



# **CORPORATE GOVERNANCE DISCLOSURES**

---

**AS OF 31 DECEMBER 2019**

---

## CONTENTS

1.	ALUBAF'S CORPORATE GOVERNANCE PHILOSOPHY .....	4
2.	ORGANIZATION STRUCTURE:.....	5
3.	CG'S FRAMEWORK .....	6
4.	PROFILE AND OWNERSHIP STRUCTURE OF THE BANK.....	6
5.	BOARD OF DIRECTORS .....	7
5.1	BOARD COMPOSITION .....	7
5.2	APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS.....	9
5.3	RESPONSIBILITIES OF THE BOARD.....	9
5.4	MEETINGS OF THE BOARD OF DIRECTOR DURING THE YEAR 2019 .....	10
6.	BOARD COMMITTEES.....	10
6.1	AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC) .....	11
6.1.1	COMPOSITION .....	11
6.1.2	RESPONSIBILITIES.....	11
6.1.3	MEETINGS .....	12
6.2	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC).....	13
6.2.1	COMPOSITION .....	13
6.2.2	RESPONSIBILITIES.....	14
6.2.3	MEETINGS .....	16
7.	BOARD ASSESSMENT AND EVALUATION.....	16
8.	MANAGEMENT.....	16
8.1	SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT 17	
8.2	MANAGEMENT COMMITTEES.....	17
8.2.1	ASSET AND LIABILITY COMMITTEE (ALCO).....	19
8.2.2	MANAGEMENT RISK COMMITTEE (MRC) .....	20
8.2.3	HUMAN RESOURCES COMMITTEE (HRCC) .....	20

## CORPORATE GOVERNANCE DISCLOSURES



---

8.2.4	CREDIT AND INVESTMENT COMMITTEE (CIC) .....	21
8.2.5	INSURANCE COVERAGE COMMITTEE (ICC) .....	22
8.2.6	TARIFF AND COMMISSION COMMITTEE (TCC).....	22
8.2.7	SPECIAL ASSET MANAGEMENT COMMITTEE (SAMC).....	22
9.	MATERIALITY AND AUTHORITY LEVELS.....	23
10.	RELATED PARTY TRANSACTIONS .....	23
11.	CODE OF CONDUCT AND CONFLICT OF INTEREST .....	23
12.	COMMUNICATIONS AND DISCLOSURE POLICY .....	24
13.	ANTI-MONEY LAUNDERING .....	25
14.	2019 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS .....	25
15.	REMUNERATION OF EXTERNAL AUDITORS .....	26

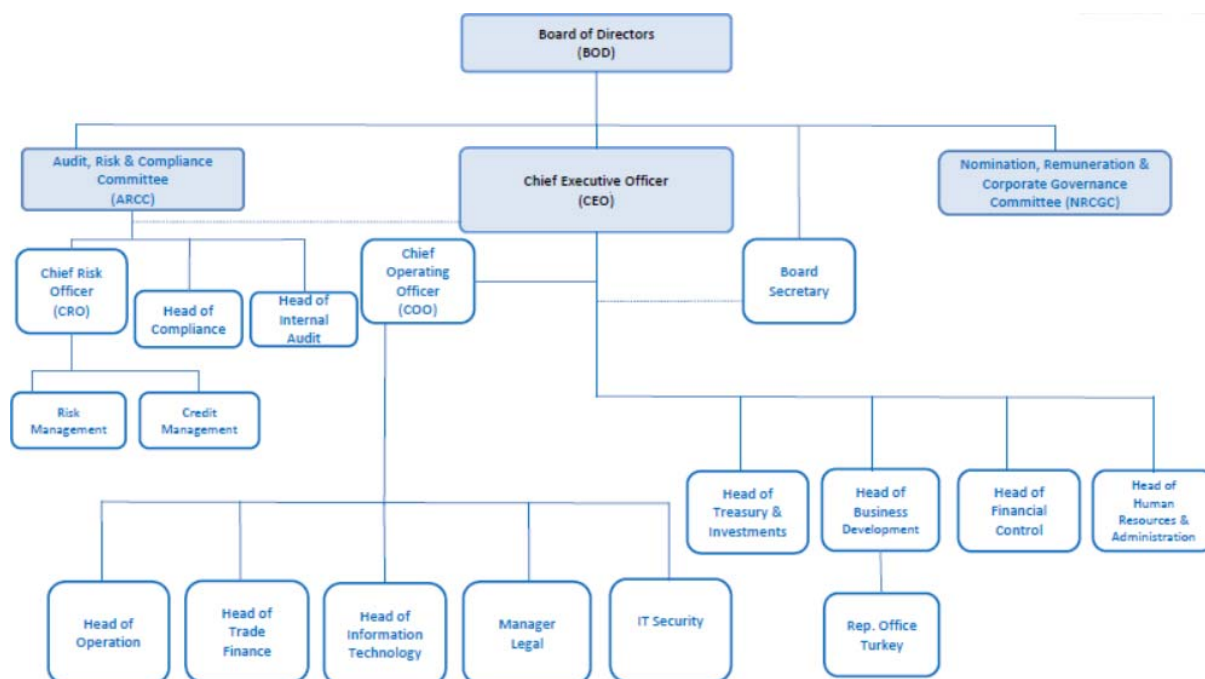
## 1. ALUBAF’S CORPORATE GOVERNANCE PHILOSOPHY

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism (“MOICT”) under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB").

