

# Corporate Governance Disclosures

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## 1 GOVERNANCE

ALUBAF Arab International Bank ("the Bank") is committed to uphold the highest standard of corporate governance. The Board of Directors and management are fully committed to complying with established corporate governance and compliance with best practices in the Kingdom of Bahrain. This reflects the Bank's commitment to enhancing corporate governance, financial transparency and fairness in the disclosure of financial information for all stakeholders.

The Bank has endeavored to comply with the requirements of the Corporate Governance Code introduced by the Ministry of Industry and Commerce (MOIC) of Kingdom of Bahrain on March 2010 and the Central Bank of Bahrain's (CBB) Rulebook Module - High Level Controls (Module HC) effective from 1 January 2011.

According to the Bank charter and the requirements set forth by the Code of Corporate Governance of the Kingdom of Bahrain, the Board has delegated specific responsibilities to a number of Board and Management Committees. Each Committee has its own formal written charter. The main Committees are:

1. Board of Directors Committees:
  - Audit, Risk & Compliance Committee (ARCC); and
  - Nomination & Remuneration Committee (NRC).
2. Management Committees:
  - Asset and liability Committee (ALCO);
  - Management Risk Committee (MRC); and
  - Human Resource and Compensation Committee (HRCC).

## 2 INDEPENDENCE AND AUTHORITY

Audit, Risk and Compliance maintain separate positions in order to ensure its independence. This ensures independent and objective monitoring and reporting of functions to senior Management and the Board. In this respect, the Audit, Risk and Compliance exercises direct access to the Audit, Risk & Compliance Committee (ARCC).

Furthermore, the independence of functions are maintained by requiring the respected staff to, perform only Audit, Risk and Compliance related responsibilities and not involving in any activities where there may be a probability of conflicts of interest. Audit and Compliance staff report directly to the Head of Department and are not involved by any means in the day-to-day business activities.

To carry out its duty both efficiently and effectively, the Audit and Compliance functions have the following privileges and authorities:

- To communicate (at any time and on its own initiative) with any staff member and obtain any records or files necessary to enable it to carry out its responsibilities;
- A direct line of communication with CBB, supervisory authorities and the Audit, Risk & Compliance Committee (ARCC); and
- Authority and resources (to include engaging outside specialists) to initiate and carry out / investigate possible breaches of laws and regulations and plan corrective actions, in case of exceptions.

The compliance function is also independent of the Internal Audit Department. To promote independency and objectivity of the functions, a separate audit programme covering the activities of the compliance function is undertaken by the Internal Audit department as part of its review.

## Corporate Governance Disclosures continued

### 3 SHAREHOLDERS

The Bank is majority owned by Libyan Foreign Bank (LFB) by 99.50%, a Bank registered in Libya and 100% owned by the Central Bank of Libya.

The shareholding structure of the Bank as at 31st December 2013:

Name of Shareholder	Percentage Shareholding	Nationality
Libyan Foreign Bank	99.50%	Libyan
National Bank of Yemen	0.28%	Yemeni
Yemen Bank for Reconstruction & Development	0.22%	Yemeni
<b>Total</b>	<b>100%</b>	

As of 31<sup>st</sup> December 2013, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

### 4 THE BOARD OF DIRECTORS

#### 4.1 Responsibilities of the Board

The Board of Directors is responsible for the overall business performance and strategy of the Bank. The Board's role and responsibilities include but are not limited to:

- Establishing the objectives of the Bank;
- Monitor management performance;
- 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;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Monitoring the implementation of strategy by management; and
- Causing financial statements to be prepared which accurately disclose the Bank's Financial position.
- The Board sets the 'tone at the top' of the Bank, and has a responsibility to oversee compliance with various laws and regulations, such laws involve Bahrain Bourse law, the Labour Law, the Commercial Companies Law and Central Bank of Bahrain rules and regulations.
- The Board shall ensure that processes are in place for maintaining the integrity and reputation of the Bank including Compliance with the laws, rules, regulations and internal policies governing the business of Bank.
- Review of internal control, processes & procedure is carried out by Internal Audit Department.

