



Corporate Governance

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(All figures stated in US dollars unless otherwise indicated)

Arab Banking Corporation B.S.C. ("Bank ABC") follows internationally-recognised best practice principles and guidelines, having in place a corporate governance system that provides an effective and transparent control framework that is fair and accountable.

The Central Bank of Bahrain ("CBB") licenses Bank ABC as a conventional wholesale bank. Incorporated in 1980 as a Bahrain joint stock company, Bank ABC has an authorised capital of US\$3.5 billion and a paid-up capital of US\$3.11 billion as at 31 December 2019 (31 December 2018: US\$3.11 billion).

Bank ABC communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained website. In particular, it reports its profits on an annual, semi-annual and quarterly basis.

At least the last five years' consolidated financial statements are available on the Bank ABC corporate website.

Shareholders

Bank ABC's shares have been listed on the Bahrain Bourse since 1990. The Central Bank of Libya ("CBL"), one of Bank ABC's founding shareholders, owns a majority of the shares. The CBL increased its shareholding to 59.37% in 2010 by participating in that year's capital increase and acquiring the Abu Dhabi Investment Authority's 17.72% shareholding. The Kuwait Investment Authority, another Bank ABC's founding shareholder, continues to own 29.69% of the shares. Each of the foregoing shareholders is either a governmental entity or is (directly or indirectly) owned by a governmental entity in its jurisdiction of establishment. International and regional investors hold the remaining shares of Bank ABC.

The following table shows the ownership structure of Bank ABC as at 31 December 2019:

Name of Shareholder	Percentage Shareholding	Nationality
Central Bank of Libya	59.37%	Libyan
Kuwait Investment Authority	29.69%	Kuwaiti
Other shareholders with less than 5% holdings	10.94%	Various
Total	100%	

The following table shows the distribution of shareholdings as at 31 December 2019 and 31 December 2018.

% of shares held	2019			2018		
	No. of shares	No. of shareholders	% of total outstanding shares	No. of shares	No. of shareholders	% of total outstanding shares
less than 1%	128,344,432	1,301	4.1	128,344,432	1,312	4.1
1% up to less than 5%	211,976,668	3	6.8	211,976,668	3	6.8
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	-	-	-	-	-	-
20% up to less than 50%	923,289,191	1	29.7	923,289,191	1	29.7
50% and above	1,846,389,709	1	59.4	1,846,389,709	1	59.4
Total	3,110,000,000	1,306	100.0	3,110,000,000	1,317	100.0

Bank ABC's Corporate Governance Charter

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2010 (the "Code"), which the Ministry of Industry and Commerce of Bahrain issued in March 2010. The Code applies to companies with shares listed on the Bahrain Bourse, including Bank ABC. The CBB Corporate Governance Requirements and the Code took full effect at the end of 2011. The Board of Directors adopted the Bank ABC Corporate Governance Charter in December 2010 (the "Corporate Governance Charter"), which substantially reflects the CBB Corporate Governance Requirements and the Code as they have evolved. The Corporate Governance Charter is displayed on the Bank ABC corporate website and deals with a number of corporate governance related matters, including:

- role and responsibilities of the Board and its committees
- the responsibilities of Directors to Bank ABC and the shareholders
- the appointment, training and evaluation of the Board
- remuneration of the Board and of Bank ABC employees
- Bank ABC's management structure
- communications with shareholders and the disclosure of information to relevant stakeholders
- the detailed mandates of each of the committees of the Board.

Recent Corporate Governance Changes

In July 2019, the Group Nomination and Compensation Committee Charter was amended and the name of the Nomination and Compensation Committee has changed to the "Remuneration Committee" in line with the Central Bank of Bahrain's regulations and the Bahrain Corporate Governance Code, and this is without prejudice to its terms of reference and mandate as laid out in the Bank ABC's Corporate Governance Charter.

Additionally, the Group Audit Committee Charter was amended in July 2019 to align it with the requirements of the CBB's regulations (Module HC – 6.4) which requires the compliance function to directly report to the

board or a designated board committee and administratively to the GCEO. The Group Audit Committee is responsible to the Board for the integrity and effectiveness of the Group's system of financial and accounting controls and practices.

