

# Corporate Governance

Al Baraka Banking Group was formed in 2002 to bring together 11 individual banks, sharing common ownership and ethical vision but separate in all other respects, under a single management group focused on the achievement of strong yet sustainable financial returns and the building of consistent shareholder value over the long term. From the beginning, ABG regarded the inculcation of a disciplined corporate governance and risk management culture as a fundamental prerequisite to effective management of the Group. The adoption and maintenance, through continual and vigilant review, of the highest standards of corporate governance and risk management have thus been key to building a strong, ethical, responsible organisation. This has been essential for establishing an overarching governing structure under which the functions, roles and responsibilities are clearly divided between the Board of Directors and Executive Management, officers and staff of the organisation.

## THE BOARD OF DIRECTORS

The Board of Directors is responsible for the establishment and oversight of the Group's business strategy and priorities, for setting its high-level policies and for overall management, and is accountable to shareholders for the financial and operational performance of the Group. It is responsible for the raising and allocation of capital, monitoring of Executive Management and its conduct of the Group's operations, for making critical business decisions and for building long-term shareholder value. The Board ensures that the Group manages risk effectively, through approving and monitoring the Group's risk appetite, and identifying and guarding against the longer term strategic threats to the business.

The Board is also responsible, inter alia, for:

- setting and reassessing periodically the Group's corporate goals and objectives;
- establishing policies to further the achievement of the Group's corporate goals and objectives;
- establishing and regularly reviewing the management structure and responsibilities, and monitoring the effectiveness of Executive Management, including its ability to plan and execute strategies;
- holding Executive Management accountable for results;
- putting in place adequate policies and processes for approving budgets, and reviewing performance against those budgets and against key performance indicators;
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment, i.e. that internal audit, compliance, risk management and finance and reporting functions, are well resourced and structured;
- ensuring that the Group's operations are supported by a reliable, sufficient and well-integrated information system;
- recognising and communicating to Executive Management the importance of the internal audit function at ABG and its subsidiaries, periodically reviewing internal control procedures,

- and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings;
- approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- approving strategic investments by ABG and its subsidiaries;
- monitoring potential conflicts of interest and preventing abusive related party transactions;
- approving material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management;
- ensuring the preparation of financial statements which accurately disclose the Group's financial position, on a regular and consistent basis, and for reviewing and approving for dissemination its periodic financial statements and annual reports;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance at all times with all relevant requirements of Shari'a and Islamic Accounting Standards, issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is in compliance with it;
- ensuring that the control environment maintains necessary client confidentiality, and that clients' rights and assets are properly safeguarded;
- convening and preparing the agenda for shareholder meetings;
- ensuring equitable treatment of all shareholders including minority shareholders; and
- performing any other functions required of the Board of Directors under applicable laws and regulations.

In its regular review of the Group's strategy, the Board reviews the Group's business plans and the inherent level of risk in those plans. It also assesses the adequacy of capital to support the business risks of the Group; sets performance objectives; and oversees major capital expenditures, divestitures and acquisitions.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness, and for defining and enforcing standards of accountability that enable Executive Management to achieve the Group's corporate objectives. The Board ensures that the systems and controls framework, the Board structure and the organisational structure of the Group are appropriate for the Group's business and associated risks, and regularly assesses the systems and controls framework to that end. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group. These are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations. This system is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

In meeting its responsibility to ensure efficient governance in all matters related to ABG, the Board has established a written compliance policy governing the Group's compliance with all laws and regulations; in particular those enunciated by the Central Bank of Bahrain (CBB) and other local regulators. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive. This responsibility is carried out through a dedicated Compliance Department, with a mandate to cover all aspects of compliance including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to ABG staff members; ensuring an effective compliance methodology; providing periodical reports to the Board in connection with compliance controls; and establishing operational controls and a robust Know Your Customer (KYC) and Anti-Money Laundering (AML) framework. ABG is continuously enhancing its compliance framework and that of each of its subsidiaries.