As a Wholesale commercial bank, Alubaf’s corporate governance framework is based on the guidelines of the Corporate Governance Code as introduced by the Ministry of Industry, Commerce and Tourism, the Commercial Companies Law and its Implementation Regulations (“CCL”) and the regulations of the Central Bank of Bahrain (“CBB”) as specified in Volume 1 of its Rulebook - High Level Controls (Module HC).

ALUBAF Arab International Bank B.S.C.(C) (“Bank”) is fully committed to meeting its strategic objectives and achieving solid growth while upholding the highest standards of corporate governance. Such commitment is deeply rooted in its dedication to enhancing its compliance with all the applicable laws, regulations and best industry practices to the ultimate benefit of its shareholders, clients, employees and other stakeholders.

## 2. ORGANIZATION STRUCTURE:



- The Bank's Internal Audit function is independent from the aforementioned functions and reports directly to the ARCC. This department sets out to examine the adequacy and effectiveness of the internal control systems, procedures and to identify areas of deficiency and/or recommend enhancements or corrective measures. The said department reports its findings to the ARCC in accordance with the Board approved Audit Plan.
- The Bank's Compliance function is independent from the aforementioned functions and reports directly to the ARCC. This Department sets out to assess monitoring and testing compliance as well as reporting on a regular basis to senior management. The compliance function has the overall responsibility to manage the compliance risk of the Bank.
- The Bank's Risk Management function is independent from the aforementioned functions and reports directly to the ARCC. It is responsible for establishing the risk management framework in line with the Bank's risk appetite and strategy. It performs reviews on the bank's exposures and monitors compliance of the same with the risk management framework and limits approved by the Board. The unit also performs stress testing on the various risks involved in the Bank's activities..
- The Bank sought the Central Bank of Bahrain approval to amend the Bank's organization structure and to integrate the Risk Management Department and Credit Management Department to be headed by a Chief Risk Officer ("CRO").
- The Bank has appointed the Head of Credit Management Department as a Chief Risk Officer

To carry out their duties efficiently and effectively, the Internal Audit, Risk Management and Compliance functions have the following privileges and authorities:

- To communicate (at any time and on their own initiative) with any staff member and obtain any records or files necessary to enable them to carry out their responsibilities;
- A direct line of communication with the CBB, regulatory authorities and the ARCC; and
- Authority and resources (including engaging external specialists) to initiate and carry out or investigate possible breaches of laws and regulations and plan corrective actions, where necessary.

The Bank also has a Money Laundering Reporting Officer (“MLRO”) in accordance with the regulatory requirements. The MLRO reports directly to the ARCC.

All departments and functions indicated on the approved Organizational Chart are reporting to the CEO.

The Board reviewed the Board Charter, Board Committees’ Terms of Reference, the Corporate Governance framework, and other relevant policies to ensure they stay up to date and relevant.

### 3. CG’S FRAMEWORK

ALUBAF Arab international Bank has an effective, disciplined and transparent management framework developed on strict adherence to corporate governance principles and statutes of its regulator Central Bank of Bahrain. The Board of Directors is responsible for strategic plans, policies and supervision of business performance/operations, overseeing the functions of executive management and ensures to conduct meetings at least four times annually. At the next level, is the executive management team, which is committed in the daily execution of business in compliance with approved policies, plans and regulatory requirements. The bank's external auditors Ernst & Young, conduct final audit and other statutory reviews on AML and quarterly on financials, prudential information reporting and public disclosure to ensure compliance with regulatory requirements."

### 4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK

Name	NATIONALITY	NO. OF SHARES	NOMINAL VALUE (USD)	%
Libyan Foreign Bank	Libyan	4,975,008	248,750,400	99.50
National Bank of Yemen	yemeni	13,768	688,400	0.28
Yemen Bank for Reconstructions and Development	yemeni	11,224	561,200	0.22

As part of disclosure requirements indicated in HC module issued by the CBB, Alubaf presents the following facts:

The Bank's authorized share capital is USD 500,000,000 (United States Dollars five hundred million) divided into 10,000,000 (ten million) shares of USD 50 (United States Dollars fifty) nominal value per share. The Bank's issued and paid up capital is USD 250,000,000 (United States Dollars two hundred and fifty million) divided into 5,000,000 (five million) shares of USD 50 (United States Dollars fifty) nominal value per share.

- *Distribution of Shareholding according to Nationality as of 31 December 2019 is as follows:*

NATIONALITY	NO. OF SHARES	NOMINAL VALUE (USD)	%
Libyan	4,975,008	248,750,400	99.50
Yemeni	24,992	1,249,600	0.50

- *Distribution of ownership according to the percentage of Shareholding :*

NATIONALITY	NO. OF SHARES	NOMINAL VALUE (USD)	%
Libyan	4,975,008	248,750,400	99.50
Yemeni	13,768	688,400	0.28
Yemeni	11,224	561,200	0.22

\* *The abovementioned shareholding structure is based on the issued and paid up capital of the Bank.*

As of 31 December 2019, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2019, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

## 5. BOARD OF DIRECTORS

### 5.1 BOARD COMPOSITION

As per the Bank's Articles of Association, the Bank shall be administered by a Board of Directors comprising of at least five (5) directors and not more than nine (9) directors ("**Directors**"). As of 31 December 2019, the total number of Directors is four (4). The Board of Directors also elects by secret ballot from its Directors a chairman ("**Chairman**"), and a deputy chairman ("**Deputy Chairman**") for its tenure.

In accordance with HC 1.5.2 of the CBB Rulebook, in conventional bank licensees with a controller, at least one third of the Board of Directors must be independent.