Compliance with CBB Corporate Governance Requirements and the Code

Bank ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2019, save that the Chairman of the Board was not an independent Director, and the Corporate Governance Committee was comprised of less than three independent Directors which is contrary to the non-mandatory guidance included in the CBB Corporate Governance Requirements and the Code.

Board of Directors

Responsibilities of the Board

Bank ABC has previously adopted both a corporate governance charter for the Board and charters for the various Board committees (the "Bank ABC Board Mandates"). The Bank ABC Board Mandates are displayed on the Bank ABC corporate website. The Board of Directors is responsible for the overall direction, supervision and control of the Bank ABC Group. In particular, the Board's responsibilities include (but are not limited to):

- a) those responsibilities assigned to the Board by the Articles of Association of Bank ABC.
- b) establishing Bank ABC's objectives.
- c) Bank ABC's overall business performance .
- 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 Bank ABC'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.
- m) overseeing the design and operation of the remuneration systems of the Bank ABC Group and ensuring that such systems are not primarily controlled by the executive management of the Bank ABC Group.

The Board meets regularly to consider key aspects of the Group's affairs, strategy and operations.

The Board exercises its responsibilities for best practice management and risk oversight mainly through the Board Risk Committee, which oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards and risk policies.

The Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as the Board determines are necessary to enable the preparation of the consolidated financial statements that are free from any material misstatement, whether due to fraud or error.

Appointment of Directors

The shareholders appoint the Board for a term of three years, with the current term of the Board commencing on 24th March 2019 and terminating in March 2022. At the 2019 year end, there were nine Directors on the Board, with diverse and relevant skills, who worked well together as a team. Collectively, they exercised independent and objective judgement in meeting their responsibilities.

In accordance with Bank ABC's Articles of Association, a shareholder or group of shareholders holding 25% or more of the share capital may nominate Directors proportionate to their respective shareholdings. Other Directors are elected.

In accordance with the Bank ABC Board Mandates, each proposal for the election or re-election of a Director shall be accompanied by a recommendation of the Board, and a summary of the advice of the Remuneration Committee (see the description of role of the Remuneration Committee in this report).

The Board also has the power under Bank ABC's Articles of Association to appoint new directors and fill any Board vacancies that may arise, subject to such appointments being subsequently ratified by shareholders.

When a new Director is inducted, the Chairman, or Bank ABC's Legal Counsel or Compliance Officer, or other individual delegated by the Chairman, reviews the Board's role and duties with that person. In particular, they describe the legal and regulatory requirements of the Bank ABC Board Mandates, the Code and the CBB Corporate Governance Requirements. The Chairman of the Board (or other individual delegated by the Chairman of the Board) ensures that each new Director is provided with a comprehensive induction pack providing requisite materials to ensure his contribution to the Board from the beginning of his term.

Bank ABC has a written appointment agreement with each Director. This describes the Director's powers, duties, responsibilities and accountabilities, as well as other matters relating to his appointment including his term, the time commitment envisaged, the Board committee assignments (if any), Directors' remuneration and expense reimbursement entitlement, and Directors' access to independent professional advice when needed.

Biographies of the Board of Directors are included in appendix 1.

Assessment of the Board

The Bank ABC Board Mandates require that the Board evaluates its own performance each year, as well as the performance of each Board committee and individual Director. This evaluation includes:

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

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ended on 31 December 2019.

Independence of Directors

The Bank ABC Board Mandates include detailed criteria to determine whether a Director should be classified as independent or not. The Bank ABC independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

Bank ABC had four independent, non-executive Directors and five non-independent, non-executive Directors as at 31 December 2019. The CBB Corporate Governance Requirements require that at least a one-third of Bank ABC's Board of Directors is independent and also require that certain Board committees (including the Group Audit Committee and the Remuneration Committee) be comprised of a certain number of Directors, a certain proportion of independent Directors and/or that such Board committees be chaired by an independent Director. Bank ABC is now fully compliant with such requirements. The CBB Corporate Governance Requirements also state that it is preferable for the Chairman of the Board to be an independent Director, whereas the Chairman of the Board is, in fact, classified as a non-executive, non-independent Director.

