

Corporate Governance Report

Corporate Governance Philosophy

Corporate Governance practices are important to ensure appropriate disclosure and transparency to all the stakeholders. The Bank's Corporate Governance Policy provides the framework for the principles of Corporate Governance standards. The Board of Directors (hereinafter referred to as the "Board" or BOD") is committed to continually review and monitor its compliance.

TAIB Bank B.S.C (c) (the "Bank") follows the "High Level Controls" and "Public Disclosure" Modules of the Rulebook (Volume 1) issued by the Central Bank of Bahrain ("CBB") and the Corporate Governance Code of the Ministry of Industry, Commerce and Tourism, the Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, and international best practices, where applicable and relevant to its current status.

Governance Framework

TAIB Bank B.S.C. (c) is a Bahraini closed shareholding bank. The Bank operates as a conventional wholesale bank which is licensed and regulated by the Central Bank of Bahrain. The Bank has only one class of ordinary share and the holders of shares have equal voting rights.

Subsequent to the unanimous resolution of the Shareholders on 1st July 2012, the Bank ceased transacting any new business with its customers and its current principal objective is to settle or satisfactorily resolve all the outstanding third-party obligations already committed by the Bank. In order to preserve the value for all the stakeholders, the Bank had taken significant measures to bring the operating costs to the minimum. Currently the Bank's activities are being handled by a single fulltime employee who is ably supported by the Bank's Board. We believe that the total compliance with all the regulatory matters applicable to the normally operating business are no longer relevant to the Bank's current status. Satisfactory resolution of all the outstanding third party obligations requires significant cost control measures and therefore it is becoming increasingly difficult for the Bank to commit the very limited resources available (manpower and financial) for complying with all the requirements of the Central Bank of Bahrain and Financial Institutions Law, the CBB Rulebook (Volume 1 and applicable provisions of Volume 6) and CBB directives, which is more appropriate for Banks that are actively transacting.

On 3rd November 2016, the Bank's Shareholders unanimously resolved to continue the orderly and gradual wind-down of the business of the Bank until such time that it is acceptable to qualify for a voluntary liquidation application. The Board has separately called for the Extra-ordinary meeting of General Assembly on 27 September 2018 to approve voluntary liquidation and appointment of the liquidator.

The "Comply or Explain" Principle

The CBB Rulebook requirements in the HC Module specify that the Bank must comply with the rules and guidelines of the HC Module, or explain its non-compliance.

As part of its commitment to adherence with the CBB regulations and in line with the Bank's principal objective based on the current status of the Bank, the Bank wishes to clarify the following:

- The Chairman is an executive director, as defined by the CBB Rulebook;
- The Bank does not have nor require the specialised Board Committees for its current objective. However, the roles and responsibilities of the specialised committees to the extent required for the Bank's principal objective are undertaken by the Board of Directors;
- Considering that there are very limited number of day to day transactions and the current intention is to place the Bank in voluntary liquidation, the Board of Directors of the Bank resolved that it is not practically possible nor financially feasible to have a full-fledged Corporate Governance structure by incurring significant costs and expenses when the Bank is not transacting any new business;

- The Bank has an internal code of conduct outlining the practices that approved persons and staff follow rigorously in performing;
- The Bank has separate policies and procedures for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest;
- The Bank does not have a 'Compliance function', all the communication with the CBB is undertaken by the acting CFO with support from the Board of Directors; and
- The Bank has not issued the Annual Reports, except for the Annual Audited Financial Statements.

Shareholder Information

A. Distributions of shareholders as at the closing of 31st December 2017 (direct holding of 5% and above excluding treasury shares) were as follows:

Shareholder (Direct Holding)	Nationality	No. of shares	% of total shares
Dubai Financial Group LLC	Emirati	65,754,466	60.07%
Rashed Abdulrahman Alrashed & Sons Co	Saudi	14,244,966	13.01%

B. Distribution of ownership by shares and nationality:

Country	No. of shareholders	No. of shares	% of total shares
Bahrain	89	6,023,300	5.502%
Emirati	4	66,602,755	60.843%
Kuwaiti	1	2,032	0.002%
Qatari	3	8,419	0.008%
Saudi	51	27,482,433	25.105%
GCC Total	148	100,118,939	91.460
Other Countries	43	9,347,309	8.540%
Total Excluding Treasury Shares	191	109,466,248	100.000%
Treasury Shares held by TAIB		2,896,248	
Total number of issued and paid up shares		112,362,496	

C. Distribution of ownership by size of direct shareholding:

Categories	No. of shareholders	No. of shares	% of total shares
Less than 1%	182	14,558,670	13.30%
1% to less than 5%	7	14,908,146	13.62%
5% to less than 10%	-	-	0%
10% and above	2	79,999,432	73.08%
Total	191	109,466,248	100.000%
Treasury Shares held by TAIB		2,896,248	
Total number of issued and paid up shares		112,362,496	

Board of Directors

The Articles of Association of the Bank stipulate the responsibilities of the Chairman and members of the Board of Directors ('BOD') as well as the guidelines of corporate governance with respect to the distribution of responsibilities. Additionally, the BOD is responsible for risk management and the preparation of the Annual Financial Statements and corporate governance issues.

