms have the following meanings:

"**AAOIFI**" means the Accounting and Auditing Organisation for Islamic Financial Institutions.

"**Approved Person**" means any director, officer or employee of the Company whose appointment to such position is required to be approved by the CBB.

"**Board**" means the board of directors of the Company.

"**CBB**" means the Central Bank of Bahrain.

"**Chairman**" means the chairman of the Board.

"**Chief Financial Officer**" means the chief financial officer of the Company.

"**Code**" means the Corporate Governance Code of Bahrain.

"**Code of Conduct**" means the code of conduct of the Company from time to time in force.

"**Company**" means ABC Islamic Bank (E.C.).

"**Company Law**" means the Commercial Companies Law of Bahrain (Decree No-21, issued 20th June 2001).

"**Controlling Shareholder**" means

- (a) any shareholder of the Company who either alone or with his associates holds 10% or more of the share capital or is able to exercise (or control the exercise of) 10% or more of the voting power in the Company;
- (b) any shareholder who either alone or with his associates holds 10% or more of the share capital in a parent undertaking of the Company or is able to exercise (or control the exercise of) 10% or more of the voting power of such parent undertaking; or
- (c) a natural or legal person who either alone or with his associates is able to exercise significant influence over the management of the Company or any such parent undertaking as is referred to in subparagraph (b) above.

"**Director**" means a member of the Board.

"**Executive Director**" means a Director who is an officer or employee, or is otherwise involved in day-to-day management, of either:

- (a) the Company;
- (b) another company which is a Controlling Shareholder of the Company;
- (c) another company of which the Company is a Controlling Shareholder; or
- (d) another company which is controlled by a Controlling Shareholder of the Company.

In this definition, the word "company" which is a controller of the Company excludes sovereigns such as government owned entities and government ministries.

"**Group**" means the Company and its subsidiaries for the time being.

"**HC Module**" means the CBB Rulebook, Volume 2 (*Islamic Banks*), High-Level Controls Module.

"**IESCA**" means the Independent External Shari'a Compliance Audit.

"**Independent Director**" means a Director that satisfies the criteria set-forth in Appendix A.

"**Managing Director**" means the managing director of the Company.

"**Material Risk Taker**" means such employees of the Company as the CBB may require from time to time to be identified as such and any other employee, or group of employees, of the Company from time to time designated as such by the Nominations, Compensation and Corporate Governance Committee.

"**MOIC**" means the Ministry of Industry and Commerce of Bahrain.

"**NCCG Committee**" means the Nominations, Compensation and Corporate Governance Committee of the Company.

"**Non-executive Director**" means any Director who is not an Executive Director.

"**PD Module**" means the CBB Rulebook, Volume 2 (*Islamic Banks*), Public Disclosure Requirements Module.

"**Secretary of the Board**" means the corporate secretary to the Board as determined by the Board.

"**SG Module**" means the CBB Rulebook, Volume 2 (*Islamic Banks*), Shari'a Governance Module.

"**Shari'a Compliance Officer**" means the Shari'a compliance officer of the Company.

"**SSB**" means the Shari'a Supervisory Board of the Company.

SECTION – 2

THE BOARD

2.1 THE BOARD'S ROLE AND RESPONSIBILITIES

2.1.1 The role of the Board – Each Director acknowledges and agrees to the Board's role and under the Company Law responsibilities, in particular:

- (a) the Board's role as distinct from the role of the shareholders (who elect the Board and whose interests the Board serves) and the role of the officers (whom the Board appoints and oversees), and
- (b) the Board's fiduciary duties of care and loyalty to the Company and the shareholders.

2.1.2 Responsibilities of the Board – The Board's responsibilities include (but are not limited to):

- (a) those responsibilities assigned to the Board by the Articles of Association of the Company;
- (b) establishing the objectives of the Company;
- (c) the overall business performance of the Company;
- (d) monitoring management performance;
- (e) the adoption and annual review of strategy;
- (f) monitoring the implementation of strategy by management;
- (g) causing financial statements to be prepared which accurately disclose the Company's financial position;
- (h) convening and preparing the agenda for shareholder meetings;
- (i) monitoring conflicts of interest and preventing abusive related party transactions;
- (j) assuring equitable treatment of shareholders including minority shareholders;
- (k) the adoption and review of management structure and responsibilities;
- (l) the adoption and review of the systems and controls framework; and
- (m) overseeing the design and operation of the remuneration systems of the Company and the Group and ensuring that such systems are not primarily controlled by the Managing Director or other members of the executive management of the Group.

2.1.3 Responsibilities of the Board with respect to Shari'a Compliance

The Board must ensure through the Shari'a Governance structure detailed below, the existence of an appropriate and functioning internal Shari'a control framework for compliance with the Islamic Shari'a rules and principles. The Shari'a Governance framework must be commensurate and proportionate with the size, complexity and nature of the Company's business, and must consist, at a minimum, of the following:

- (a) SSB;

- (b) Shari'a Coordination and Implementation Function;
- (c) Internal Shari'a Audit Function; and
- (d) IESCA

2.1.4 Responsibilities of the Board with regard to risk recognition and assessment - The Board is responsible for ensuring that the systems and controls framework, including the Board structure and organisational structure of the Company, is appropriate for the Company's business and associated risks. The Board shall ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the Company is exposed in its business activities. The Board shall also ensure that the Company's risk management framework is aligned with the Company's capital strategies, financial plans and compensation practices and includes detailed policy that sets specific bank wide prudential limits on the Company's activities.

The Board shall regularly assess the systems and controls framework of the Company. In its assessments, the Board must demonstrate to the CBB that:

- (a) The Company's operations, individually and collectively, are measured, monitored and controlled by appropriate, effective and prudent risk management systems, commensurate with the scope of the Company's activities.
- (b) The Company's operations are supported by an appropriate control environment. The compliance, risk management and financial reporting functions shall be adequately resourced, independent of business lines and must be run by individuals not involved with the day-to-day running of the various business areas. The Board shall additionally ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice (with particular regard to anti-money laundering measures). The control environment must maintain necessary client confidentiality and ensure that the privacy of the Company is not violated, and ensure that client's rights and assets are properly safeguarded; and
- (c) Where the Board identifies any significant issues related to the Company's adopted governance framework, appropriate and timely action will be taken to address any identified adverse deviations from the requirements of the HC Module.

2.1.5 Strategy review process – In its strategy review process under Sections 2.1.2(e) and 2.1.2(f), the Board shall:

- (a) review the Company's business plans and the inherent level of risk in these plans;
- (b) assess the adequacy of capital to support the business risks of the Company;
- (c) set performance objectives; and
- (d) oversee major capital expenditures, divestitures and acquisitions.

The Board shall ensure that the Company notifies the CBB in writing of all major proposed changes to the Company's strategy and/or corporate plan prior to the implementation of such major changes.

2.1.6 Delegation by the Board – The Directors are responsible both individually and collectively for performing the responsibilities outlined in Sections 2.1.1 (*The Role of the Board*) and 2.1.2 (*Responsibilities of the Board*). Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

2.2 THE BOARD'S DECISION-MAKING PROCESS

2.2.1 Nature of Board meetings – The Board shall be collegial and deliberative, to gain the benefit of each individual Director's judgment and experience. The Chairman shall take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made. The Board may hold its meetings or its committees' meeting by telephone or visual communication (video-conferencing) or accept any Director's remote participation in the deliberations of its meetings, subject to the provisions of the Company law.

2.2.2 Number of Board meetings – The Board shall meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All Directors shall attend the Board meetings whenever possible and the Directors shall maintain informal communication between Board meetings. At least half of the meetings of the Board in any twelve month period shall be held in Bahrain.

2.2.3 Information for meetings – The Chairman is responsible for the leadership of the Board and for the efficient functioning of the Board. The Chairman shall ensure that all Directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each Board meeting and when necessary between meetings. All Directors shall receive the same Board information. At the same time, Directors shall have a legal duty to inform themselves and they shall ensure that they receive adequate and timely information and shall study it carefully.

2.2.4 Resolutions by Circulation – Subject to the requirements of law, regulation and the terms of the articles of association of the Company, the Board may make decisions between Board meetings by written resolution of the Directors; provided that a draft of such proposed resolution is circulated to all the Directors and each Director shall be informed of how to signify agreement (or otherwise) to the proposed resolution. The approval of any such resolution by simple majority shall be ratified at the next Board meeting.