As a rule, Directors do not have any direct or indirect material interest in any contract of significance with Bank ABC, or any of its subsidiaries, or any material conflicts of interest. This remained the case in 2019.

The Bank ABC Board Mandates require that any transaction that causes a Director to have a material conflict of interest must be unanimously approved by the Board (other than the relevant Director). Each Director is required to inform the entire Board of any actual, or potential, conflicts of interest in their activities with, or commitments to, other organisations as they arise, and to abstain from voting on these matters. Disclosures shall include all material facts.

Each Director has a legal duty of loyalty to Bank ABC, and can be personally sued by Bank ABC or shareholders for any violation.

Compensation & interests of Directors

The general remuneration policy of Bank ABC with regard to Directors is included in the Bank ABC Board Mandates (as set out on the Bank ABC corporate website). The compensation for members of the Board of Directors consists of the following elements:

- a) attendance fees payable to members attending different Board and Board committee meetings;
- b) monthly retainer; and
- c) allowance to cover travelling, accommodation and subsistence while attending Board and Board committee meetings.

The remuneration structure for the Board of Directors is designed to reinforce its independence. In line with good corporate practice, this means that the Directors are paid a fee which is based on their role and time commitment only. Directors do not receive variable pay (annual or longer-term) or significant benefits. The remuneration of Directors is neither determined nor based on the performance of Bank ABC or the Bank ABC Group. The aggregate remuneration paid to Board members in 2019 amounted to US\$1,870,216 (2018: US\$1,846,138), which was divided between the three elements as follows:

Board remuneration 2019	(US\$)
Monthly Retainer Fee	1,195,000
Attendance Allowance	118,500
Travel Allowance (Per Diem & Airfare)	556,716
Total	1,870,216

The aggregate remuneration paid to the members of the Remuneration Committee with respect to their membership of such committee for the year 2019 was US\$20,000, which sum is included in the monthly retainer fee (2018: US\$20,000).

No Director owned or traded Bank ABC shares in 2019.

Board Committees

The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its committees and all Directors have access to senior management, external consultants and advisors. The Board Secretary is responsible for ensuring that the Board procedures, and applicable rules and regulations, are observed.

The Board has delegated specific responsibilities to a number of Board committees. Each such committee has its own formal written charter, which is set out in full in the Corporate Governance Charter. The main Board committees are:

- The **Board Risk Committee**, which is responsible for the review and approval of the Group's Credit and Risk Policies. The Committee reviews and makes recommendations to the Board regarding the annual 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, while ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy. The Board Risk Committee meets not less than three times a year.
- The **Corporate Governance Committee**, which assists the Board in shaping and monitoring the Group's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluating the Group's compliance with them. The Corporate Governance Committee meets not less than once a year.
- The **Group Audit Committee**, which is responsible to the Board for the integrity and effectiveness of the Group's system of financial and internal controls. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the appointment of the Group Chief Internal Auditor. The Group Audit Committee meets not less than four times a year.
- The **Remuneration Committee**, which is responsible for the formulation of the Group's executive and staff remuneration policy, as well as senior management appointments, ensuring that Bank ABC's remuneration levels remain competitive so it can attract, develop and retain the skilled staff needed to meet its strategic objectives. The Committee also ensures that the remuneration policy and philosophy of Bank ABC and the ABC Group are aligned with Bank ABC's long-term business strategy, business objectives, risk appetite, values and long-term interests, while recognising the interests of relevant stakeholders. The Remuneration Committee meets not less than twice per year.

The Board has also delegated specific responsibilities for reviewing and overseeing the implementation of the strategy for Bank ABC and the Bank ABC Group to an ad-hoc Board Strategy Committee which shall meet as required to be effective.