#### 4.2 Composition of the Board

For the Financial year of 2013, the Bank's Board of Directors composition is as per the following:

Board Members	Position	Type of Membership	Nationality	Appointment Date	Re-appointment Date
Mr. Moraja Gaith Solaiman	Chairman	Independent	Libyan	1-Nov-12	-
Mr. Suleiman Esa Al Azzabi	Deputy Chairman	Independent	Libyan	26-Oct-08	6-Jun-11
Mr. Ali Makhzum Ben Hamza	Director	Non-Executive	Libyan	7-Jul-04	6-Jun-11
Mr. Seyfullah Asaad Salim	Director	Non-Executive	Libyan	16-Aug-07	6-Jun-11
Mr. Fathi Ahmed Yahia	Director	Non-Executive	Libyan	1-Nov-12	-



#### 4 THE BOARD OF DIRECTORS (continued)

##### 4.3 Activities of the Board

As per CBB Rulebook, High-Level Control Module, section HC-1.3; the Board must meet frequently but in no event less than four times a year. Additionally, as per the Nomination and Remuneration Committee charter the committee shall meet at least twice a year, and as per the Audit, Risk and Compliance Committee charter the committee shall meet at least four times a year. During the year 2013, the Board met six times. In addition, Audit, Risk and Compliance Committee (ARCC) has met four times and Nomination & Remuneration Committee (NRC) has met four times.

The dates and attendance details of the Board meetings are given below:

Date & Location of Meeting	Names of Directors present	Names of Directors not present
1. 29 January 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	Mr. Suleiman Esa Al Azzabi
2. 22 April 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE
3. 17 June 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE
4. 2 September 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE
5. 10 October 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE
6. 8 December 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE

## Corporate Governance Disclosures continued

### 4 THE BOARD OF DIRECTORS (continued)

#### 4.3 Activities of the Board (continued)

The dates and attendance details of the Audit, Risk & Compliance Committee (ARCC) meetings are given below:

Date & Location of Meeting	Names of Directors present	Names of Directors not present
1. 28 January 2013 Held in Kingdom of Bahrain	Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim	Mr. Suleiman Esa Al Azzabi
2. 16 June 2013 Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim	NONE
3. 1 September 2013 Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim	NONE
4. 7 December 2013 Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi Mr. Ali Makhzom Ben Hamza Mr. Seyfullah Asaad Salim	NONE

The dates and attendance details of the Nomination and Remuneration Committee (NRC) meetings are given below:

Date & Location of Meeting	Names of Directors present	Names of Directors not present
1. 21 January 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Seyfullah Asaad Salim Mr. Ali Makhzom Ben Hamza	NONE
2. 18 April 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Seyfullah Asaad Salim Mr. Ali Makhzom Ben Hamza	NONE
3. 12 June 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE
4. 2 December 2013 Held in Kingdom of Bahrain	Mr. Moraja Gaith Solaiman Mr. Seyfullah Asaad Salim Mr. Fathi Ahmed Yahia	NONE

*As per Board resolution, Mr. Fathi Ahmed has been appointed in the NRC replacing Mr. Ali Hamza.*

## 4 THE BOARD OF DIRECTORS (continued)

### 4.4 Evaluation of the Board

#### 4.4.1 Appointment of Directors

As per the Bank Article of Association, the Bank shall be administered by a Board of Directors comprising not less than 3 Directors and not more than 9 Directors, appointed at the Annual General Meeting by secret ballot. The Board is appointed for a term of three years commencing on the date of the previous Board election. The appointment of the Board of Directors shall be based on the provision of Bahrain Commercial Company Law. The Board shall elect by secret ballot from its Directors, a Chairman and Deputy Chairman for the tuner of the Board. Board members adhere to Bank's Article of Association, the Corporate Governance Code of Conduct and all applicable laws and regulations. Additionally, the Bank's Article of Association lists all the situations which results of the Board member service termination, such as the Director failure to attend four consecutive meetings of the Board without lawful excuse.