2.2.5 Membership – The Board shall have no more than 10 members and no fewer than 4 members, and shall regularly review its size and composition to ensure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The Board shall recommend changes in Board size to the shareholders when a needed change requires amendment of the Company's Memorandum of Association.

2.2.6 Duties of Non-executive Directors – Potential Non-executive Directors shall be made aware of their duties before their nomination, particularly as to the time commitment required. The Nominations, Compensation and Corporate Governance Committee shall regularly review the time commitment required from each Non-executive Director and shall require each Non-executive Director to inform the Committee before he accepts any Board appointments to another company.

2.2.7 Maximum number of other directorships – A Director shall not hold:

- (a) more than one directorship of a category of a CBB licensed bank in Bahrain (such as a "Wholesale Bank" or "Retail Bank" as defined by the CBB) unless otherwise permitted by the CBB; or
- (b) more than three Directorships in public companies in Bahrain,

and with the provision that no conflict of interest may exist, and the Board shall not propose the election or re-election of any Director who does.

2.3 DIRECTOR'S INDEPENDENCE OF JUDGEMENT

- 2.3.1 Independent judgment** – Every Director shall bring independent judgment to bear in decision-making. No individual or group of Directors shall dominate the Board’s decision-making and no one individual shall have unfettered powers of decision.
- 2.3.2 Information from Executive Directors** – Executive Directors shall provide the Board with all relevant business and financial information within their cognizance, and shall recognise that their role as a Director is different from their role as an officer of the Company.
- 2.3.3 Independence of Non-executive Directors** – Non-executive Directors shall be fully independent of management and shall constructively scrutinise and challenge management including the management performance of Executive Directors.
- 2.3.4 Number of Independent Directors** – At a minimum, the Company must appoint one Independent Director. So long as the Company has a Controlling Shareholder, at least one-third of the Board shall be Independent Directors.
- 2.3.5 Chairman** – If required by the HC Module, the Chairman shall be an Independent Director (unless an approval has been obtained from the CBB for an exemption).
- 2.3.6 Chairman/men and Deputy Chairman/men** – The Chairman/men and/or Deputy Chairman/men shall not be the Managing Director.
- 2.3.7 Review of independence** – The Board shall review the independence of each Independent Director at least annually in light of interests disclosed by them and the criteria in Appendix A (*Definition of Independent Director*). Each Independent Director shall provide the Board with all necessary and updated information for this purpose.
- 2.3.8 Meeting of Independent Directors** – To facilitate free and open communication among Independent Directors, each Board meeting shall be preceded or followed with a session at which only Independent Directors are present, except as may otherwise be determined by the Independent Directors themselves. The Chairman (if not an Independent Director) shall meet with the Independent Directors (separately from the other Directors) on an “as needed” basis so that the Independent Directors may provide feedback to the Chairman on the running of the Board.
- 2.4 THE BOARD’S REPRESENTATION OF ALL SHAREHOLDERS OF THE COMPANY**
- 2.4.1 Shareholder representation** – Each Director shall consider himself as representing all shareholders and shall act accordingly. The Board shall avoid having representatives of specific groups or interests within its membership and shall not allow itself to become a battleground of vested interests. If the Company has a controlling shareholder (or a controlling group of shareholders acting in concert), the latter shall recognise its or their specific responsibility to the other shareholders, which is direct and is separate from that of the Board. Minority shareholders shall generally look to Independent Directors’ diligent regard for their interests, in preference to seeking specific representation on the Board.
- 2.4.2 Controlling Shareholders’ responsibilities** – To the extent the Company has a Controlling Shareholder, both controlling and non-controlling shareholders shall be aware of Controlling Shareholders’ specific responsibilities regarding their duty of loyalty to the Company and conflicts of interest and also of rights that minority shareholders may have to elect specific Directors under the Company Law or if the Company has adopted cumulative voting for Directors. The Chairman or other individual delegated by the Chairman shall take the lead in explaining this with the help of Company’s lawyers.
- 2.5 DIRECTORS’ ACCESS TO INDEPENDENT ADVICE**

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

2.5.2 Access to Secretary of the Board – Individual Directors shall also have access to the Secretary of the Board, who shall have responsibility for reporting to the Board on Board procedures. Both the appointment and removal of the Secretary of the Board shall be a matter for the Board as a whole, not for the Managing Director or any other officer.

2.5.3 Recording dissent – Whenever a Director has serious concerns which cannot be resolved concerning the running of the Company or a proposed action, he shall consider seeking independent advice and shall ensure that the concerns are recorded in the Board minutes and that any dissent from a Board action is noted or delivered in writing. Upon resignation, a Non-executive Director shall provide a written statement to the Chairman, for circulation to the Board, if he has any such concerns.

2.6 DIRECTORS’ COMMUNICATION WITH MANAGEMENT

2.6.1 Management participation – While management members are not entitled by right to attend Board meetings, the Board encourages participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the Managing Director believes shall have exposure to the Directors.

2.6.2 Access to management – Non-executive Directors shall have free access to the Company’s management beyond that provided in Board meetings. Such access shall be through the chairman of the Audit Committee or the Managing Director, however the Non-executive Directors shall have the right to meet regularly, in the absence of senior management, with the Head of the Risk function.

2.7 COMMITTEES OF THE BOARD

2.7.1 Creation of committees – The Board may, from time to time, create specialised committees when and as such committees are needed. The Board has established the following specialised committees:

(a) The Audit Committee, which is responsible to the Board for ensuring the integrity and effectiveness of the Group’s system of financial, accounting and risk management controls and practices and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates. The Committee is also responsible for recommending the appointment, compensation and oversight of the external auditors and the appointment of the internal audit function. The formal mandate of the Audit Committee is set out in Appendix B (*Audit Committee Charter*).

(b) The Board Risk Committee, shall be responsible for supporting the Board in its oversight and decisions related to the Company’s risk management framework and is responsible for the review and approval of the Group’s Risk Policies. The Committee reviews and makes recommendations to the Board regarding the risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Group’s Risk Policies and Strategy. The formal mandate of the Board Risk Committee is set out in Appendix C (*Board Risk Committee Charter*).

(c) The Nominations, Compensation and Corporate Governance Committee is responsible for overseeing the design and operation of the remuneration systems of the Company and the Group, with particular regard to Approved Persons and Material Risk Takers, and for ensuring that such systems are not

primarily controlled by the Managing Director or other members of the executive management of the Group, as well as senior management appointments. With regard to remuneration, the overarching purpose of the Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Company and the Group that is aligned with the Company's long term business strategy, business objectives, risk appetite, values and long term interests, whilst recognising the interests of relevant stakeholders. This Committee is also responsible for developing and recommending changes from time to time to the Company's corporate governance policy framework. The formal mandate of the Nomination, Compensation and Corporate Governance Committee is set out in Appendix D (*Nominations, Compensation and Corporate Governance Committee Charter*).

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

2.7.3 Mandate of Committees – Committees must act only within their formal written mandates (as approved by the Board) and, therefore, the Board may not allow any committee to dominate or effectively replace the whole Board in its decision-making responsibility.

2.8 ATTENDANCE AT BOARD / COMMITTEE MEETINGS

2.8.1 Minimum attendance – Individual Directors should attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Notwithstanding the Articles, voting and attendance proxies for Board meetings are prohibited at all times. A Director shall step down from the Board if he/she is not actively participating in Board meetings. In accordance with the Articles, a Director shall be removed from the Board if that Director fails to attend any four consecutive meetings of the Board without lawful excuse.

2.8.2 Recording of attendance record – The absence of Directors at Board and committee meetings must be noted in the meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when Directors stand for re-election.

2.8.3 CBB notification of non-attendance – In the event that a Director has not attended at least 75% of Board meetings in any given financial year, the Company is required by the HC Module to notify the CBB indicating which Director has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance. The CBB shall then consider the matter and determine whether disciplinary action, including disqualification of that Director is appropriate.