As at 31 December 2019, the members of each of the Board committees were as set out in the following table:

Board Committee	Member Name	Member Position	Classification of Director
The Board Risk Committee	Mr. Bashir Omer	Chairman	Independent
	Mr. Mohamad Saleem	Member	Non-Independent
	Dr. Anwar Al Mudhaf	Member	Independent
	Dr. Yousef Al Awadi	Member	Independent
	Mr. Ali Al Ashhab	Member	Non-Independent
The Corporate Governance Committee	Dr. Farouk El Okdah	Chairman	Independent
	Mr. Mohamad Saleem	Member	Non-Independent
	Dr. Tarik Yousef	Member	Non-Independent
	Dr. Yousef Al Awadi	Member	Independent
The Group Audit Committee	Dr. Yousef Al Awadi	Chairman	Independent
	Dr. Anwar Al Mudhaf	Member	Independent
	Mr. Bashir Omer	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
	Mr. Khaled Al Hassoun	Member	Non-Independent
The Remuneration Committee	Dr. Anwar Al Mudhaf	Chairman	Independent
	Mr. Khaled Al Hassoun	Member	Non-Independent
	Mr. Bashir Omer	Member	Independent

Attendance of Directors

The details of Directors' 2019 attendance at Board and Board committee meetings are set out in the following table:

Board Members	Board Meetings	The Board Risk Committee	The Corporate Governance Committee	The Group Audit Committee	The Remuneration Committee
Mr. Saddek Omar El Kaber Chairman	6(6)	N/A	N/A	N/A	N/A
Mr. Hilal Al Mutairi Deputy Chairman	2(2) ¹	N/A	N/A	N/A	N/A
Mr. Abdullah Al Humaidhi Director	2(2) ²	N/A	1(1) ³	N/A	1(1) ⁴
Mr. Ahmed Ferjani Director	2(2) ⁵	2(2) ⁶	N/A	N/A	N/A
Mr. Ali Al Ashhab Director	4(4) ⁷	4(4) ⁸	N/A	N/A	N/A
Dr. Anwar Al Mudhaf Director	6(6)	6(6)	N/A	6(6)	3(3)
Mr. Bashir Omer Director	6(6)	6(6)	N/A	6(6)	3(3)
Dr. Farouk El Okdah Director	6(6)	N/A	1(1)	N/A	N/A
Mr. Khaled Al Hassoun Director	4(4) ⁹	N/A	N/A	5(5) ¹⁰	2(2) ¹¹
Mr. Mohammad Saleem Deputy Chairman	4(4) ¹²	4(4) ¹³	1(1) ¹⁴	N/A	N/A
Dr. Tarik Yousef Director	6(6)	N/A	2(2)	6(6)	N/A
Dr. Yousef Al Awadi Director	6(6)	6(6)	2(2)	6(6)	N/A

Figures in brackets indicate the maximum number of meetings during the period of membership. "N/A" indicates that a Director was not a member of the relevant Board committee during 2019.

- 1- Retired from the Board on 24 March 2019
2- Retired from the Board on 24 March 2019
3- Retired from the Corporate Governance Committee on 24 March 2019
4- Retired from the Remuneration Committee on 24 March 2019 and therefore has only attended one meeting.
5- Retired from the Board on 24 March 2019
6- Retired from the Board Risk Committee on 24 March 2019
7- Appointed to the Board on 24 March 2019
8- Appointed to the Board Risk Committee on 24 March 2019
9- Appointed to the Board on 24 March 2019
10- Appointed to the Audit Committee on 24 March 2019
11- Appointed to the Remuneration Committee on 24 March 2019
12- Appointed to the Board on 24 March 2019
13- Appointed to the Board Risk Committee on 24 March 2019
14- Appointed to the Corporate Governance Committee on 24 March 2019 and therefore has only attended one meeting.

Meeting dates during 2019:

The Board and its committees meet as frequently as is necessary for them to discharge their respective responsibilities, but the Board meets no less than four times a year. The Group Audit Committee meets no less than four times a year, the Remuneration Committee meets no less than twice a year, the Board Risk Committee meets no less than three times a year, and the Corporate Governance Committee meet no less than once a year.

The Board Strategy Committee meets as required to be effective. In 2019, no meeting of the Board Strategy Committee was held.