In compliance with HC 1.4.8, the Chairman is not an executive director. Furthermore, the CBB Rulebook and Corporate Governance Code also require that the Chairman of the Board of Directors

must be an independent Director. The Bank's Chairman, Mr. Moraja Gaith Solaiman Buhlaiga, complies with this requirement.

As of 31 December 2019, the Bank is in compliance with the aforementioned independence requirements with the following being its composition:

STATUS/CATEGORY	No. of directors	%
Non-Independent / Non-Executive	1	25
Independent / Non-Executive	3	75
<b>TOTAL</b>	<b>4</b>	<b>100</b>

For the financial year ending 31 December 2019, the Bank's Board of Directors was as follows:

Name	Position	Status	Nationality
Mr. Moraja Gaith Solaiman Buhlaiga	Chairman	Independent / Non-Executive	Libyan
Mr. Anthony Constantine Mallis	Deputy Chairman	Independent / Non-Executive	Australian
Mr. Talal Al Zain*	Director	Independent / Non-Executive	Bahraini
Mr. Guima Masaud Salem Kordi	Director	Non-Independent / Non-Executive	Libyan
Mr. Achour Abboud***	Director	Independent / Non-Executive	Algerian
Mr. Abdul Kareem Bucheery**	Director	Independent / Non-Executive	Bahraini

\*Mr. Talal Al Zain has resigned from his position on 29<sup>th</sup> Sep 2019 via approval from the Chairman.

\*\* Mr. Abdul Kareem Bucheery has been appointed as a board member via CBB approval on 7<sup>th</sup> Nov 2019.

\*\*\*Mr. Achour Abboud his membership has been relinquished via board resolution on 12<sup>th</sup> Dec 2019

The majority of the Board's members are independent. To ensure the independency of the members, as per HC-1.4, every director must bring independent judgment to bear in decision-making. No individual or group of directors must dominate the board's decision-making and no one individual should have unfettered powers of decision. The members should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests. Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment.

The full profiles and the Bank's Directors, information on other posts that they hold and their biographies are available in the Annual Report and the website [www.alubafbank.com](http://www.alubafbank.com).

The Board of Directors is supported by its Board Secretary, who provides it with professional and administrative support. The Board Secretary also acts as secretary for the Board of Director's



committees and the General Assemblies. As per HC 1.6.2, the appointment of the Board Secretary is subject to approval of the Board of Directors.

## 5.2 APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS

The appointment of Directors is subject to obtaining the prior written approval of the CBB and comply at all times with the Commercial Company Law and the CBB regulations. The Board of Directors is appointed for a term of three (3) years by the Annual General Assembly, such term being capable of renewal. Appointments of Directors are also subject to Article 175 of the Commercial Company Law for shareholders holding 10% of the share capital or more having the right to appoint representatives on the Board in proportion to the number of members on the Board. The current term of the Board of Directors started in April 2019 and will end in April 2022.

The Directors are generally required to adhere to the Bank's Articles of Association, Commercial Company Law, the Corporate Governance Code, CBB Rulebook, Code of Ethics and Conduct and all applicable laws and regulations. The Bank has written appointment agreements with each Director, which set out the Directors' roles, duties, responsibilities, accountabilities, in addition to other aspects relating to their appointment such as term, the time commitment required, the committee assignments (if any), their remuneration and expense reimbursement entitlement and access to independent professional advice, as and when required.

The Board ensures that each new appointed Director receives all information to strengthen and support his contribution from the commencement of his term, via meetings with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting frameworks, risk management issues, compliance programs, in addition to access to its internal and external auditors and legal counsel.

The Bank's Articles of Association, which incorporate the relevant Commercial Company Law provisions, and the Board of Directors' Charter list all the grounds for termination of membership of the Board of Directors. The General Assembly, via majority vote, has the authority to terminate the membership of some or all of the Board of Directors. This is without prejudice to the rights of shareholders qualifying under Article 175 of the Commercial Company Law to terminate the appointment of any Director they appointed in accordance with the aforementioned Article. Terminations without proper justification or cause may entitle the Director to seek compensation from the Bank.

## 5.3 RESPONSIBILITIES OF THE BOARD

The Board of Directors' role and responsibilities include but are not limited to, the following:

- Establishing the objectives of the Bank;
- Determining the overall business performance, plans and strategy of the Bank;
- Monitoring approved persons performance and their implementation of strategic decisions;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;

- Annual approval of budget and monitoring management performance in relation to the same thereof;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Causing financial statements to be prepared which accurately disclose the Bank's financial position; and
- Setting the 'tone at the top' of the Bank and overseeing compliance with various laws and regulations, including but not limited to, CBB laws and regulations, Commercial Company Law, Corporate Governance Code, Labor Law and other applicable laws and regulations.
- Approve term borrowings bond

Further details of the roles and responsibilities of the Board of Directors are set out in the Board Charter and Articles of Association. These roles and responsibilities are in line with the regulatory requirements contained in the Corporate Governance Code.

#### 5.4 MEETINGS OF THE BOARD OF DIRECTOR DURING THE YEAR 2019

In accordance with HC-1.3 of Volume 1 of the CBB Rulebook, the Board must meet frequently but in no event less than four (4) times a year. The Bank's Board of Directors has exceeded this requirement by meeting six (6) times in the financial year ending 31 December 2019. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year, *except Mr. Achour Abboud who did not attend 75% of the meeting held in the fiscal year.* With reference to HC-1.3.6, the Bank has notified the CBB via letter date 29<sup>th</sup> September 2019.