SECTION – 3

LOYALTY TO THE COMPANY

3.1 PERSONAL ACCOUNTABILITY

3.1.1 Acknowledgment of personal accountability – Each Director and officer shall understand that under the Company Law he is personally accountable to the Company and the shareholders if he violates his legal duty of loyalty to the Company, and that he can be personally sued by the Company or the shareholders for such violations.

3.1.2 Duty of loyalty – The duty of loyalty described in Section 3.1.1 (*Acknowledgment of personal accountability*) includes a duty not to use property of the Company for his personal needs as though it was his own property, not to disclose confidential information of the Company or use it for his personal profit, not to take business opportunities of the Company for himself, not to compete in business with the Company, and to serve the Company’s interest in any transactions with the Company in which he has a personal interest.

3.1.3 "Personal interest" – A Director and a CBB approved person shall be considered to have a “personal interest” in a transaction with the Company if:

- (a) he himself, or
- (b) a member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters), or
- (c) another company of which he is a Director or controlling shareholder,

is a party to the transaction or has a material financial interest in the transaction. Transactions and interests which are de minimis in value shall not be included.

3.1.4 Code of Conduct – The Board has established corporate standards for Directors and employees of the Company, which are set out in this Charter and the Code of Conduct. The Code of Conduct shall be communicated throughout the Company.

3.2 AVOIDANCE OF CONFLICTS OF INTEREST

Each Director and CBB approved person shall make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the Company.

3.3 DISCLOSURE OF CONFLICTS OF INTEREST

3.3.1 Disclosure to the Board – Each Director and CBB approved person shall inform the entire Board of conflicts of interest (and potential conflicts of interest) in their activities with, and commitments to other organisations as they arise and must abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure shall include all material facts in the case of a contract or transaction involving the Director or CBB approved person. The Directors and CBB approved persons must understand that any approval of a conflict transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision.

Each Director and CBB approved person shall declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Audit Committee or Nomination, Compensation and Corporate Governance Committee) on an annual basis.

3.3.2 Shareholder and/or Unanimous Board approval for conflicts – Any decision to enter into transactions under which a Director or CBB approved person would have conflicts of interest or personal interest(s), shall be formally and unanimously approved by the shareholders and/or the full Board in advance.

3.3.3 Conflicts of interest – Subject to Section 3.3.2 (*Unanimous Shareholder and/or Board approval for conflicts*) Directors shall:

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

3.4 DISCLOSURE OF CONFLICTS OF INTEREST TO SHAREHOLDERS

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

SECTION – 4

APPOINTMENT, TRAINING AND EVALUATION OF THE BOARD

4.1 BOARD NOMINATIONS TO SHAREHOLDERS

4.1.1 Proposed Directors – Each proposal by the Board to the shareholders for election or re-election of a Director shall be accompanied by a recommendation from the Board, a summary of the advice of the Nomination, Compensation and Corporate Governance Committee, and the following specific information:

- (a) the term to be served, which may not exceed three years (but there need not be a limit on re-election for further terms);
- (b) biographical details and professional qualifications;
- (c) in the case of an Independent Director, a statement that the Board has determined that the criteria in Appendix A (*Definition of Independent Director*) have been met;
- (d) any other directorships held;
- (e) particulars of other positions which involve significant time commitments; and
- (f) details of relationships between:
 - (i) the candidate and the Company; and
 - (ii) the candidate and other Directors of the Company.

4.1.2 Age of Directors – Without prejudice to the right of the shareholders of the Company to elect or nominate Directors of any age, the Board considers that Directors that they propose for election or re-election by the shareholders should not generally exceed the age of 64 at the time of the relevant election.

4.1.3 Term limits – There are no limits on the number of terms that can be served by a Director.

4.1.4 Managing Director – If the Managing Director resigns or retires from the office and also sits on the Board of the Company, he/she must not be retained as a Board member of the Company but could be appointed as an independent director once a period of three years has passed from the date of his/her resignation/retirement.

4.1.5 Share ownership – Directors are not required to own any shares in the Company.

4.1.6 Chairman confirmation – The Chairman shall confirm to shareholders when proposing re-election of a Director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g., two three-year terms) for a Director shall be subject to particularly rigorous review and shall take into account the need for progressive refreshing of the Board.

4.2 INDUCTION AND TRAINING OF DIRECTORS

4.2.1 Induction of new Director/s – When a new Director is inducted, the Chairman or the Company's legal counsel or compliance officer or other individual delegated by the Chairman, shall review the Board's role and duties with that person, particularly covering legal and regulatory requirements of this Charter, the Code and the HC Module.

The Chairman shall ensure that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction shall include meetings with senior management, visits to Company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

4.2.2 Induction open to continuing Directors – All continuing Directors shall be invited to attend orientation meetings and all Directors shall continually educate themselves as to the Company’s business and corporate governance.

4.2.3 Management programs and presentations – Management, in consultation with the Chairman, shall hold programs and presentations to Directors respecting the Company’s business and industry, which may include periodic attendance at conferences and management meetings. The Nominations, Compensation and Corporate Governance Committee shall oversee Directors’ corporate governance educational activities.

4.2.4 Director appointment agreements – The Company shall have a written appointment agreement with each Director which recites the Directors’ powers, duties, responsibilities and accountabilities and other matters relating to their appointment including their term, the time commitment envisaged, the committee assignment (if any), their remuneration and expense reimbursement entitlement, and their access to independent professional advice when that is needed.

4.3 EVALUATION OF THE BOARD AND EACH COMMITTEE

4.3.1 Annual evaluation – At least annually the Board shall conduct an evaluation of its performance and the performance of each committee and each individual Director. The evaluation process shall include:

- (a) assessing how the Board operates,
- (b) evaluating the performance of each committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each committee,
- (c) reviewing each Director’s work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making,
- (d) reviewing the Board’s current composition against its desired composition with a view toward maintaining an appropriate balance of skills and experience and a view toward planned and progressive refreshing of the Board; and
- (e) recommendations for new Directors to replace long-standing Directors or those Directors whose contribution to the Company or its committees (such as the Audit Committee) is not adequate.

4.3.2 Administration of evaluation by committee – While the evaluation is a responsibility of the entire Board, it shall be organised and assisted by an internal Board committee and, when appropriate, with the help of external experts.

4.3.3 Reporting to shareholders – The Board shall report to the shareholders, at each annual shareholder meeting, that evaluations have been done and report its findings.

SECTION – 5

REMUNERATION

5.1 STANDARD FOR ALL REMUNERATION

Subject to Section 5.3, the remuneration of both Directors and employees of the Company shall be sufficient enough to attract, retain and motivate persons of the quality needed to run the Company successfully, but the Company shall avoid paying more than is necessary for that purpose. In particular, Approved Persons and Material Risk Takers must be remunerated fairly and responsibly.

5.2 NON-EXECUTIVE DIRECTORS' REMUNERATION

Remuneration of Non-executive Directors shall not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

5.3 COMPLIANCE WITH REMUNERATION RULES

The remuneration of Directors and employees of the Company shall be in accordance with the requirements of the HC Module, the Company Law, the constitutional documents of the Company and such other legal and/or regulatory requirements which may from time to time be applicable to the Company.

SECTION – 6

MANAGEMENT STRUCTURE

6.1 ESTABLISHMENT OF MANAGEMENT STRUCTURE.

6.1.1 Senior Officers - The Board shall appoint officers whose authority shall include management and operation of current activities of the Company, reporting to and under the direction of the Board. The officers shall include at a minimum:

- (a) the Managing Director;
- (b) the Chief Financial Officer;
- (c) the Shari'a Compliance Officer; and
- (d) the Secretary of the Board,

and shall also include such other officers as the Board considers appropriate, or as required by a relevant licensing or listing requirement. The Board shall appoint an internal auditor or shall arrange for an entity to provide internal audit functions.

6.1.2 Group Organisation Chart – The senior officers of the Company referred to in Section 6.1.1. shall have the reporting lines set out in the Group Organisation Chart, as from time to time approved by the Board.