The details of the dates of the Board and Board committee meetings in 2019 are set out below:

	Dates of Meetings
Board	10 February 2019 24 March 2019 24 March 2019 (New Term) 22 July 2019 23 & 24 November 2019 22 December 2019
The Board Risk Committee	9 February 2019 23 March 2019 26 June 2019 30 October 2019 23 November 2019 5 December 2019
The Corporate Governance Committee	24 March 2019 22 December 2019
The Group Audit Committee	04 February 2019 18 April 2019 27 June 2019 31 October 2019 5 December 2019 22 December 2019
The Remuneration Committee	9 February 2019 22 July 2019 21 December 2019

Internal Controls

The Board of Directors is responsible for establishing and reviewing the Group's system of internal control. The Board receives minutes and reports from the Board Risk Committee ("BRC") and the Group Audit Committee, identifying any significant issues relating to the adequacy of the Group's risk management policies and procedures, as well as reports and recommendations from the Corporate Governance Committee and the Remuneration Committee. The Board then decides what action to take.

Management informs the Board regularly about how the Group is performing versus budget, identifying major business issues and examining the impact of the external business and economic environment.

Day-to-day responsibility for internal control rests with management. The key elements of the process for identifying, evaluating and managing the significant risks faced by the Group can be summarised as:

- a well-defined management structure - with clear authorities and delegation of responsibilities, documented procedures and authority levels - to ensure that all material risks are properly assessed and controlled;
- internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures in controlling them and reporting on them;
- a robust compliance function including, but not limited to, anti-money laundering and anti-insider trading policies;
- an internal audit function, exercised through Group Audit, which reports to the Group Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by the Group, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of Group departments and business units;
- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval, and
- a Group Risk Management function, comprising overarching Head Office risk management committees and a dedicated risk management support group.

Management structure

The Group Chief Executive Officer, supported by Head Office management, is responsible for managing the day-to-day operations of Bank ABC. There is a clear segregation of duties in the management structure at Bank ABC.

Senior managers did not hold or trade any shares in Bank ABC during 2019.

The management organisation chart is included in appendix 2.

Compliance

Bank ABC is committed to complying with all applicable rules and regulations across all of its businesses and geographies, including the requirements of the CBB and those of all relevant regulators. The Group Compliance Officer (GCO) oversees, together with local heads of compliance and MLROs, all regulatory compliance at Group level and within the units. The GCO reports directly to the Group Audit Committee and the Group Chief Executive Officer (Group CEO).

Reflecting the increasing requirements and expectations of regulators, correspondent banks and stakeholders, the Bank invests significantly in managing compliance risks and capacity and capability continue to improve across the Group.

Centralisation of the investigation and dispositioning of the Bank's SWIFT message screening alerts with the Group transaction monitoring unit (TMU) is now complete. Message screening alerts are managed under dual control and, where needed, alerts are escalated to unit MLROs for review and resolution. A number of other key activities such as the management of screening lists, changes to good guys, ongoing fine tuning of screening algorithms and the development and testing of system changes are also handled at the centre as part of our global compliance model. We will continue to expand and leverage this model to take advantage of the specialised skillsets and resources available at Head Office.

The Bank is committed to ensuring that all staff are aware of and equipped to discharge their compliance related responsibilities and to this end the Bank continues to invest in its group-wide training program. In collaboration with external industry leading vendors e-learning training is provided to new joiners and refresher courses to all staff in areas critical for risk management such as conflicts management, conduct, financial crime and sanctions compliance. To provide more in-depth knowledge to relevant stakeholders, the Bank also offers roles-based training, in classroom and via WebEx, to compliance officers, MLRO teams, TMU personnel, business teams and other relevant staff.

The Group Compliance Oversight Committee (GCOC) continues to oversee the compliance function across the Bank and has expanded its remit to oversee matters related to business reputational risk while also adding additional focus around conduct related issues. To support the GCOC, Compliance and Financial Crime Committees (CFCCs), under the chairmanship of the head of the local unit, meet on at least a quarterly basis to discuss clients, transactions, regulatory issues and relevant topics. Standard Compliance and Financial Crime management information and issue tracking are part of the CFCCs and GCOC's agendas periodically.