Dates of Board meetings held during the fiscal year 2019, as follows:

DIRECTOR	DATE OF FISRT APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	DATE OF RESIGNATION	1/2019 18-Feb-19	2/2019 28-Apr-19	3/2019 14-Jul-19	4/2019 15-Sep-19	5/2019 11-Nov-19	6/2019 12-Dec-19
Moraja Gaith Solaiman Buhlaiga	21-Apr-13	29-Jan-13	N/A	✓*	✓	✓	✓	✓	✓
Talal Al Zain	12-Apr-15	14-Apr-15	29-Sep-19	✓	✓	✓*	✓	N/A	N/A
Giuma Masaud Salem Kordi	19-Apr-16	21-Aug-15	N/A	✓	✓	✓	✓	✓	✓
Achour Abboud	18-Jun-17	6-Oct-16	12-Dec-19	✓	×	×	×	×	×
Anthony Mallis	18-Jun-17	9-Jul-17	N/A	✓	✓	✓	✓	✓	✓
Abdul Kareem Bucheery	11-Nov-19	11-Nov-19	N/A	N/A	N/A	N/A	N/A	✓	✓

\* participated by phone / video link

#### 6. BOARD COMMITTEES

In accordance with the Bank's constitutional documents, charters and the requirements set forth by the Corporate Governance Code and CBB regulations, the Board of Directors has delegated specific

responsibilities to a number of Board committees (each a “Committee” and collectively, the “Committees”). Each Committee has its own formal written charter that sets out the roles and responsibilities of its members. The main Committees are as follows:

- Audit, Risk and Compliance Committee (“ARCC”); and
- Nomination, Remuneration and Corporate Governance Committee (“NRCGC”)

## 6.1 AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)

### 6.1.1 COMPOSITION

As of 31 December 2019, the composition of the ARCC is as follows:

Member Name	Member Position	Status
Mr. Abdul Kareem Bucheery*	Chairman	Independent / Non-Executive
Mr. Anthony Mallis	Director	Independent / Non-Executive
Mr. Giuma Masaud Salem Kordi	Director	Non-Independent / Non-Executive

\*Mr. Talal Al Zain has resigned from his position on 29<sup>th</sup> Sep 2019 via approval from the Chairman.

Replaced Mr. Talal Al Zain effective 11<sup>th</sup> December 2019:

### 6.1.2 RESPONSIBILITIES

The mandate of ARCC requires it, among other things, to:

- Assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices;
- Assist the Board in its oversight of the integrity and reporting of the Bank’s quarterly and annual financial statements;
- Review the performance and approve activities, staffing and organizational structure of the internal audit function;
- Oversee the independence and performance of the external auditors as well as recommending the appointment, replacement and compensation of external auditors;
- Review the adequacy and effectiveness of the Bank’s system of financial, accounting and risk management controls and practices;
- Oversee the Bank’s compliance with laws, regulations and supervisory and internal policies;

- Regularly report to the Board about the committee activities and related recommendations and review any reports the Bank issues that relate to the committee responsibility;
- Maintaining oversight of the Bank's internal risk and capital management framework and systems and to review on an annual basis, the effectiveness of its systems;
- Articulating the Bank's risk tolerance against which to compare the amount of capital at risk on a forward-looking basis, as determined by exposures to credit, market, liquidity, operational, concentration, settlement, reputational and business cycle risks;
- Ensuring that senior management continues to take necessary steps to monitor and control the Bank's exposures through appropriate risk assessment and compliance to risk management policies;
- Approve risk management objectives, strategies, policies and procedures that are in line with the Bank's business lines, risk profile and risk appetite and in compatibility with the CBB rules and regulations and review them on annual bases. The Committee's approvals shall be communicated to those who are responsible for the implementation of risk management policies;
- Ensure that the Bank's risk management framework includes methodologies to effectively assess and manage credit, market, liquidity, operational, legal, profit or rate of return, and reputational risks;
- Ensure the existence of clear lines of authority and accountability for managing, monitoring and reporting risks as preformed internally and as required by CBB;
- Ensure that the risk management function has adequate resources and appropriate access to information to enable it to perform its duties effectively;
- Overseeing the compliance function of the Bank;
- The Committee will review the effectiveness of the system for monitoring financial and disclosure compliance with legal and regulatory requirements, and the compatibility with the CBB rules and regulations that will be reviewed on annual bases and the results of management's investigations and follow-up (including disciplinary action) of any fraudulent actions or non-compliance;
- The Committee will ensure that the compliance function is adequately resourced, independent of business lines and is run by individuals not involved in day-to-day running of the various business areas;
- The Committee will ensure controls are instituted to manage the Bank's financial reporting quality and integrity;
- The Committee will ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as ongoing monitoring of accounts and transactions, in keeping with the requirements of relevant regulations and best practice; and
- Review the findings of any examinations by regulatory agencies.
- ARCC Chairman to attend the CBB's Annual Prudential Meeting

### 6.1.3 MEETINGS

The ARCC Charter stipulates that it shall meet at least four (4) times a year. During 2019, the ARCC has complied with this requirement. The dates and attendance details of the ARCC meetings are as follows:

DIRECTOR	1/2019 17-Feb-19	2/2019 27-Apr-19	3/2019 25-Jul-19	4/2019 11-Dec-19
Talal Al Zain	✓	✓ *	✓	N/a
Guima Masaud Salem Kordi	✓	✓	×	✓
Anthony Mallis	✓	✓	✓	✓
Abdul Kareem Bucheery	N/a	N/a	N/a	✓

\* participated by phone / video link

## 6.2 NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

### 6.2.1 COMPOSITION

As of 31 December 2019, the composition of the NRCGC is as follows:

Member Name	Member Position	Status
Mr. Moraja G. Solaiman	Chairman	Independent and Non-executive
Mr. Talal Al Zain*	Director	Resigned effective 29 <sup>th</sup> September 2019; Independent and Non-executive.
Mr. Achour Abboud*	Director	Removed effective 12 <sup>th</sup> December 2019; Independent and Non-executive.