6.2 TITLES, AUTHORITIES, DUTIES AND REPORTING RESPONSIBILITIES.

6.2.1 Appointment of Management - The Board shall adopt by-laws prescribing each senior officer's title, authorities, duties, accountabilities and internal reporting responsibilities. This shall be done with the advice of the Nominations, Compensation and Corporate Governance Committee and in consultation with the Managing Director, to whom the other officers shall normally report. These provisions shall include but shall not be limited to the following:

- (a) the Managing Director shall have authority to act generally in the Company's name, representing the Company's interests in concluding transactions on the Company's behalf and giving instructions to other officers and Company employees;
- (b) the Chief Financial Officer shall be responsible and accountable
 - (i) for the complete, timely, reliable and accurate preparation of the Company's financial statements, in accordance with the accounting standards and policies of the Company; and
 - (ii) for presenting the Board with a balanced and understandable assessment of the Company's financial situation, and
- (c) the Secretary of the Board's duties shall include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose;
- (d) the duties of the entity or person(s) providing internal auditor functions shall include providing an independent and objective review of the efficiency of the Company's operations including a review of the accuracy and reliability of the Company's accounting records and financial reports as well as a review of the adequacy and effectiveness of the Company's risk management, control, and governance processes.

- 6.2.2 Limitations on authority** – The Board shall also specify any limits which it wishes to set on the authority of the Managing Director or other officers, such as monetary maximums for transactions which they may authorise without separate Board approval.
- 6.2.3 Secretary of the Board** – The Secretary of the Board shall be given general responsibility for reviewing the Company’s procedures and advising the Board directly on such matters. Whenever practical, the Secretary of the Board shall be a person with legal or similar professional experience and training.
- 6.2.4 Corporate Governance Officer** – The Company shall appoint an employee of the Company to act as the Company’s Corporate Governance Officer to carry out the tasks of verifying the Company’s compliance with corporate governance rules, the laws, regulations and resolutions issued to implement them.
- 6.2.5 Succession planning** – At least annually the Board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the Managing Director, both in emergencies and in the normal course of business. The succession plan shall include an assessment of the experience, performance, skills and planned career paths for possible successors to the Managing Director.

SECTION – 7

COMMUNICATIONS WITH SHAREHOLDERS

7.1 SHAREHOLDERS' MEETINGS.

7.1.1 **Conduct of shareholders' meetings** – The Board shall observe both the letter and the intent of the Company Law's requirements for shareholder meetings including the following.

- (a) Notices of meetings must be honest, accurate and not misleading. They shall clearly state and, where necessary, explain the nature of the business of the meeting.
- (b) Meetings shall be held during normal business hours and at a place convenient for the greatest number of shareholders to attend.
- (c) Notices of meetings shall encourage shareholders to attend shareholder meetings, and if not possible, to participate by proxy and shall refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement shall list the agenda items and shall specify the vote (such as "yes," "no" or "abstain").
- (d) Notices shall ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of Directors.
- (e) The Board shall propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together.
- (f) In meetings where Directors are to be elected or removed the Board shall ensure that each person is voted on separately, so that the shareholders can evaluate each person individually.
- (g) The chairman of the meeting shall encourage questions from shareholders, including questions regarding the Company's corporate governance guidelines.
- (h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting.
- (i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.
- (j) The Chairman or his deputy or whoever is delegated by the Board or by the shareholders shall preside over the shareholder meetings.

7.1.2 **Attendance of external auditor at shareholder meetings** – The Company shall require its external auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the

conduct and conclusions of the audit.

7.1.3 Attendance of SSB member(s) at shareholder meetings – At least one member of the SSB shall be present at the annual shareholders’ meeting and be available to answer shareholders’ questions concerning the end of year financial results.

7.1.4 Website – The Company shall maintain the Company website and shall include on its website its written corporate governance guidelines covering the matters in the HC Module, the PD Module and other corporate governance matters deemed appropriate by the Board.

7.1.5 Notices of shareholder meetings – In notices of meetings at which Directors are to be elected or removed the Company shall ensure that:

- (a) where the number of candidates exceeds the number of available seats, the notice of the meeting shall explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes, and
- (b) the notice of the meeting shall present a factual and objective view of the candidates so that the shareholders may make an informed decision on any appointment to the Board.

7.1.6 Central Bank of Bahrain and conduct in relation to shareholders’ meetings

- (a) The Company shall provide to the CBB, for its review and comment, at least 5 business days prior to communicating with shareholders or publishing in the press, the draft agenda for any shareholders’ meetings.
- (b) The Company shall ensure that any agenda items to be discussed or presented during the course of meetings which require the CBB’s prior approval, have received the necessary CBB approval, prior to the meeting taking place.
- (c) The Company shall invite a representative of the CBB to attend any shareholders’ meetings with the invitation being provided to the CBB at least 5 business days prior to meeting taking place.
- (d) The Company shall within a maximum of 15 calendar days of any shareholders’ meetings provide to the CBB a copy of the minutes of the meeting.

7.2 DIRECT SHAREHOLDER COMMUNICATION

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

7.3 CONTROLLING SHAREHOLDERS

So long as the Company has one or more Controlling Shareholders, the Chairman and other Directors shall actively encourage the Controlling Shareholders to make a considered use of their position and to fully respect the rights of minority shareholders.

SECTION – 8

DISCLOSURE OF CORPORATE GOVERNANCE

8.1 DISCLOSURE UNDER THE COMPANY LAW

8.1.1 Website – The Company shall publish this Charter on its website, if it has a website.

8.1.2 Compliance reporting – At each annual shareholders’ meeting, the Board shall report on the Company’s compliance with this Charter, the HC Module and the PD Module and explain the extent (if any), to which the Company has varied them or believes that any variance or non-compliance was justified and on the matters on which the Board is required to report as specified from time to time in the Code or pursuant to any other applicable laws and regulations.

8.1.3 Annual report – A summary of the Board approved policy on the employment of relatives of Approved Persons shall be disclosed in the annual report of the Company.

8.1.4 Information maintenance – Any information requiring to be disclosed pursuant to Section 8.1.2 shall be maintained on the Company’s website or held at the Company’s premises on behalf of the shareholders.

8.1.5 Board responsibility for disclosure – The Board shall oversee the processes of disclosure and communications with internal and external stakeholders. The Board shall ensure that disclosures made by the Company are fair, transparent, comprehensive and timely and reflect the character of the Company and the nature, complexity and risks inherent in the Company’s business activities.

SECTION – 9

SHARI'A SUPERVISORY BOARD & SHARI'A PRINCIPLES AND STANDARDS

9.1 SHARI'A SUPERVISORY BOARD & SHARI'A PRINCIPLES AND STANDARDS

- 9.1.1 Shari'a Supervisory Board (SSB)** – In ensuring compliance with Shari'a principles, the Company shall establish an independent SSB consisting of at least three Shari'a scholars specialised in fiqh al muamalat, and whose members must be approved by the shareholders in their annual general meeting upon the recommendation of the Board, taking into consideration the CBB regulations, resolutions and directives, including the fit and proper criteria. The SSB shall be governed by a charter that must be approved by the Board defining its scope of work.
- 9.1.2 Reporting to the Board** – The SSB shall report administratively to the Board, to permit it independence from the management of the Company. The SSB must meet with the Board at least once a year to discuss issues of common interest. Any such meeting shall have a clear and specific agenda including the difficulties faced by both parties and ways to resolve them.
- 9.1.3 Internal Shari'a Audit** – The Company shall have a separate internal Shari'a audit function, governed by a policy and procedures manual approved by the Board, to carry-out the functions and responsibilities with the reporting lines prescribed in the SG Module.
- 9.1.4 Independent External Shari'a Compliance Audit (IESCA)** – The Company shall appoint on an annual basis, an independent external Shari'a compliance auditor, which must be approved by the CBB. The IESCA must conduct an annual independent external Shari'a compliance audit of the Company's activities and transactions as per the scope and requirements outlined in the SG Module.
- 9.1.5 Standards** – The Company shall comply with all Shari'a rules and principles as expressed in the AAOIFI Shari'a standards and in the rulings of the CBB's Centralised Shari'a Supervisory Board and their SSB.