A necessarily information is provided to the directors subsequent to their appointment. The Board ensures that each new appointed Director receives all information to ensure his contribution to the Board from the commencement of his term, including meeting with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

The Bank has a written appointment agreement with each Director, which recites the Directors' roles, duties, responsibilities and accountability, in addition to other aspects relating to their appointment including their terms, the time commitment envisaged, the committee assignments (if any), their remuneration & expense reimbursement entitlement, and access to independent professional advice as required.

#### 4.4.2 Assessment of the Board

The Bank's Board mandate requires that the Board conducts an evaluation of its performance, including:

- An assessment of the Board's operation;
- Completion of self-assessment questionnaire by each member;
- Review of the self-assessment undertaken;
- Bank's strategies and risk assessments;
- Reviewing each Director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making;
- Observation of stakeholders on the Bank's corporate governance performance; and
- Current and emerging trends and factors.

Board of Directors have conducted an independent self-assessment related to 2012, and the results have been forwarded to shareholders during the Annual General Meeting held on 21st April 2013. The Board of Directors have conducted the same exercise during 2013 and the findings of the report will be submitted to the shareholders during the next Annual General Meeting.

## Corporate Governance Disclosures continued

### 5 BOARD COMMITTEES

The Board has two committees namely the Audit, Risk & Compliance Committee (ARCC) and Nomination & Remuneration Committee (NRC). The ARCC consists of three members and NRC includes two members. All members of the committees are board members. In accordance with the CBB's rulebook (Volume 1), the majority members of Board committees should be independent directors.

The compositions of the Board Committees as of 31<sup>st</sup> December 2013 are:

Board Committees	Member Name	Member Position	Independent
			Non-Independent
Audit, Risk & Compliance Committee (ARCC)	Mr. Suleiman Esa Al Azzabi	Chairman	Independent
	Mr. Ali Makhzom Ben Hamza	Director	Non-Independent
	Mr. Seyfullah Asaad Salim	Director	Non-Independent
Nomination & Remuneration Committee (NRC)	Mr. Moraja Gaith Solaiman	Chairman	Independent
	Mr. Seyfullah Asaad Salim	Director	Non-Independent
	Mr. Fathi Ahmed Yahia	Director	Non-Independent

#### 5.1 Audit, Risk & Compliance Committee (ARCC)

The mandate of the Audit, Risk & Compliance Committee 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 / 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;
- Review the findings of any examinations by regulatory agencies;

## 5.2 Nomination & Remuneration Committee (NRC)

The mandate of the Nomination & Remuneration Committee requires it, among other things, to:

- Ensure a formal and transparent Board nomination process is in place;
- Give full consideration to succession planning for directors (in particular the Chairman and the Chief Executive Officer) and other senior management (such as the direct reports of the Chief Executive Officer);
- Ensure effective policies and processes are in place for ensuring that executive management have the necessary integrity, technical and managerial competence and experience;
- 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;
- Determine and agree with the Board the framework or broad policy for the remuneration of the directors, the Chief Executive Officer and senior management;
- 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; and
- Review the adequacy of the charter adopted by NRC committee of the Board, and recommend changes whenever necessary;



## Corporate Governance Disclosures continued

### 6 MANAGEMENT COMMITTEES

There are three management level committees namely Asset and liability Committee (ALCO), Management Risk Committee (MRC), and Human Resource and Compensation Committee (HRCC).