\*Replaced by following members, effective 10<sup>th</sup> February 2020:

Member Name	Member Position	Status
Mr. Guima Masaud Kordi	Director	Non -independent and Non-executive.
Mr. Abdulrazaq Tarhoni	Director	Independent and Non-executive.

## 6.2.2 RESPONSIBILITIES

The mandate of NRCGC requires it, among other things, to:

### Nomination, appointment and board composition

- Ensure a formal and transparent board nomination process is in place.
- Before appointment is made by the board, evaluate the balance of skills, knowledge and experience on the board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the committee shall consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position. The committee shall also consider candidates from a wide range of backgrounds.
- Be responsible for identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise.
- Ensure that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.
- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the board compared to its current position and make recommendations to the board with regard to any changes.

### Succession planning and evaluation

- Give full consideration to succession planning for directors (in particular the chairman and the CEO) and other senior management (such as the direct reports of the CEO). in the course of its work, take into account the challenges and opportunities facing the bank and identify the skills and expertise needed on the board in the future.
- Ensure effective policies and processes are in place for ensuring that executive management have the necessary integrity, technical and managerial competence and experience.
- Recommend to the board the number, identity and responsibilities of board committees and the chair and members of each committee. This shall include advising the board on committee appointments, removal from committees or from the board, rotation of committee members and chairs and committee structure and operations.

### Performance review and assessment

- Ensure effective policies and processes are in place to keep under review the leadership needs of the bank, both executive and non-executive, with a view to ensuring the continued ability of the bank to compete effectively in the marketplace.
- Periodically review the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties.
- Report annually to the board with an assessment of the board's performance.
- Ensure effective policies and processes are in place for effective monitoring and making annual formal evaluations of senior management's performance in implementing agreed strategy and business plans.

- Monitor the orientation and continuing education programs for directors and based on it recommend to the board relevant training for the directors.

### Remuneration

The nomination and remuneration committee shall be responsible for the design, implementation and supervision of the remuneration policy. In particular, the NRCGC shall:

- Design all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the bank. in designing the remuneration policy, the NRCGC shall consider the core remuneration policy of the bank, the business strategy of the bank, the regulatory pronouncements of the central bank of Bahrain and the labour laws of the kingdom of Bahrain;
- obtain approval of the board of directors and subsequently the shareholders on the remuneration policy adopted by the bank;
- ensure that the remuneration for non-executive directors does not include performance related elements such as grants of shares, share options or other deferred stock related incentive schemes, bonuses or pension benefits;
- ensure that the remuneration for officers is structured and that the employee's interest is aligned with the interests of the shareholders. These rewards include grants of shares, share options and other deferred stock related incentive schemes, bonuses and pension benefits which are not based on salary. if an officer is also a director, his remuneration as an officer should take into account, compensation received in his capacity as a director
- approve the remuneration policy and remuneration for each approved person and material risk-taker;
- approve targets and associated risk parameters, and variable pay for achieving the set target for each performance period;
- approve total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
- monitor and review the remuneration system on a regular basis to ensure the system operates as intended;
- undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the bank's solvency and risk profile, and its long term objectives and business goals;
- undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or malus;
- recommend board member remuneration based on their attendance and performance and in compliance with article 188 of the company law;
- determine the policy for, and scope of, pension arrangements for each executive director;
- determine the policy for the disclosure of directors' remuneration; and
- Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.

### Policies and corporate governance

- Review and assess the adequacy of the bank's policies and practices on corporate governance and recommend any proposed changes to the board for approval.
- Review the adequacy of the charters adopted by each committee of the board, and recommend changes as necessary.
- The board shall periodically assess and document, whether the corporate governance processes that it has implemented have successfully achieved their objectives and consequently confirm whether the board itself is fulfilling its own responsibilities.
- The board shall also identify any material deficiencies and problems in the corporate governance processes and draw up action plans and timetables for their correction.
- Develop appropriate criteria and make recommendations to the board regarding the independence of directors.

### 6.2.3 MEETINGS

The NRCGC charter stipulates that it shall meet at least twice (2) a year. During 2019, the NRCGC met only once and did not comply with the minimum required meeting two meetings, due to resignation of one member (Mr. Talal Al Zain) and non-attendance of another member (Mr. Achour Abboud). Subsequently, the Board of directors had terminated the membership of Mr Achour Abboud on 12<sup>th</sup> December 2019. Therefore, new members were nominated to NRCGC on 10<sup>th</sup> February 2020. The date and attendance details of the NRCGC meeting held in 2019 is as follows:

DIRECTOR	1/2019
	17-Feb-19
Moraja Gaith Solaiman Buhlaiga	✓ *
Talal Al Zain	✓
Achour Abboud	✓

\* participated by phone / video link

## 7. BOARD ASSESSMENT AND EVALUATION

The Board and its Committees conduct annual assessments and evaluations on an annual basis. Each Director completes an overall Board assessment form, in addition to each Committee member completing a Committee assessment form. The NRCGC is responsible for reporting the results of the assessments to the Board for appropriate action, where and if required.