SECTION – 10

CORPORATE SOCIAL RESPONSIBILITY

10.1 SOCIAL RESPONSIBILITY POLICY

- 10.1.1** The Company's corporate social responsibility shall be performed in line with its parent, Bank ABC group. More specifically, it is translated through various activities including and not limited to its Zakat procedure for the distribution of Zakat to approved charitable organisations in the Kingdom of Bahrain. The Zakat procedure outlines guiding principles and sets criteria for the selection and distribution of Zakat, with the ultimate objective of maximizing the positive impact of Zakat on both the Company's social image and the benefit of the community.
- 10.1.2 Disclosure of Social Responsibility Activities** – The Company shall provide, in its annual report, a report on corporate social responsibility activities. The report shall explain these activities and the amounts spent thereon, and measure their impact and sustainability.
- 10.1.3 An Annual Plan to Implement the Social Responsibility Philosophy:** The Company shall agree an annual plan to implement the corporate social responsibility philosophy, policies, and principles towards the community through the payment of Zakat on a voluntary basis as well through other discretionary funds of the Company. The plan shall, at a minimum, contain budget allocated to social responsibility requirements with the available means of support and participation, all within the values and principles, and community and segment or social areas targeted by the Company as defined in the Zakat procedure.

SECTION – 11

MISCELLANEOUS

11.1 MISCELLANEOUS PROVISIONS

11.1.1 Relationship with the articles – In the event of any conflict between the terms of this Charter and the articles of association of the Company, the terms of the articles of association of the Company shall prevail.

11.1.2 Retention policy – Once the official minutes of a meeting of the Board have been approved, all prior drafts of such minutes and related notes shall be destroyed.

11.1.3 Interaction with third parties – Without prejudice to Section 7.2 (*Direct Shareholder Communication*), individual Directors may, at the request of the management of the Company (but not otherwise), from time to time meet or otherwise communicate with various interested third parties with regard to the affairs of the Company. Such communications should generally be effected by, or with the concurrence of, the Chairman. However, as a general rule, Directors should maintain any information relating to the Company that they acquired in the course of their duties in strict confidence.

APPENDIX A

DEFINITION OF INDEPENDENT DIRECTOR

1. Determination by the Board

Under this Charter an "Independent Director" is a Director whom the Board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The Board shall consider that, although a particular Director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the Company, ownership structure of the Company, or for any other reason. The Board's determination shall be a good faith finding after diligent review and full discussion.

2. Formal Requirements

"Independent Director" means a Non-executive Director of the Company who will not have been a member of the Board for more than three consecutive full or partial terms as a result of his/her nominations/re-election and who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the Company (not counting Director's remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) was not an employee of the Company;
- (b) did not:
 - (i) make to, or receive from, the Company payments of more than BD 31,000 or equivalent (not counting Director's remuneration);
 - (ii) own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the Company payments of more than such amount;
 - (iii) act as a general partner, manager, director or officer of a partnership or company that made to or received from the Company payments of more than such amount;
 - (iv) have any significant contractual or business relationship with the Company which could be seen to materially interfere with the person's capacity to act in an independent manner;
- (c) did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the Company;
- (d) was not engaged directly or indirectly as an auditor or professional advisor for the Company; and
- (e) was not an associate of a Director or a member of senior management or board member of the Company.

For purposes of this definition, the 'payments' referred to in paragraph (b)(i), (b)(ii) and (b)(iii) do not include monies received from dividends, deposits, investments and credit facilities arising from the Company's normal business activities, but instead ordinarily refer to monies received (and/or payable during the period in question) for services rendered to the Company by the director or company concerned, or paid (or payable) by the concerned director or company to the Company for services provided by the Company.

Dividends, deposits, investment accounts and credit facilities are to be considered under item (b)(iv) of this definition.

For the purpose of the definition of "independent director":

- (a) where the term "family" or "family member or related persons" is used reference is made to: spouse, father, mother, son(s) or daughter(s); and
- (b) where the term "associate" is used reference is made to:
 - (i) spouse, father, mother, son(s) or daughter(s); or
 - (ii) a person who is an employee or partner of the Director or of the firm represented or owned by the Director.

APPENDIX B

AUDIT COMMITTEE CHARTER

1. Purpose of ABC Islamic Bank Audit Committee

The purpose of the Audit Committee of ABC Islamic Bank, without prejudice to Section 5 below, is to:

- (a) review the Company's accounting and financial practices;
- (b) review the integrity of the Company's financial and internal controls and financial statements; the information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Audit Committee;
- (c) review the Company's compliance with legal requirements;
- (d) review the appointment, compensation and oversight of the Company's external auditor with a right to veto;
- (e) assist the Board to discharge its governance and oversight responsibilities pursuant to the Central Bank of Bahrain requirements for management of the Bank's compliance risk including overseeing the implementation and effectiveness of the Bank's risk management framework, Compliance Program and Compliance culture; and
- (f) oversee the Company's internal audit function and recommend to the Board the appointment of the Company's head of Internal Audit / Head of Internal Shari'a Audit.

2. Authority

In its review of the systems and controls framework in this Section 1, the Audit Committee may:

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

3. ABC Islamic Bank Audit Committee Membership and Qualifications

The Islamic licensee must set up an internal audit function, which reports directly to the Audit Committee and administratively to the CEO.

The Audit Committee shall have at least three members.

A majority of the members of the Audit Committee shall be Independent Directors (based on the criteria stated in Appendix A (*Definition of Independent Director*) to the Corporate Governance Charter), including its chair.

Neither the Chairman of the Board nor the Managing Director shall be a member of Audit Committee.

At least one member of the Audit Committee has to have competence in accounting and/or auditing. The Audit Committee's members as a whole shall have sufficient technical expertise to enable the Committee to perform its functions effectively. Technical expertise means that members shall have recent and relevant financial ability and experience, which includes:

- (a) an ability to read and understand corporate financial statements including the Company's balance sheet, income statement and cash flow statement and changes in shareholders' equity. This includes an understanding of the accounting principles which are applicable to the Company's financial statements and experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the Company's business;
- (b) technical competence relating to the understanding of compliance and regulatory matters;
- (c) an understanding of internal controls and procedures for financial reporting, and;
- (d) an understanding of the Audit Committee's functions and importance.

4. ABC Islamic Bank Audit Committee Structure and Operations

The Audit Committee shall elect one member as its chair who must be an Independent Director.

The Audit Committee shall meet at least four times a year.

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Audit Committee. All decisions of the Audit Committee shall be taken on a majority basis. In the event of a tied vote, the chairman of the Audit Committee shall have an additional casting vote.

The Audit Committee may meet without any other officer of the Company present. Only the Committee may decide if a non-member of the Audit Committee shall attend for a particular meeting or a particular agenda item. Non-members who are Directors of the Company may attend meetings of the Audit Committee to provide their expertise, but may not vote. It is expected that the external auditor's lead representative will be invited to attend regularly but this shall always be subject to the Audit Committee's decision.

The Audit Committee shall meet with the external auditor at least twice per year, and at least once per year in the absence of any members of executive management.

Either the GCA of the Company or such other member of the Company's internal audit function as the Audit Committee may determine shall act as the secretary to the Audit Committee.

The Audit Committee shall report regularly to the full Board on its activities.

5. ABC Islamic Bank Audit Committee Duties and Responsibilities

The following are the duties and responsibilities of the Audit Committee:

Financial Statements

- (a) review and discuss with the external auditor the results of its audit, any difficulties the auditor encountered, including any restrictions on its access to requested information and any disagreements or difficulties encountered with management;
- (b) review and discuss with management and the external auditor each annual and each quarterly financial statements of the Company including judgments made in connection with the financial statements;
- (c) discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary); review the representation letter, the external auditor's management letters and management's responses thereto, and;
- (d) review and discuss possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters; and
- (e) review reports on loan loss provisions and evaluate the reasons which led to the need for significant items of provisions.

External Audit

- (a) review ABC Group's selection, appointment, remuneration, oversight and termination (where appropriate) of the external auditor (with a right to veto). The external auditor shall report directly to the Audit Committee;
- (b) developing and implementing policies to review and monitor the external auditor's independence and the effectiveness of the audit process, considering relevant professional, regulatory, ethical and other requirements;
- (c) discuss with the external auditor before the audit commences the nature and scope of the audit plan, and ensure effective co-ordination between external auditors where more than one audit firm is involved;
- (d) responsible for implementing Group policies to monitor rotation arrangements for audit engagement partners / external auditors;
- (e) developing and implementing policies on the engagement of the external auditor to supply non-audit services, taking into account relevant regulatory requirements and best practise, including providing advance approval of any non-audit services to be supplied by the external auditor that are not prohibited by relevant legislation (in amounts to be pre-determined by the Committee) and the fees for any such services. Any decisions made at Group level relating to non-audit services by the external auditor may be ratified by the audit committee; and,
- (f) make a determination at least once each year of the external auditor's independence, including:
 - i. determining whether its performance of any non-audit services compromised its independence (if in line with Bank ABC Group practice, the committee may establish a formal policy specifying the types of non-audit services which are permissible)

- ii. obtaining from the external auditor a written report listing any relationships between the external auditor and the Islamic bank licensee or with any other person or entity that may compromise the auditor's independence.