The Management Committee members are:

Management Committees	Member Position	Committee Member Position
Asset and Liability Committee (ALCO)	Chief Executive Officer	Head
	Deputy Chief Executive Officer (Business Development, Trade Finance, Treasury & Investment)	Deputy Head
	Senior Deputy Chief Executive Officer	Member
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Risk Management and Compliance	Member
Management Risk Committee (MRC)	Head of Operations	Representative
	Chief Executive Officer	Head
	Senior Deputy Chief Executive Officer (Financial Control, Information Technology, Operations)	Deputy Head
	Deputy Chief Executive Officer	Member
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Operations	Member
Human Resource and Compensation Committee (HRCC)	Head of Treasury & Investments	Member
	Head of Risk Management and Compliance	Representative
	Chief Executive Officer	Head
	Senior Deputy Chief Executive Officer	Member
	Deputy Chief Executive Officer	Member
	Head of Human Resources and Administration	Member

#### 6.1 Asset and Liability Committee (ALCO)

The mandate of the Asset and Liability Committee requires it, among other things, to:

- Active management of the balance sheet;
- Effectively manage the Bank's liquidity requirements to meet business needs during normal conditions and during times of crisis;
- Monitor asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates;
- 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;
- Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective;
- Review and monitor all aspects of liquidity policy including contingency planning and limits to ensure management of liquidity crisis;
- Review and approve or reject breaches of ALCO limits; and
- Review of reports submitted by Risk and Compliance Department.

## 6.2 Management Risk Committee (MRC)

The mandate of the Management Risk Committee 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 tolerance of the Bank;
- Review the Bank's mitigation strategy for key risks;
- Review and recommend for approval the Bank's risk management framework;
- Review the capital adequacy of the Bank's capital from regulator's perspective;
- Review and assess the adequacy of the risk measurement methodologies;
- Review and assess various internal limits and make specific recommendations with respect to Economic Risk Capital, market risk limits, ALM limits, etc;
- Review other major risk concentration as deemed appropriate; and
- Approve Operational Risk framework and monitor the risk on ongoing basis.

## 6.3 Human Resources & Compensation Committee (HRCC)

The mandate of the Human Resources & Compensation Committee requires it, among other things, to:

- Review regularly and recommend Bank's executive/staff development for senior management positions, including performance and skills evaluation, training and succession planning;
- Develop, review and recommend the Bank's executive/staff compensation;
- Determine the bonus and other incentive;
- Review matters relating to executive management succession and executive organization development;
- Manage the administration function of the Bank's; and
- Prepare periodic reports for the Board regarding the above items.

## 7 APPROVAL AUTHORITY STRUCTURE

The materiality level for transactions that require Board approval varies for different activities and is governed by the Board approved Delegation of Authority document and Credit Facility Approval Authority Matrix.

- In addition, as per the Bank Board Charter, decisions made by the Board, other than those made at Annual General Meetings and Extraordinary General Meetings may be made through circulation. The Board's decisions shall be considered by a vote of the majority of the attending members or in accordance with regulatory requirements. In case of equality of votes, the Chairman of the Board shall have the casting vote. The dissenting member may record his/her dissent. In all such cases: The secretary shall ensure and confirm circulation of necessary information and documentation; and
- A decision through circulation will not be valid unless approved by majority.

Furthermore, the Bank has a proper credit due-diligence procedure for all type of facilities/exposures either with a related party or non-related party.

## Corporate Governance Disclosures continued

### 8 CODE OF CONDUCT AND CONFLICT OF INTEREST

The Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices to fulfill their responsibilities and obligations towards the Bank's stakeholders in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Code of Conduct is documented, published and communicated throughout the Bank. The Bank has an annual declaration of Conflict of Interest statement for Board members and approved persons. During 2013 no issues arised related to the conflict of interest. Additionally, as per the Board appointment agreement each director has the responsibility to disclose any material interest related to business transactions and agreements and gave them the privilege of accessing to independent professional advise if required. The Bank's website also contains the Board approved Code of Conduct.

The Bank set up a Whistle-blowing framework that enhances 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.