When appointed, Board members are provided with the necessary information to enable them to effectively perform their role of overseeing the strategic, operational and financial and compliance affairs as well as corporate governance controls in the Bank. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

Roles and Responsibilities of Board of Directors

The Board's role and responsibilities include, but are not limited to, the overall performance and strategy for the Bank; causing Financial Statements to be prepared which accurately disclose the Bank's financial position; monitoring the Bank's performance; monitoring conflicts of interest and preventing unfair related party transactions; and assuring equitable treatment of all the shareholders. In particular, the Board, among other things, ensures that the Bank's goals are clearly established, and that strategies are put in place towards achieving those goals. Directors regularly assess the position of the Bank to:

- Decide on whatever steps necessary to protect the Bank's financial position and viability;
- Ensure that the financial statements are true and fair, and otherwise conform with applicable law;
- Ensure adherence to high standards of ethics and corporate governance as relevant to the Bank's current level of business;
- Monitor the effectiveness of the governance, compliance, and internal control framework;
- Ensure timely and adequate legal and regulatory disclosures; and
- Arrange the shareholders' ordinary and extraordinary general meetings in consultation with the CBB;

Bank's Elections System

- The shareholders have confirmed the composition of the Board of Directors during the Annual Ordinary General Meeting of the shareholders.
- The Chairman of the Board is responsible for the overall management of the Bank and ensures the application of the general policy of the Board and of the execution of its resolutions.
- The Board of the Bank has the right to create committees composed of the Members of the Board. The responsibility of this Committee is determined by the Board.
- The Board of the Bank have the right to appoint any other committee on such terms of reference as it may deem fit.
- The Ministry of Industry, Commerce and Tourism, and the CBB are furnished with copies of resolutions relating to the appointment of the Chairman of the Bank.

Board Composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association. The Board represents a mix of professionals with high-level skills and expertise. The Board has two independent directors. The Board annually reviews its composition and the contribution of directors.

The appointment of the directors is subject to CBB clearance.

Directorships of Board members as of 31 December 2017

Abdulrahman Hareb Rashid Al-Hareb

Nationality	-	Emirati
Position	-	Chairman
Type of Membership	-	Executive
Date of Appointment	-	19 October 2011

Directorships in other corporate entities

Dubai Aerospace Enterprise (DAE)	Chairman of the Audit Committee
Emaar	Board Member Member of Audit Committee
Emaar Malls	Board Member Member of Investment Committee
Emaar Pakistan	Board Member
Awqaf & Minors Affairs Foundation	Board Member Member of Audit Committee
Emirates Transport	Board Member Member of Audit Committee

Abdulrahman Abdulla Mohamed

Nationality	-	Bahraini
Position	-	Director
Type of Membership	-	Independent
Date of Appointment	-	10 August 2011

Directorships in other corporate entities

Al Baraka Islamic Bank	Board Member Member of Executive Committee
Takaful International	Vice Chairman Member of Executive Committee

Adel Abdulla Al Mannai

Nationality	-	Bahraini
Position	-	Director
Type of Membership	-	Independent
Date of Appointment	-	10 August 2011

Directorships in other corporate entities

Future Bank	Board Member Head of Risk Committee
International Islamic Rating Agency	Member of Rating Committee

Fareed Abdulrahman Moosa Ismail

Nationality	-	Emirati
Position	-	Director
Type of Membership	-	Executive
Date of Appointment	-	19 October 2011

Srinivasan Sridharan

Nationality	-	Indian
Position	-	Director
Type of Membership	-	Executive
Date of Appointment	-	10 August 2011

Board Meetings and Attendances

According to the Bahrain Commercial Companies Law and the Bank's Articles of Associations, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members.

Board Meetings in 2017

Director Name	5-Mar-17	30-Mar-17	19-Oct-17	25-Dec-17
Abdulrahman Hareb Rashed Al Hareb	✓	✓	✓	✓
Fareed Abdulrahman Moosa Ismail	✓	X	✓	✓
Srinivasan Sridharan	✓	✓	✓	✓
Abdulrahman Abdulla Mohamed	✓	✓	✓	✓
Adel Abdulla Al Mannai	✓	✓	✓	✓

✓ - Attended the meeting

X - Apologies

Board approval

All the transactions of the Bank were reported and approved by the Board of Directors.

Code of Conduct

The Board has an approved Code of Conduct for the Bank's director. The Board has also approved a Code of Ethics for the Management. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high-level responsibility for monitoring the codes lie with the Board of Directors.

Key Persons Policy

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Board of Directors and Management and any person or firm connected to the identified Key Persons.

Remuneration

Remuneration of the Directors as provided by Article 38 of the Articles of Association states the following:

“The General Assembly shall prescribe the remuneration of the Members of the Board of Directors (including alternate Directors) provided that the total of such remuneration shall not exceed 10% of the net profits of the Bank in any one financial year after allowing for legal reserves and after allowing for the distribution of the Shareholders of a dividend totaling not less than 5% of the capital of the Bank, but this provision shall not be deemed to oblige the Bank to pay a dividend of 5% or at all”

No remuneration has been paid to the Board of Directors during the year ended 31 December 2017 (2016: BD Nil).