Internal Audit

- (a) review, discuss and make recommendations regarding the selection, appointment and termination where appropriate of the Head of Internal Audit / Head of Internal Shari'a Audit and Head of Compliance and the budget allocated to the internal audit and compliance function, and monitor the responsiveness of management to the Audit Committee's recommendations and findings. In this case, the Company has assigned a resource in the Internal Audit function obtained from Group and obtained approvals from the regulator and audit committee;
- (b) review and discuss the activities, performance and adequacy of the Company's internal auditing and compliance personnel/function and procedures and its internal controls and compliance procedures, risk management systems, and any changes in those;
- (c) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (d) consider the major findings of internal investigations and management's response thereto; review and discuss Internal Audit Reports and findings with particular attention to "High Risk" issues, management responses, and the progress of related corrective action plans;
- (e) where internal audit reports have drawn attention to the poor control environment or sub-standard performance of an audited unit, the issue should be discussed by the Audit Committee and appropriate recommendations made to the Board where necessary;
- (f) discuss with the Group Head of Internal Audit and Head of Internal Audit / Head of Internal Shari'a Audit periodically and, on at least an annual basis, approve;
 - (i) The Internal Audit Charter
 - (ii) Internal Audit's risk Assessment methodology
 - (iii) The Internal Audit plan, including approval of material changes thereto
- (g) discuss with the Group Head of Internal Audit and Head of Internal Audit / Head of Internal Shari'a Audit periodically:
 - (i) Adequacy of the Company's internal controls
 - (ii) Progress against the Internal Audit plan
 - (iii) The Internal Audit function and responsibilities and any scope restrictions encountered during the execution of the Internal Audit responsibilities
 - (iv) Key performance measures regarding the operation and effectiveness of Internal Audit.

- (h) Request Group Audit to perform any special reviews that the Audit Committee deems necessary (outside of the approved Audit Plan).

Compliance

- (a) oversee continuing maintenance and enhancement of a strong and sustainable compliance and ethical culture including appropriate incentives and enforcement to instill such culture in ABC Islamic Bank;
- (b) oversee and recommend to the Board to approve the Compliance Program, Compliance Policies and Compliance Plan. To maintain oversight the progress of the Compliance Plan towards the agreed objectives of the Compliance Program in accordance with applicable laws and regulations;
- (c) recommend to the Board to approve the Compliance Risk Appetite Framework and to oversee Management's development and implementation of the Compliance Risk Appetite, including the process of identifying, assessing, managing, monitoring and reporting on Compliance and Regulatory Risk issues;
- (d) review the Compliance Risk Assessment, significant Compliance risks and issues, Key Compliance Risk Indicators, Key Compliance Initiatives, including the implications, and to assess the effectiveness of actions in response;
- (e) review and assess the effectiveness of ABC Islamic Bank's Compliance Program and that Compliance Policies and Standards designed to assure compliance with applicable laws and regulations are operating in practice;
- (f) review the Annual Compliance Report, including reviewing and assessing the Compliance Training Plan and Compliance Monitoring plan, and actions taken including reviewing and monitoring responses to findings and recommendations;
- (g) oversee and assess the effectiveness of regular and appropriate Compliance training for staff, including regular and appropriate training and communication regarding Compliance policies and standards;
- (h) oversee and assess the effectiveness of measures and responses taken to deal with Regulatory and Compliance breaches to ensure no recurrence, including directing appropriate internal investigations;
- (i) oversee a consistent and appropriate disciplinary framework for Compliance breaches including violations of ABC Islamic Bank's Code of Conduct, Compliance Policies, Standards and other ethical policies, standards and practices of ABC Islamic Bank;
- (j) review and assess key regulatory developments, their implications and implications on ABC Islamic Bank, and to oversight that ABC Islamic Bank takes appropriate measures to address existing regulatory requirements and new regulatory requirements as they arise;
- (k) review key regulatory examination and inspection reports, and material communications with regulators, and assess the effectiveness of ABC Islamic Bank's responses and actions taken;
- (l) oversee and review any escalations from the whistleblowing hotline and management of complaints of a regulatory and compliance nature;

- (m) oversee, assess and assure the adequacy of resourcing of the Compliance function to discharge its functions in accordance with regulatory requirements, expectations, and relevant professional standards, including the Budget, capability and capacity of, and appropriate training for the Compliance function;
- (n) oversee appropriate resources to assess the appropriate development, execution and assurance of the Compliance program, including proper records maintenance to document and evidence Compliance;
- (o) recommend to the Board to approve the appointment of the Compliance Officer;
- (p) oversee, supervise and monitor that ABC Islamic Bank's Compliance Policies, Standards, and practices are consistently applied and implemented across all ABC Islamic Bank and its subsidiaries, through oversight of ABC Islamic Board Committees and/or Senior Management Committees (in the case of branches) with responsibility for Compliance risk management including through oversight of Unit level Board Compliance Committees;
- (q) oversee the Islamic bank licensee's compliance with legal and regulatory requirements, codes and business practices, and ensure that the bank communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form; and,
- (r) review and supervision of the adherence to the company's code of conduct.

Reporting responsibilities

- (a) Provide an open avenue for communication between internal audit, the external auditors and the Board;
- (b) Regularly report to the Board about the Committee activities, issues, and related recommendations; and
- (c) Review of any other reports the Company issues that relate to Committee responsibilities.

Other responsibilities

- (a) ensure that the Company meets its obligations under CBB regulatory guidelines;
- (b) meet separately with the Head of Internal Audit / Head of Internal Shari'a Audit, Head of Risk (ABC Islamic), and Head of Compliance (ABC Islamic) at least annually in the absence of the CEO and any executive management,, to discuss any matters privately;
- (c) consider other matters referred to it from time to time by the Board; and
- (d) The Audit Committee will formally review this Charter on an annual basis.

Sharia Compliance

- (a) recommend the appointment of the independent external Shari'a Compliance auditor (IESCA) to the Board of Directors. This requirement must be fulfilled within 4 months of the financial year-end;

- (b) communicate and co-ordinate with the Shari'a Supervisory Board and the Nominations, Compensation and Corporate Governance Committee to ensure that information on compliance with Islamic Shari'a rules and principles is reported in a timely manner;
- (c) ensure compliance with Shari'a rules and principles by implementing recommendations contained in reports produced by the Shari'a Supervisory Board and the Shari'a compliance officer; and
- (d) co-ordinate with the Shari'a Compliance Officer, internal and external auditors to ensure that restricted investment accounts (if any) are managed according to Shari'a rules and principles.

6. Managing Director and Chief Financial Officer's certification of financial statements

To encourage management accountability for the financial statements required by the Directors, the Managing Director and the Chief Financial Officer shall state in writing to the Audit Committee and the Board as a whole that the Company's interim and annual financial statements present a true and fair view, in all material respects, of the Company's financial condition and results of operations in accordance with applicable accounting standards.

7. The Audit Committee Resources and Authority

The Audit Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the Board or management. The Company shall provide appropriate funding for the compensation of any such persons. In the case of the external auditor, the Audit Committee shall review the fees negotiated by the Group (with a right to veto).

8. The Audit Committee Performance Evaluation

The Audit Committee shall prepare and review with the Board an annual performance evaluation of the Audit Committee, which shall compare the Audit Committee performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Audit Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

APPENDIX C

BOARD RISK COMMITTEE CHARTER

1. Introduction

The Board of Directors (the “**Board**”) of ABC Islamic Bank (E.C.) (the “**Company**”) has the responsibility for setting, and periodically reviewing the overall risk strategy of the Company which shall govern the parameters within which business is to be conducted. To facilitate this process, the Board has established the Board Risk Committee (the “**BRC**” or “**Committee**”). The mandate given to the Committee, and the authorities vested thereby, are as follows.