### 9 COMMUNICATIONS

In compliance with CBB regulations under PD Module of the Volume 1 of CBB Rulebook, the Bank has a Board approved public disclosure policy that discloses material information about 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 communications. These disclosures are made on a timely basis in a manner required by applicable laws and regulatory requirements.

Management seeks to respond to shareholders' questions and concerns on a prompt basis, subject to the limitations imposed by law and the confidentiality of certain information. The Bank maintains a website at [www.alubafbank.com](http://www.alubafbank.com), which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report and reviewed quarterly financials of the Bank and other relevant information.

### 10 ANTI-MONEY LAUNDERING

The Bank's anti money laundering (AML) policy intended 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 anticipated to prevent the Bank's operations activities from being used by others for unlawful purposes.

The Bank's policy prohibit and actively prevent money laundering and any activity that facilitate money laundering or funding of terrorist or criminal activities by complying with the AML laws and regulations of the jurisdiction in which it undertakes business activities and as per compliance program.

The Bank committed to provide periodic training and information to ensure that all affected employees are aware of their responsibilities under the AML law and Central Bank of Bahrain regulation. The Bank provides up to date AML training for relevant staff that is appropriate to the Bank's activities and its differing types of customers.

## 11 REMUNERATION DISCLOSURES

In January 2011, the Central Bank of Bahrain issued its corporate governance principles "Principle to remunerate approved persons fairly and responsibly" which set out the CBB's principle regarding remuneration of senior management and Board of Directors.

The Board Nomination and Remuneration Committee is responsible to enforce remunerations principle. The required disclosure by this principle is as follows:

The Bank employed 51 members of staff as at 31st December 2013 (2012: 41 staff). The remuneration to Board of Directors and staff, including staff salaries are as follows:

Staff costs:	2013 US\$ '000	2012 US\$ '000
Salaries	3,458	2,220
Remuneration of Board of Directors	877	577
Remuneration of Executive Management	805	436
Remuneration of Staff	684	464

Based on mentioned principle, it is required to disclose certain qualitative and quantitative remuneration items.

Governance of all matters related to remuneration within the Bank is held with Board committee at Nomination and Remuneration committee.

The committee is composed of the independent chairman, and one director who is regarded as being non independent. The committee members possess the necessary skills to exercise the appropriate judgment.

The Nomination and Remuneration committee has acted as per Bank approved Nomination and Remuneration committee charter by the Board of Directors and assisted by a management committee of Human Resource & Compensation Committee of which chaired by the Chief Executive Officer and membership of the Senior Deputy Chief Executive Officer and Deputy Chief Executive Officer as well as it has a membership of the Head of Human Resources & Administrations to provide recommendations to reward the Bank staff.

The Bank has in place performance award schemes for the benefit of its staff. The scheme with rewards is closely linked to the Bank strategic achievements and long term return on shareholders funds, with also certain non-financial performance metrics (such as risk management & internal audit are assessed based on individual performance) being taken into account.

Performance awards under the policy qualify as remuneration. Directors, Executive Management and staff Performance awards are payable in first quarter following the year to which the reward relates.

## Corporate Governance Disclosures continued

### 11 REMUNERATION DISCLOSURES (continued)

Additionally, as per the Board charter, the Board, based upon the recommendation of the Nomination and Remuneration Committee and subject to the laws and regulations, determines the form and amount of Director Compensation. The Committee shall conduct an annual review of director compensation. Furthermore, as per the Bank's Article of Association, the General Assembly may prescribe the remuneration of the members of the Board of Directors, provided that total of such remuneration shall not exceed ten percent (10%) of the net profit in any one financial year after allowing for the transfer to legal reserves and after allowing for the distribution to the shareholders of a dividend totaling not less than five percent (5%) of the capital of the company.

The calculation of Performance awards for Individual is undertaken annually and is linked to five factors:

- 1) Individual Role level;
- 2) The Bank return on equity;
- 3) Assessed individual performance;
- 4) Assessed compliance with the Bank's documented core standards of conduct; and
- 5) The Bank's performance against the business plan prepared before the commencement of the year to which it relates.