The Bank deploys standard solutions across Group units for automated message screening, risk rating, off-line client name and static data screening and transactions monitoring. Alerts generated by these automated systems are analysed and, where appropriate, suspicious activity reports are filed with relevant authorities. The Bank continues to review and finetune its systems on an ongoing basis. As part of this commitment a third-party review of the Bank's client static data screening engine was conducted during the year and recommendations to further enhance efficiency and effectiveness were implemented. A review of the Bank's transaction screening scenarios to ensure alignment with best practice is also well advanced.

Compliance issues including execution of relevant action plans and closure are monitored and tracked via the Governance, Risk, Compliance system (GRC) tool. GRC is also integrated with operational risk and audit issue management, giving ABC management a holistic risk management governance capability.

External Auditors

1. In 2019, the Bank ABC Group paid its external auditors US\$1,788,000 in audit fees on a global basis.
2. Non-audit services were specifically pre-approved by the Audit Committee and provided by the external auditors including, but not limited to, anti money laundering reviews, prudential information reports reviews, quarterly reviews and tax related services amount to US\$1,092,000 on a global basis.
3. Ernst & Young have expressed their willingness to continue as the auditors of the Group for the year ending 31 December 2020. Bank ABC's management, based on evaluation of services provided by its external auditors, has recommended the appointment of Ernst & Young and a resolution proposing their reappointment will be presented at the annual general meeting to be held in March 2020.

Policy on the Employment of Relatives and Approved Persons

Bank ABC has a Board approved Policy on Employment of Relatives and Connected Persons. This Policy aims to ensure that Bank ABC has transparency in relation to the employment of relatives and Connected Persons in order to prevent actual, or perceived, conflicts of interest.

The Policy sets out that no relatives or near relatives of any Bank ABC employee, Executive or Board Member may enter into employment with Bank ABC. Exceptional approvals may be granted by an independent panel following a full and fair selection process.

Remuneration Policies of Bank ABC in Compliance with the Requirements of the CBB

Senior management and staff receive compensation based on several fixed elements, covering: salary, allowances and benefits, as well as variable, performance-related elements.

In January 2014, the CBB issued new rules relating to the remuneration of approved persons and material risk-takers and others, which were subsequently amended later during 2014 (the “CBB Sound Remuneration Practices”). Bank ABC has implemented remuneration policies and procedures to cover both Bank ABC and Bank ABC Islamic, which are compliant with the CBB Remuneration Rules.

Bank ABC reviewed its remuneration practices and redesigned its variable compensation scheme in order to be fully compliant with the CBB's requirements. Key changes to Bank ABC's remuneration systems and governance processes were made to comply with the CBB regulations and included:

- i. Ensuring the risk framework is extensive and captured in decisions around variable pay, including confirming risk-adjustments to any bonus pool.
- ii. Separating control functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee.
- iii. Introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons.
- iv. Introducing deferral arrangements that defer the appropriate amount of variable remuneration for the Group Chief Executive Officer (GCEO), deputies, top five most highly-paid business line employees, material risk takers and approved persons.
- v. Introducing clawback and malus policies that apply to variable remuneration.

While maintaining the same Variable Compensation Scheme (VCS) and bonus multiples tables, further changes to the Employees' Performance Management System were introduced in early 2016 to encourage behaviours that will help fulfil the Group's strategic goals. Variable pay now depends on a more extensive matrix of factors, rather than just the income generated. These added factors facilitate measuring the quality of the income rather than just its magnitude. In addition, other non-financial factors have also been added as part of the performance matrix.

The Remuneration Committee (RemCo) reviews and approves Bank ABC's remuneration policy structure on an annual basis. Where rules on compensation exist in other jurisdictions in which Bank ABC operates, Bank ABC's Group policy is to take necessary steps to comply with local market regulations that are applicable to our foreign subsidiaries and branches. Where no rules are applicable, ABC adopts best local market practices.