2. Membership

- (a) The Committee shall comprise at least three members. A majority of members of the Committee, including the Chairman shall be Independent Directors (based on the criteria stated in Appendix A (Definition of Independent Director) to the Corporate Governance Charter. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination, Compensation and Corporate Governance Committee in consultation with the Chairman of the Committee.
- (b) Unless the Board otherwise specifies and subject to any earlier termination of office for whatever reason of a Member before the expiry of his term of office in the Committee, the term of office of the Committee shall coincide with the term of office of the Board and the Members shall be appointed for a period equal to the duration of the Committee.
- (c) The Committee members shall collectively have sufficient risk management experience to enable the Committee to perform its functions effectively.

3. Attendance at Meetings

Only members of the Committee have the right to attend Committee meetings. However, the Managing Director (MD), the Deputy Managing Director (DMD), the Head of Risk & Credit Support (HoR&CS) and the ABC Group Chief Credit and Risk Officer (GCCRO) shall be regular attendees at Committee meetings. Other individuals may from time to time be invited by the Committee (acting through the secretary to the Committee) to attend all or part of any meeting

4. Secretary

A representative of the Company’s Risk function shall act as the secretary of the Committee with the approval of the Chairman.

5. Quorum

- a) The quorum necessary for the transaction of business shall be two voting members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. All decisions of the Committee shall be taken on a majority basis. In the event of a tied vote, the Chairman of the Committee shall have an additional casting vote.
- b) The BRC may also deal with matters by way of telephone or video conference, email circulation or electronic communication as may be appropriate.

6. Frequency of meetings

The Committee shall meet at least four times a year and otherwise as required.

7. Notice of meetings

- (a) Meetings of the Committee shall be called by the Secretary of the Committee, or the Secretary of the Board, acting on the request of the Chairman of the Committee if he or she considers it necessary, or upon the recommendation of the Head of the Risk function.
- (b) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and any other person required to attend prior to the date of the meeting. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, ahead of the meeting date.

8. Minutes of meetings

- (a) The secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- (b) Draft minutes of Committee meetings shall be tabled for approval at the next following Committee meeting.

9. Duties

The Committee should carry out the duties below for the Company and its subsidiary, as appropriate. The Committee shall:

- (a) review and approve an annual risk appetite, within which management is required to develop business strategy/plans, objectives and targets for achievement;
- (b) advise the Board on the Company's risk appetite, overseeing senior management's implementation of the Risk Appetite Statement, reporting on the state of risk culture in the Company, and interacting with and overseeing the Head of Risk & Credit Support
- (c) review and approve the Company's Risk Policies and ensure each key risk has a policy, process and controls;
- (d) review and approve the Internal Capital Adequacy Assessment Process;
- (e) review and approve the Recovery Plan;
- (f) review and approve the stress testing results;
- (g) ensure that Risks are identified, measured, aggregated, controlled, mitigated, monitored and reported on an ongoing basis across all business lines, the Company as a whole and its subsidiary;
- (h) review and ensure that:
 - the Company has sufficient and robust management information system and policies, designed to ensure that the Company's risk identification, measurement, aggregation,

- controlling, mitigation, monitoring and reporting capabilities are commensurate with the Company's size, complexity and risk profile.
- the Company's risk management infrastructure keeps pace with developments such as balance sheet and revenue growth, increasing complexity of the Company's business, risk configuration or operating structure, geographical expansion, or the introduction of new products or business lines;
- (i) review the Company's capability to identify and manage new risk types;
 - (j) review reports on any material breaches of risk limits and the adequacy of proposed action;
 - (k) consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; the Committee shall also ensure the function has adequate independence and is free from management or other restrictions;
 - (l) recommend to the Board the appointment and/or removal of the Head of Risk & Credit Support; and
 - (m) provide the head of the risk function the right of direct access to themselves. The Head of Risk & Credit Support shall have direct functional reporting to the BRC and administrative reporting to the Managing Director. The BRC shall meet with the Head of Risk and Credit Support regularly (twice in a year) without executive directors and MD being present;
 - (n) report (through the Committee Chairman) regularly to the full Board on its activities;
 - (o) the Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
 - (p) ensures that the review of effectiveness and efficiency of the risk management framework and function commissioned by the Group covers the Bank (ABC Islamic). These reviews are to specifically focus on **i)** ICAAP, **ii)** Capital Adequacy, **ii)** Recovery Planning **iv)** Credit Risk Management Framework **v)** Operational Risk Management Framework **vi)** Stress Testing Framework **vii)** Compliance with the Reputational Risk requirement; and
 - (q) ensure effective communication and coordination with the Board Audit Committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the Company.
 - (r) have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of advisors as it deems necessary or appropriate, without seeking the approval of the Board or management; the Company shall provide appropriate funding for the compensation of any such persons; and
 - (s) prepare and review with the Board an annual performance evaluation of the Committee, which shall compare the Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

10. Other Matters:

As approved by Central Bank of Bahrain, the Company's monitoring and reporting of liquidity is maintained at ABC's "Domestic Liquidity Group – DLG" and accordingly the Internal Liquidity Adequacy Assessment Plan for the Company is not conducted nor approved by BRC. However, reporting to BRC of liquidity measures at DLG level are maintained.

2. Authority

The Committee is authorized to:

- (a) seek any information it requires from any employee of the Company in order to perform its duties;
and
- (b) call any employee to be questioned at a meeting of the Committee as and when required.

APPENDIX D

NOMINATIONS, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE CHARTER

1. Nominations, Compensation and Corporate Governance Committee Purposes

The Nominations, Compensation and Corporate Governance Committee (the “**NCCG Committee**”) in coordination with the Group, as required, shall carry out the following functions:

- (a) identify persons qualified to become members of the Board or Managing Director, Chief Financial Officer, Secretary of the Board and any other officers of the Group considered appropriate by the Board, with the exception of the appointment of the internal auditor or the internal audit service provider and the head of compliance (which shall be the responsibility of the Audit Committee);
- (b) make recommendations to the whole Board including recommendations of candidates for Board membership to be included by the Board on the agenda for the next annual shareholder meeting;
- (c) oversee the design and operation of the remuneration systems applied by the Group for the Company insofar as they relate to Approved Persons including those in Control Functions and Material Risk Takers;
- (d) review the remuneration policies applied by the Group for the Company and for Approved Persons including those in Control Functions and Material Risk Takers, which shall be approved by the shareholders and be consistent with the corporate values and strategy of the Company;
- (e) approve the remuneration package and amounts set by the Group for each Approved Person and Material Risk Taker, as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- (f) approve, monitor and review the remuneration systems of the Company to ensure that such systems operate as intended;
- (g) ensure that Approved Persons including those in Control Functions and Material Risk Takers are remunerated fairly and responsibly;
- (h) recommend the remuneration of Board members in any financial year is based on their attendance and performance and in compliance with Article 188 of the Company Law, which shall be approved by the shareholders;
- (i) recommend the remuneration of the members of the board of directors of Group members; and
- (j) assist the Board in shaping and monitoring the corporate governance policies and practices of the Company and evaluating compliance therewith.

In accordance with the approval of the Central Bank of Bahrain (IFSD/281/2015), matters mentioned from section 1(c) to 1(g) hereabove and section 3 hereafter related to the Remuneration of Approved Persons including those in Control Functions and Material Risk Takers are being dealt with as part of ABC Group similar population and are determined by the Group Remuneration Committee.

2. Nominations, Compensation and Corporate Governance Committee Duties and Responsibilities with regard to Appointments

Board membership – With respect to Board membership:

- (a) the NCCG Committee shall make recommendations to the Board from time to time as to changes the NCCG Committee believes to be desirable to the size of the Board or any committee of the Board;
- (b) whenever a vacancy arises (including a vacancy resulting from an increase in Board size), the NCCG Committee shall recommend to the Board a person to fill the vacancy either through appointment by the Board or through shareholder election;
- (c) in performing the above responsibilities, the NCCG Committee shall consider any criteria approved by the Board and such other factors as it deems appropriate. These may include judgment, specific skills, experience with other comparable businesses, the relation of a candidate’s experience with that of other Board members, and other factors;
- (d) the NCCG Committee shall also consider all candidates for Board membership recommended by the shareholders and any candidates proposed by management;
- (e) the NCCG Committee shall identify Board members qualified to fill vacancies on any committee of the Board and recommend to the Board that such person appoint the identified person(s) to such committee; and
- (f) assuring that plans are in place for orderly succession of senior management.