Voluntary Liquidation

On 1 July 2012 during the Extra Ordinary General Meetings of shareholders, a unanimous resolution was passed to authorize the Board of Directors to arrange an orderly repayment of its deposit obligations, including significant deposit obligations owed to related parties, and to dispose or liquidate its illiquid assets in order to meet such deposit obligations, to the extent possible.

Subsequently, the Bank ceased transacting any new business with its customers and successfully divested its illiquid assets and used the proceeds to discharge, in part, the Bank’s short-term deposit obligations. The realizable value of Bank’s residual assets was not adequate to fully satisfy the Bank’s obligations to all of its depositors and other creditors (“the Creditors”). Moreover, the financial position of the Bank restricts the Bank’s ability to raise funds from its customers or any other sources to transact any new business and to fully discharge all its creditors.

In order to preserve value for all its creditors, the Bank entered into a settlement agreement with its largest Related Party Creditor (“the Major Related Party Creditor”) which would facilitate:

- The ability of the Bank to remain solvent and able to resolve voluntary liquidation of the Bank; and
- Satisfactorily resolve all the Bank’s remaining obligations, to the extent possible, of all the Creditors.

In the absence of any commitment for new equity investments from the shareholders of the Bank, the Board met on 4th October 2016 and unanimously resolved that, subsequent to entry into the settlement agreement with the Major Related Party Creditor, the Board will recommend to the shareholders that the Bank initiate and pursue an orderly wind-down of the Bank, followed by (when the Banks so qualifies) a voluntary liquidation application. Based on the mutually agreed terms of the settlement agreement with the Major Related Party Creditor, the Bank has reserved a portion of that Major Related Party Creditor’s balance to remain solvent as well as resolving all the remaining obligations to facilitate voluntary liquidation.

As such exercise also requires significant cost control measures it is becoming increasingly difficult for the Bank to commit the very limited resources available for complying with all the compliance requirements of the Central Bank of Bahrain and Financials Institutions Law, the CBB Rulebook (Volume 1 and applicable provisions of Volume 6) and CBB directives, which is more appropriate for Banks that are actively transacting. The Board believes that these are procedural matters and are more appropriate only to fully functioning and actively transacting Bank. The Bank’s current objective and priority is to facilitate resolution of all its obligations in a very cost-effective manner.

On 3rd November 2016 during the Extra Ordinary General Meeting of shareholders, a unanimous resolution was passed for approving the continuation of an orderly and gradual wind-down of the business of the Bank until such time that it is acceptable to qualify for a voluntary liquidation application.

Post November 2016 the Bank has substantially concluded the wind-down activities and it is the Board's current intention to call for the shareholders' meeting for placing before the shareholders the proposal for voluntary wind-down of the Bank as well as appointment of the Liquidator at the earliest.

The Board has separately called for the Extra-ordinary meeting of the General Assembly to approve voluntary liquidation and appointment of the liquidator.

Ethics and Conflicts of Interest

As per Board of Directors Charter, all Directors and employees will act ethically at all times and adhere to the Bank's Code of Conduct. Where a potential conflict of interest arises for a director, the director shall promptly inform the Board for deliberation and resolution.

The directors must inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise. It is reiterated that they should refrain from being involved in any decisions or transactions concerning the conflicting interests.

Risk Management Policy

The risk management framework is detailed in the Risk Management Policy of the bank which includes the approach and methodology for the management of various risks. The risk policies are periodically reviewed to maintain their relevance and alignment with the strategy and prevailing market conditions and complies with the guidelines of CBB. However, most of the risk management policies are not relevant to the Bank as the Bank is not transacting any new business since 2012.

Transactions with Related Parties and Key Management compensation

Details of related parties' transactions and the Key Management compensation are presented in note 8 in the audited financial statements for the year ended 31 December 2017

Confidentiality

The Bank adopts privacy and confidentiality for protecting sensitive information of all matters, including customer information. Conformity with these principles is applicable to its Directors and Management. Maintaining the confidentiality of the Bank's information is a must to continue employment with the Bank. Access to confidential information is not given to persons outside the Bank, unless it is mandated by the regulator or by the applicable laws. The Bank's employees are bound by their contracts of employment to continue to observe utmost confidentiality regarding the Bank's information.

Communication strategy

The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner.

As part of its disclosure and communication strategy, shareholders are invited by the chairman to attend the Annual General Meeting (AGM). The chairman and other directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders. The Bank provides information on all events that merit announcement through other forms of publication.

Penalties

During the year ended 31 December 2017, the Bank was not subject to any financial penalties by the CBB.

Managerial Structure

The Management represents one single fulltime employee, who is the acting CFO (Chief Financial Officer).

Auditors

The auditors of the Bank are appointed during every Annual General Meeting (“AGM”). The current Auditors are BDO Public Accountants. Audit Fees for performing the Audit and other Agreed Upon Procedures for the Group for the year ended 31 December 2017 amounted to US\$ 43,236.