A distinct and separate bonus pool has been created to reinforce the safeguarding role and independence of staff in Control Functions, and is measured by the impact and quality of their safeguarding role. These measures are based on department-specific objectives and targets, which are independent of company financial performance.

Bank ABC conducts business within a set of overarching goals and limits that, together, define its risk appetite and tolerance. This is approved by the Board Risk Committee as part of the Group Risk Strategy, which complements the budgets and strategic plans proposed by the business. The Bank's bonus pool is subject to potential adjustments based on the review of the RemCo, in the respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

Variable compensation and performance management are linked. Performance expectations are clearly articulated for revenue-generating, support and control functions. Individual bonus payments reflect Group, business unit and individual performance.

Bank ABC has adopted a remuneration deferral policy in line with the CBB Sound Remuneration Practices. This defers a required amount of the variable remuneration for the GCEO, deputies, top five most highly-paid business line employees, defined material risk takers and approved persons.

Bank ABC has also adopted a malus policy, which allows any form of deferred variable remuneration to be reduced or cancelled in specific and exceptional circumstances. Exceptional circumstances are defined as material events. They may include a material restatement of the Bank's financial statements, the discovery of significant failures in risk management or exposure to material financial losses at Group, business unit or individual level. In respect of unvested awards, and depending on each specific circumstance, malus may be applied to either that portion of unvested awards linked to the performance year in question or the total outstanding set of unvested awards.

A clawback policy has been introduced to allow Bank ABC to recover part, or all, of the awards already paid to an employee or former employee if a material event is discovered. Clawback provisions may be enforced upon the discovery of an employee's, or former employee's, accountability or responsibility for, or direct implication in, material events that may bring the Bank into serious disrepute. Additionally, they may be enforced in the event of individual criminal or other substantial misconduct.

The design of the Bank's reward structure aligns pay outcomes with prudent risk management and sound governance practices. The mix of an individual employee's pay, allowances and variable compensation is dictated by the nature of the role he/she holds. Variable pay for the relevant employees is delivered using a blend of cash and equity-linked instruments. It may be paid up-front in cash or deferred in accordance with the Bank's deferral policy. With Board approval, the variable pay multiples may be reviewed from time to time to ensure competitiveness with the market.

The remuneration disclosures have been reviewed and approved by the RemCo, which has confirmed they are aligned to the CBB rulebook requirements.

Bank ABC takes risk seriously. Reward practices embed and reinforce the Bank's desired risk culture, and risk behaviours directly impact variable pay, based on the following principles:

- i. Financial performance is not the sole measure of performance; both quantitative and qualitative approaches are used to measure risk; bonus pools are adjusted for all types of risk, both tangible and intangible, reflecting both Group and business unit performance.
- ii. Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- iii. Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.

In addition, Bank ABC has a process for assessing the performance of senior management against a set of pre-agreed audit, risk & compliance (ARC) objectives, which are cascaded down in the organisation. Their pay is linked to long-term profitability and sustainable value.

Pay principles

The following 'pay principles' apply at Bank ABC and govern all current and future remuneration decisions. These principles have been approved by the RemCo.

Summary

Principle	Theme
Principle 1	We pay for performance
Principle 2	We take risk seriously
Principle 3	We think long-term
Principle 4	Pay decisions are governed effectively
Principle 5	Clear and simple
Principle 6	Competitive, sustainable and affordable

Principle 1 | We pay for performance

Approach

- Performance expectations are clearly articulated for revenue-generating, support and control functions.
- Pay and performance management are linked.
- Bank ABC rewards performance that delivers its strategy, and that delivers the behaviours, cultures and ways of working that underpin doing business with the Bank.

Delivery

- Group and / or business unit underperformance can result in no bonus pool.
- Bonuses can be diminished (or nil) in light of poor Group, business unit or individual performance.
- Individual bonus payments reflect Group, business unit and individual performance.
- Group and business units are expected to meet demanding but achievable performance targets.
- Low performance ratings for any employee can result in no bonus.
- High performing business units may pay bonuses, even if the Group underperforms.
- Bank ABC differentiates high performance from average or low performance.
- Bonuses can be paid for non-profitable business units in start-up or turn-around phases.
- Bonus calculations reflect a measure of the appropriate behaviours which support doing business with Bank ABC.
- Control functions are measured on the impact and quality of their safeguarding role.
- Pay for employees engaged in control functions promotes impartiality and objectivity – it ensures that all employees at Bank ABC take risk seriously.
- Bonuses can be paid to control function employees who exercise their roles effectively, even in light of poor Group or business unit performance.