Officers – With respect to officers, the NCCG Committee shall:

- (a) make recommendations to the Board from time to time as to changes the NCCG Committee believes to be desirable in the structure and job descriptions of the officers including the Managing Director, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed and other relevant matters, including integrity, technical and managerial competence, and experience;
- (b) oversee succession planning to propose replacements of key executives when necessary, and ensure that appropriate resources are available, and seek to minimise reliance on key individuals;
- (c) recommend persons to fill specific officer vacancies including Managing Director considering criteria such as those referred to above; and
- (d) design a plan for succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy.

3. Nominations, Compensation and Corporate Governance Committee Duties and Responsibilities with regard to Remuneration

The NCCG Committee shall consider, and make specific recommendations to the Board on, both remuneration policy and individual remuneration packages for Approved Persons and other Material Risk Takers, as well as the total variable remuneration to be distributed.

The NCCG Committee shall ensure that the remuneration policies and systems (which shall be approved by the shareholder and be consistent with the corporate values and strategy of the Company), in both design and operation, are compliant with the requirements of the HC Module, the Company Law, the constitutional documents of the Company and such other legal and/or regulatory requirements which may from time to time be applicable to the Company. The NCCG Committee is responsible for the governance and oversight of the Company’s compensation policies, systems and processes to ensure appropriate alignment with the Company’s

risk appetite and regulatory obligations.

The remuneration policy of the Company shall cover at least the following.

- (a) The following components:
 - (i) salary;
 - (ii) the specific terms of performance-related plans including any stock compensation, stock options, or other deferred-benefit compensation;
 - (iii) pension plans;
 - (iv) fringe benefits such as non-salary perks; and
 - (v) termination policies including any severance payment policies.
- (b) Policy guidelines to be used for determining remuneration in individual cases, including on:
 - (i) the relative importance of each component noted in clause (a) of this paragraph; and
 - (ii) specific criteria to be used in evaluating an officer's performance.

In reviewing the remuneration systems of the Company, the NCCG Committee shall ensure that such systems include effective controls, including back testing and stress testing of the remuneration policy. The practical operation of the remuneration systems of the Company shall be regularly reviewed for compliance with regulations and internal policies and procedures. In addition, remuneration outcomes, risk measurements and risk outcomes should be regularly reviewed by the NCCG Committee for consistency with Board's approved risk appetite.

The NCCG Committee shall evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain.

The NCCG Committee must ensure that its decisions are demonstrably consistent with an assessment of the Company's financial condition and future prospects.

The NCCG Committee shall evaluate the performance of Approved Persons including those in Control Functions and Material Risk Takers in light of the Company's corporate goals, agreed strategy, objectives and business plans and may consider the Company's performance and shareholder return relative to comparable companies, the value of awards to comparable officers and executives at comparable companies, and awards to the Approved Persons including those in Control Functions and Material Risk Takers in past years. For the avoidance of doubt, the NCCG Committee can involve the Chairman of the Board or other persons approved by the NCCG Committee in the process of evaluating the Managing Director's performance.

The NCCG Committee shall be responsible for retaining and overseeing outside consultants or firms for the purpose of determining the remuneration of Approved Persons including those in Control Functions and Material Risk Takers, administering remuneration plans and/or related matters, except if the Group had already appointed outside consultants or firms for the same purpose.

4. Nominations, Compensation and Corporate Governance Committee Duties and Responsibilities with regard to Corporate Governance Matters

The NCCG Committee shall have the following duties and responsibilities in relation to corporate governance

matters:

- (a) Oversee and monitor the implementation of the governance policy framework by working together with management, the Audit Committee and the Shari'a Supervisory Board;
- (b) Co-ordinate and integrate the implementation of the governance policy framework and oversee directors corporate governance educational activities;
- (c) Review and assess the adequacy of the Company's policies and practices on corporate governance, including any corporate governance guidelines of the Company and any Board meetings policies and recommend any proposed changes to the Board for approval;
- (d) Develop and recommend to the Board changes from time to time to the Company's corporate governance policy framework and guidelines, and review these guidelines at least once a year;
- (e) Review the Company's business practices, particularly as they relate to preserving the good reputation of the Company;
- (f) Develop appropriate criteria and make recommendations to the Board regarding the independence of Directors and nominees as may be necessary or proper;
- (g) Recommend to the Board the number, identity and responsibilities of Board committees and the chairperson and members of each committee. This shall include advising the Board on committee appointments and removal from committees and rotation of committee members and chairpersons;
- (h) Review the adequacy of the charters adopted by each committee of the Board, and recommend changes as necessary;
- (i) Assist the Board in developing criteria for identifying and selecting qualified individuals who may be nominated for election to serve on board of directors of subsidiaries (if any) of the Company;
- (j) Evaluate and recommend to the Board any changes or updates to the Board policy on nomination of Directors to boards of directors of subsidiaries (if any) of the Company;
- (k) Periodically review and recommend to the Board the compensation structure for Board or committee services and other applicable Directors related policies, including retirement and indemnification issues;
- (l) Periodically assess the effectiveness of the Board in meeting its responsibilities, representing the long-term interests of shareholders;
- (m) Report periodically to the Board with an assessment of the Board's performance;
- (n) Perform any other duties and responsibilities expressly delegated to the NCCG Committee by the Board from time to time;
- (o) Provide the Board with reports and recommendations based on its findings in the exercise of its functions;
- (p) Regularly review the time commitment required from each Non-executive Director and shall require each Non-executive Director to inform the NCCG Committee before he accepts any board appointments to another company. Receive notification by the Company's directors of intention to serve on additional outside boards; and

- (q) Ensure the Managing Director discloses to the Board on an annual basis, those individuals who are occupying controlled functions and are relatives of any Approved Persons within the Company.

5. Nominations, Compensation and Corporate Governance Committee's Structure and Operations

The members of the NCCG Committee shall be appointed by the Board from among the directors of the Company.

The NCCG Committee shall have at least three members.

The NCCG Committee shall include only Non-executive Directors of whom, subject to any exemptions that may be obtained from the requirement of the HC Module, a majority are Independent Directors.

All the members of the NCCG Committee shall be independent of the Company's risk taking functions and committees (for the avoidance of doubt, the Board Risk Committee is not a "risk taking" committee for the purposes of this mandate).

The NCCG Committee shall elect one member as its chair, provided that the chair shall be an Independent Director.

Unless the Board otherwise specifies and subject to any earlier termination of office for whatever reason of a member before the expiry of his/her term of office in the NCCG Committee, the term of office of the NCCG Committee shall coincide with the term of office of the Board and the NCCG Committee members shall be appointed for a period equal to the duration of the NCCG Committee.

A meeting of the NCCG Committee shall be valid (and shall be considered to have a quorum) if attended by a majority of the NCCG Committee members. If the chairperson is not present other members will elect a temporary chairperson for that meeting. The recommendations and decisions of the NCCG Committee shall be passed by a majority vote of the members present at a meeting at which a quorum is present and, in the event of an equal vote, the chairperson shall have a casting vote.

The NCCG Committee may invite/request the attendance of the Managing Director or any member of management at a meeting of the NCCG Committee as a non-voting guest in order to clarify any business transacted by such meeting. The NCCG Committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire Board.

The Secretary of the Board shall be the secretary to the NCCG Committee.

The minutes of each NCCG Committee meeting shall be submitted for the information of the Board at the next upcoming meeting of the Board, following such meeting of the NCCG Committee.

6. Nominations, Compensation and Corporate Governance Committee Resources and Authority

The NCCG Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting, search or compensation firms used to identify candidates or evaluate the compensation of directors, the Managing Director or other officers, without seeking the approval of the Board or management. The Company shall provide appropriate funding for the compensation of any such persons.

7. Performance Evaluation

The NCCG Committee shall prepare and review with the Board an annual performance evaluation of the NCCG Committee, which shall compare the NCCG Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the NCCG Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.