## 8. MANAGEMENT



## 8.1 SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT

In accordance with CBB regulations, the positions of the Chairman and Deputy Chairman are segregated from those of the Chief Executive Officer (“CEO”). Furthermore, there is a clear delineation of responsibilities between the aforementioned positions as defined in the Bank’s Articles of Association and Board Charters.

## 8.2 MANAGEMENT COMMITTEES

The Bank as of 31 December 2019 has seven (7) main Management Committees to assist Management in the discharge of its duties and obligations. These Committees each have their own charters to which they adhere to. These Committees are established via Management Resolutions in accordance with the authorities delegated by the Board of Directors. The Board of Directors may recommend the establishment of certain types of Management Committees, as the case may be from time to time. The Board of Directors and/or Management may also establish temporary Committees to deal with specific objectives and dissolve these upon the full discharge of their respective tasks.

Details of the main Management Committees and their memberships as of 31 December 2019 are as follows:

Management Committees	Member Position	Committee Member Position
<b>Asset and Liability Committee (ALCO)</b>	Chief Executive Officer	Head/Chairman
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Chief Risk Officer	Member
	Head of Operations	Member
	Head of Risk Management	Member/Secretary
<b>Management Risk Committee (MRC)</b>	Chief Executive Officer	Head/Chairman
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Chief Risk Officer	Member
	Head of Operations	Member
	Head of Risk Management	Member/Secretary
<b>Human Resource Committee (HRC)</b>	Chief Executive Officer	Head
	Head of Financial Control	Member

Management Committees	Member Position	Committee Member Position
	Head of Human Resources and Administration	Member/Secretary
<b>Credit and Investment Committee (CIC)</b>	Chief Executive Officer	Head
	Head of Financial Control	Member
	Head of Business Development	Member/Secretary
	Head of Risk Management	Non-Voting Member
	Head of Treasury & Investments	Member
<b>Insurance Coverage Committee (ICC)</b>	Head of Financial Control	Head
	Head of Risk Management	Member
	Legal Counsel	Member
	Head of Human Resources & Administration	Member/Secretary
<b>Tariff and Commission Committee (TCC)</b>	Chief Executive Officer	Head
	Head of Business Development	Member
	Head of Financial Control	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member/Secretary
<b>Special Asset Management Committee (SAMC)</b>	Head of Financial Control	Head/Chairman
	Head of Operations	Member
	Chief Risk Officer	Member
	Head of Credit Management	Member/Secretary
	Head of Risk Management	Member
	Legal Counsel	Member

### 8.2.1 ASSET AND LIABILITY COMMITTEE (ALCO)

The mandate of the ALCO requires it, among other things, to:

- Active management of the balance sheet;
- Monitor asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates;
- Review the liquidity pricing framework on a periodic basis;
- Effectively manage the Bank's liquidity requirements (including reviewing the adequacy of liquidity cushion) to meet business needs during normal conditions and during times of stress;
- Review changes in regulatory and economic environments, in terms of their impact on liquidity and capital ratios and recommend appropriate actions or changes in liquidity strategy, systems and internal controls;
- Review the hedging guidelines proposed by the TID as well as hedging instruments, in line with applicable accounting standards;
- Approve currencies in which the TID will deal for undertaking FX transactions;
- Management of foreign exchange risks;
- Within Board approved parameters, develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies in general;
- Ensure that approved limits including, mismatch limits, inter-bank and country limits are reviewed on a regular basis, at least quarterly;
- Review and approve / reject breaches of treasury limits, in accordance with the Delegation of Authority (DoA);
- Review and monitor all aspects of liquidity risk management policy including liquidity risk management metrics, early warning indicators and contingency planning and limits to ensure management of liquidity crisis and CFP;
- Review the Bank's Contingency Funding Plan (CFP) and undertake the operational responsibilities as covered under the CFP.
- Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective;
- Review and approve or reject breaches of ALCO limits
- Review hedging strategy and products such as loan swaps and others as per Bank's DoA;
- Reviewing the various reports such as portfolio performance, Nostro accounts, etc; and;
- Approve assumptions pertaining to IFRS 9 ECL calculations;
- Review the interest rate risk of the Bank and devise strategies to minimize the impact of interest rate risk on the Bank's net worth and earnings;
- Review of reports submitted by TID, RMD, OPD, FCD and other departments and provide guidance as appropriate.

### 8.2.2 MANAGEMENT RISK COMMITTEE (MRC)

The mandate of the MRC requires it, among other things, to:

- Determine key risk areas and adopt risk management practices that contribute to the Bank's objectives;
- Ensure actions required are given appropriate level of sponsorship and supported by adequate resources;
- Increase the awareness level of management and staff on business risks in the Bank;
- Review and recommend to the Board the risk appetite and limits of the Bank;
- Review the Bank's mitigation strategy for all material risks;
- Review and recommend for approval the Bank's risk management framework;
- Review and monitor the capital adequacy of the Bank;
- Evaluate the level and trend of material risks and their impact on capital levels;
- Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc;
- Follow up and implement the recommendations of ARCC / BOD review findings on matters related to risk and financial reporting;
- Approve Operational Risk Framework and monitor the operational risk on ongoing basis;
- Review and approve the stress test scenarios of the Bank and ensure that they cover all material risks faced by the Bank, review stress testing results and recommend action plan to ARCC and Board to manage stress events;
- Assess future capital requirements based on the bank's risk profile and strategic plan and recommend changes to strategic plan to Board;
- Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks;
- Review and approve entities deemed to be material to the Bank and review Step-In risk assessment for such entities.
- Approve assumptions pertaining to IFRS 9 ECL calculations.
- Review other major risk concentration as deemed appropriate.