Principle 2 | We take risk seriously

Approach

- Reward practices embed and reinforce Bank ABC's desired risk culture.
- Risk behaviours directly impact variable pay.

Delivery

- Financial performance is not the sole measure of performance.
- Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.
- Bonus pools are adjusted for all types of risk, both tangible and intangible, which are reflected in both Group and business unit performance.
- Both quantitative and qualitative approaches are used to measure risk.
- Pay for material risk takers is significantly weighted towards variable pay.
- Material risk takers' performance is rewarded using a mix of cash and equity (or an equity-linked vehicle) to reflect their influence on the Bank's risk profile.
- Risk behaviours of material risk takers have a direct impact on variable pay outcomes.

Principle 3 | We think long-term

Approach

- Pay is linked to long-term profitability and sustainable value.

Delivery

- Deferral mechanisms are used for approved persons / material risk takers.
- Deferral mechanisms include an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly-paid employees is deferred for three years.
- 40% of variable pay for material risk takers and approved persons (paid over BHD100,000) is deferred for three years.
- No form of guaranteed variable remuneration can be granted, except in exceptional circumstances, for a period of no more than one year following hire.
- Unvested deferred bonuses can be recovered in light of discovering past failures in risk management, or policy breaches, that led to the award originally being granted.
- Participation in deferral is reviewed on an annual basis, subject to meeting the minimum requirements under the CBB rules.

Principle 4 | Pay decisions are governed effectively

Approach

- Variable pay schemes are owned and monitored by the RemCo.
- The RemCo oversees remuneration practices across the Bank.

Delivery

- The RemCo oversees the design and delivery of variable pay across the Bank.
- The RemCo reviews and approves the Bank's remuneration policy on an annual basis.
- The GCEO and senior management do not directly own or control remuneration systems.
- The RemCo reviews and approves bonus pools and payouts across the Bank, and reviews and approves the pay proposals for material risk takers and approved persons.
- Risk and Compliance provide information to the RemCo before it determines the bonus pool and Group performance.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track global compliance with Group remuneration policy.

Principle 5 | Clear and simple*Approach*

- Reward communications are clear, user-friendly and written in plain language.
- The aims and objectives of the new VCS are clear and transparent.

Delivery

- Clearly communicate what is meant by malus and clawback, and the instances in which these provisions could be applied.
- Open and easy access to the variable pay policy, plan rules and relevant communications.

Principle 6 | Competitive, sustainable and affordable*Approach*

- The VCS helps to attract and retain high-calibre talent.
- The VCS structure can be maintained over the long term, and its total cost is always affordable to the Bank.

Delivery

- Bonus pools vary year-on-year, based on Group performance, external market conditions, the internal climate and affordability.
- Individual pay opportunities are driven by the external market and internal positioning.

Application of pay principles

Bank ABC will remunerate covered employees to attract, retain and motivate sufficient talent to safeguard the interests of the Bank and its shareholders, while ensuring the Bank avoids paying more than necessary. The remuneration systems fairly reward performance delivered within the risk appetite of the Bank, over an appropriate time horizon, to align with risk.

Variable remuneration is paid according to the scheme on the below categorisation:

- **Approved persons in business lines:** For the GCEO and the five most highly-paid business line employees, variable pay in 2019 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Approved persons in control functions:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other material risk takers:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other staff of Bahrain operations:** The variable pay was paid fully in cash up front.

Remuneration arrangements are structured to promote sound risk behaviours. Their performance is measured against a range of financial and non-financial factors related to risk. Employees categorised as approved persons in control functions have their remuneration measured independently of the business that they oversee, so ensuring sufficient independence and authority. All variable pay is subject to malus and clawback.