The policy requires to identify relevant senior executives and designate them as "Approved Persons". The remuneration applies to thirteen senior executives of the Bank as per the Bank policy including all members who have served on the management committees.

The Bank had 51 employees as of 31st December 2013 (41 employees, December 2012) who are to be eligible for performance awards in respect of their service during 2013. The cost of performance awards payable to staff in respect of 2013 was US\$ 1,489 thousand of which US\$ 805 thousand allocated to the thirteen approved persons and US\$ 684 thousand was in respect of other staff (US\$ 900 thousand of which US\$ 436 thousand allocated to the twelve approved persons and US\$ 464 thousand was in respect of other staff in December 2012).

The Bank policy for annual salary comprise of 13 months basic salaries and the Bank did not offer any shares incentive plan or any other rewards.

### 12 REMUNERATION TO EXTERNAL AUDITORS

In 2013, the Bank has paid its external auditors, Messers Ernst & Young, US\$ 69 Thousand for audit and other audit related service fees (included prudential information reports reviews, quarterly reviews, anti money laundering review, public disclosures reviews). Messers Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the Financial year ending 31st December 2014. The non audit services and other advisory services provided by the external auditors amounts to US\$ 42 Thousand.

The Audit Risk Compliance Committee (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 on 28 April 2014.

Break down of audit fee and other non-audit related services fee paid to external Auditors is given below:

	2013 US\$ '000	2012 US\$ '000
Audit and other audit related service fee	69	56
Non Audit services fee	42	32
<b>Total</b>	<b>111</b>	<b>88</b>



### 13 FINANCIAL YEAR 2013 COMPLIANCE ENHANCEMENT UNDERTAKEN

The effort has continued to ensure the Bank compliance with all CBB rules and regulations, corporate governance standards and best practices.

During 2013, the Board Nomination and Remuneration Committee (NRC) has undertaken an assessment evaluating each member of the Board member and will provide its recommendations to shareholders at the Annual General Meeting (AGM). The assessment measures how the Board operates, evaluate the performance of each committee in light of its purposes and responsibilities, it reviews individual director's performance, attendance and value-added by the Board members.

Confidential communication channels have been afforded to employees enabling them to have access to the ARCC to raise concerns about possible improprieties in financial or legal matters. The Board has adopted a "whistleblower" program in which all employees can communicate their concerns directly to any ARCC member or, to an identified person who has access to the ARCC.

To ensure that all Board Members are up to date with all Corporate Governance issues and to ensure their ability to fulfill their duties with regards to all Corporate Governance requirements and procedures, the Bank has conducted an awareness workshop to all Board members regarding all Corporate Governance principles and codes, the international best practices corporate governance standards set by bodies such as the Basel Committee for Banking Supervision, and all CBB's related high-level controls and policies.

The Bank has recently conducted an assessment of its compliance status with CBB module HC. The results of which will be presented at the Annual General Meeting (AGM) of this financial year. Items which remain outstanding to date have been provided in the following section below.

### 14 ONGOING REQUIREMENTS AND ENHANCEMENTS INITIATIVES

The Bank is complying with the CBB requirement set out in section HC-1.5.2 of the High Level Controls Module of the CBB Rulebook related to the level of independency of at least one third of the board members.

This level of independent directors have not enable the Bank to comply with the CBB requirements in sections HC-3.2.1, HC 4.2.1 & HC 5.2.1 related to Audit, Nomination & remuneration committees composition.

The change in Board composition has delayed the process of appointing new Board members but the Bank will take the necessary actions and initiatives to address the level of independent members within committees as well as will keep CBB informed at all times.

We are committed to adopt the best banking practice of governance and in our endeavors to be compliant with the HC Module of the Central Bank of Bahrain in the near future.

# Corporate Governance Disclosures continued

## 15 CORPORATE GOVERNANCE CHART