### 8.2.3 HUMAN RESOURCES COMMITTEE (HRCC)

The mandate of the HRC requires it, among other things, to:

- Review and recommend changes to HR policy as appropriate;
- Review regularly and recommend Bank's executive/staff development for senior management positions, including performance and skills evaluation, training and succession planning;
- Recommend the bonus and other incentive distribution mechanism for staff below the level of managers to the NRCGC;

- Review matters relating to executive management succession and executive organization development;
- Resolve staff disciplinary matters as per Bank's HR Policy; and
- Prepare periodic reports for the NRCGC and the Board regarding the above items.

#### 8.2.4 CREDIT AND INVESTMENT COMMITTEE (CIC)

The mandate of the CIC requires it, among other things, to:

- To structure the details of all facilities either prior to or following the approval of counterparty/ facility limits by delegated authority
- To implement the board credit risk strategy by managing the credit policies and procedures for identifying, measuring, monitoring and controlling credit risk within the bank;
- To review changes to the credit policy and recommend changes as appropriate to the Board of Directors for approval;
- Consider existing risk appetite of the Bank, strategic objectives with regards to servicing customers and geographies, desirable pricing, country, product, sector and concentration limits, provisioning policy, adequacy of collateral, customer relationships and repayment history;
- Review information presented by both the credit initiator, CD and RMD prior to making a decision;
- Meet to discuss issues highlighted by the CD and RMD regarding on-going performance of problem credits and assess adequacy of provisions;
- Monitor on-going risk profile of the Bank in aggregate and by individual business/economic sectors and geographic concentrations and concentration to a single borrowing entity;
- Review of all applications rejected by any delegated authority within the Bank (list of such facilities to be presented by business lines) in order to review enhancements in the Policy suggested by business lines, if required;
- Propose measures to remedy any counterparty limit breaches highlighted by the RMD;
- Evaluate and approve all new loan proposals as per DOA;
- Review and comment on introduction of new products by various business lines as per the DOA;
- Assess all guarantee facilities and ensure approval as per DOA;
- Review all rejected deals of any type of facility with its valid justifications;
- Review and initiate action on non-performing assets, provisions, and write-offs, customer covenant breaches;
- Review problematic credit exposure with expeditiously to minimize credit loss and maximize recoveries;
- The CIC shall have oversight for making the most appropriate investments and in adhering to the suitable procedures for selection of the investment opportunity, instrument or product;
- Review the application for renewal or amendment of various Counterparty limits and provide appropriate comments;
- Review and approve the investment deal proposals on HTM and AFS portfolios;

- Approving all types of loan transactions as per the DoA ;
- Approving the funding for deals; and
- Recommending action to be taken on customer covenant breaches, restructuring of loans.

### 8.2.5 INSURANCE COVERAGE COMMITTEE (ICC)

The mandate of the ICC requires it, among other things, to:

- Provide guidance and counsel on insurance related matters to the Bank's management;
- Review, assess and recommend a full "Bankers Blanket Bond Insurance" that covers all types of insurances;
- Review and evaluate the adequacy and suitability of the Bank's Insurance;
- Review and recommend proposals for staff's health insurance and life insurance with abroad coverage; and
- Review and evaluate insurance-related products and services that may be offered to the Bank, and make recommendations to the Bank's management as appropriate.

### 8.2.6 TARIFF AND COMMISSION COMMITTEE (TCC)

The mandate of the TCC requires it, among other things, to:

- Review the bank's tariffs and commissions;
- Set country pricing limit for LC refinance and discount;
- Review other applied charges by the bank; and
- Ensure the bank maintain completed terms and conditions.

### 8.2.7 SPECIAL ASSET MANAGEMENT COMMITTEE (SAMC)

The mandate of the SAMC requires it, among other things, to:

- To take over the responsibility for handling customer accounts which is over 90 days past due;
- Initiate suspension of credit facilities to accounts transferred from CAU;
- To explore all possible avenues including engagement of external debt collection agencies to enhance collection;
- Initiate and follow-up on collateral realization procedures where approved;
- Responsible for developing strategies for handling the classified assets in order to prevent losses and maximize recovery, and to ensure their implementation.
- Liaising with other departments in gathering the required data for formulating remedial strategy for NPA cases.
- Based on account history, call logs and visit reports or if the account crosses 180 days past due decide on whether the account should be restructured/payments rescheduled or whether legal action should be pursued;

- To report to CEO and ARCC periodically and obtain their approval if any legal action is to be taken; and
- To monitor restructured accounts over twelve month cooling off period and transfer of account ownership to CAU following cooling off period.
- Providing recommendations to the CIC on provisioning for NPAs.
- Reviewing the list of NPAs which are eligible for moving off-balance sheet (off-loading)
- Reviewing the list of facilities which are being proposed for write-off

## 9. MATERIALITY AND AUTHORITY LEVELS

The materiality level for transactions that require Board approval varies for different activities and is governed by pre-approved exposure levels delegated by the Board which are contained in various policy and procedure documents as well as the Delegation of Authority. Transactions exceeding the approval authorities granted to the CEO or CIC must be approved by the Board.

## 10. RELATED PARTY TRANSACTIONS

In general, the Bank has proper credit due diligence procedure for all type of facilities or exposures. Related party transactions relating to Directors must be approved by the Board. Details of related party transactions are set out in Note 24 of the Financial Statements.

The Bank's major related party transactions are generally with its majority shareholder/controller and/or its affiliate companies. The Board of Directors ensures that all related party transactions are entered into on an arm's length basis and are to further the interests of the Bank.

## 11. CODE OF CONDUCT AND CONFLICT OF INTEREST

The Bank has adopted a Code of Conduct and Ethics ("**Code of Ethics and Conduct**"), in addition to other internal policies and guidelines, which are applicable to Directors, Management and other staff. These documents are designed to establish best practices and incorporate all regulatory and legal requirements governing the Bank's operations for the aforementioned parties to follow in the fulfillment of their responsibilities and obligations towards the Bank's stakeholders.

The Code of Conduct and Ethics contains rules on conduct, ethics and on avoiding conflicts of interest, and is applicable to all employees and Directors of the Bank. The Board approved Code of Conduct and Ethics is published on the Bank's website.

The Bank requires its Directors and Approved Persons to issue an Annual Declaration of Conflict of Interest statement. Additionally, as per the Board Appointment Agreements, each Director has the responsibility to disclose any material interests relating to business transactions and agreements and the privilege of accessing to independent professional advice in this regard if required. During 2019 there were no materially significant transactions entered into that may have potential conflict of interest with the interest of the Bank and no disclosures in this regard were accordingly made.

The Bank has also set up a whistle-blowing framework to enhance good governance and transparency within the Bank. The Bank is committed in maintaining the highest possible standards of ethical and legal conduct while conducting its operations.

The Bank has a whistle-blowing manual with designated officials whom the employee can approach.

The policy provides adequate protection for the employees for any reports made in good faith. The Bank's Audit, Risk and Compliance Committee oversees this policy.

The whistle-blowing manual is published on the Bank's share drive.

## 12. COMMUNICATIONS AND DISCLOSURE POLICY

In compliance with CBB regulations under PD Module of Volume 1 of CBB Rulebook, the Bank has a Board approved Public Disclosure Policy ("**Disclosure Policy**") that governs the disclosure of material information relating to its activities to various stakeholders of the Bank.

The Disclosure Policy applies to all modes of communication to the public including written, oral and electronic communication. These disclosures are made on a timely basis and subject always to the requirements stipulated in the applicable laws and regulations. Disclosures include, but are not limited to, the following:

- Annual and quarterly results;
- Annual Report publication and filing;
- Basel II (Pillar 3) related disclosures;
- Chairman and/or Board of Director reports;
- Corporate governance disclosures;
- Shareholder communication, including invitations to General Assembly Meetings, proxy forms, agendas and supporting materials;
- Communication with regulatory authorities;
- Press releases, announcements and presentations; and
- Matters included on the Bank's website.

The Bank maintains a website at [www.alubafbank.com](http://www.alubafbank.com), which includes information of interest to various stakeholders, such as the Annual Reports and reviewed quarterly financials of the Bank, covering the minimum periods prescribed by the applicable regulations.



### 13. ANTI-MONEY LAUNDERING

The Bank's Anti-Money Laundering Policy (“**AML Policy**”) intends to ensure that the Bank has a comprehensive framework of policies and procedures including best practice standards for combating money laundering and terrorist financing. The policies and procedures are established to prevent the Bank's operational activities from being utilized by others for unlawful purposes.

The Bank's AML Policy prohibits and actively prevents money laundering, in addition to any activities that facilitate money laundering or funding of terrorist or criminal activities. This is accomplished by ensuring compliance with the AML laws and regulations of the jurisdiction in which it undertakes business activities and in accordance with its internal Compliance framework.

The Bank is committed to providing periodic training and information to ensure that all employees are aware of their responsibilities under the CBB and AML laws and regulations in the Kingdom of Bahrain. The Bank provides annual up to date AML training for its staff designed to cater to the Bank's activities and its differing types of customers and jurisdictions.

### 14. 2019 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module in Volume 1 of CBB Rulebook with reference to the disclosure of the non-compliance events “Comply or Explain Principle”, which stipulates the need to set out the instances of non-compliance and provide clarification on the same, the Bank wishes to clarify the following:

- Since one of the Board of Directors did not attend (four out of six) Board meetings held during the year 2019, the Bank is not in compliance with HC-1.3.4. This regulation requires that individual board members must attend at least 75% of all board meetings in a given financial year to enable the Board to discharge its responsibilities effectively.
- The Bank's Audit, Risk and Compliance Committee (“**ARCC**”) consist of three board members of which one is non-independent director. HC-6.6.14 requires the board risk committee to be composed of at least three independent directors and accordingly, the Bank is not in compliance with HC-6.6.14.

Central Bank of Bahrain (CBB) Penalty Disclosure: As per rule PD-1.3.37, the bank is in compliance with CBB rules and regulation and did not pay any penalties during 2019.

## 15. REMUNERATION OF EXTERNAL AUDITORS

In 2019, the Bank has paid its external auditors, Messers Ernst & Young, a total of USD 141,000 for audit and other audit related services fees. These services include year-end audit, prudential information return reviews, quarterly reviews, anti-money laundering review, sound remuneration reviews and public disclosures reviews. Messers Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the financial year ending 31 December 2019. The ARCC has recommended the appointment of Ernst & Young and a resolution proposing their re-appointment will be presented at the Annual General Assembly meeting, which will be held in 15<sup>th</sup> March 2020.

The breakdown of audit and other non-audit related services fee paid to the external auditor is as follows:

TYPE OF SERVICE	2019	2018
	USD'000	USD'000
Audit and other audit related service fees	141	139
Non-audit service fees	-	25
<b>Total</b>	<b>141</b>	<b>164</b>