In 2010, the CBB introduced new requirements to be met by all licensees under Volumes 2 and 6 of Module HC of its Rulebook, with respect to corporate governance principles. These requirements were in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry & Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high-level controls and policies. In 2014, the CBB introduced further requirements addressing the matter of remuneration of Approved Persons and Material Risk Takers (see below), which requirements were duly adopted by ABG. ABG conducts annually detailed internal assessments to ensure compliance with these requirements and, in the event that any shortfall is identified, sets specific milestones for implementation of measures to address the shortfall. The CBB, ABG's shareholders, the Board of Directors and Executive Management are all kept fully apprised of such shortfalls, if any, and the milestones set. In accordance with this procedure, ABG earlier applied for and received the CBB's consent to appoint the Chairman of the Board of Directors, although he is not an independent director as defined in the CBB Rulebook.

ABG continuously ensures that the Group's minority shareholders are well represented on the Board of Directors through the independent directors, who have additional responsibility for protection of the rights of minority shareholders.

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved for it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational, risk management and information technology development) and the performance of Executive Management. All Directors attend all Board meetings whenever possible and in any event not less than 75% of meetings in any year, and maintain informal contact among themselves between meetings.

The Chairman is responsible for leadership of the Board and for its efficient functioning. He ensures that all members receive an agenda, minutes of prior meetings and background information in writing before each Board meeting and between meetings when necessary. 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 individually have access to Executive Management, external legal or other professional consultants and advisors at the Group's expense, and to the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The Board encourages participation by members of Executive Management at Board meetings, if appropriate, regarding matters which the Board is considering and where the President & Chief Executive believes management should have exposure to the Board.

Under ABG's Articles of Association, the Board of Directors shall consist of no fewer than five and no more than 15 members. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry & Commerce of Bahrain.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, including:

- the original appointment being found to be contrary to the provisions of ABG's Articles of Association;
- abuse by the individual of his/her position as Director or failure to comply with the provisions of his/her appointment or the terms of the Charter of the Board or of its Committees;
- the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board;
- the individual's formal resignation from the Board following reasonable prior notice; or
- occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

When an announcement is made requesting nominations for the position of membership of the Board of Directors to replace those members whose three-year term is due to expire, such nominations must be submitted to the Chairman of the Board, within the time frame provided in the announcement, then to the Board Affairs and Remuneration Committee for it to make its recommendations to the Board. As part of the nomination process, each nomination must comply with local rules and regulations, and must be submitted for approval to the CBB in order to ensure compliance with the CBB's "Fit and Proper" criteria. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for consideration and election. Election of ABG Directors takes place in accordance with the rules and procedures set out in the Commercial Companies Law and ABG's Articles of Association.

In line with best corporate governance best practice, there is a succession plan for the Board of Directors. This is reviewed annually and submitted to the CBB.

# Corporate Governance (Continued)

Each new Director elected to the Board receives a written appointment letter, detailing the powers, duties, responsibilities and obligations of that Director, and other relevant terms and conditions of his appointment.

There are currently 13 Directors on the Board. They have varied backgrounds and experience and are, individually and collectively, responsible for performing the responsibilities of the Board, and for exercising independent and objective judgement. No individual Director or group of Directors has unfettered powers of decision making or dominates the Board's decision making. Other than the President & Chief Executive, all Directors are non-executive and fully independent of management, and are individually responsible for scrutinising and challenging management decisions and performance. The posts of Chairman, Vice Chairman and President & Chief Executive are held by different Directors, and the President & Chief Executive has separate, clearly defined responsibilities. The size and composition of the Board and its Committees are regularly assessed, while the effectiveness, contribution and independence of individual Directors are assessed annually in light of interests disclosed and conduct. The independence or non-independence of Directors is, likewise, reviewed annually.

All Directors are remunerated solely by means of an annual retainer fee and sitting fees paid for each meeting attended. Their travel expenses are also reimbursed as appropriate.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group. Details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice and the CBB Rulebook, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of more than one third of Directors as independent Directors, as defined in the CBB Rulebook.

In 2017, the shareholders elected the following members of the Board:

## Non-Executive Directors

1. Shaikh Saleh Abdullah Kamel – Chairman
2. Mr. Abdullah Saleh Kamel – Vice Chairman
3. Mr. Abdul Elah Sabbahi
4. Mr. Mohyedin Saleh Kamel
5. Dr. Khalid Abdulla Ateeq

## Independent Directors

1. Mr. Abdulla A. Saudi – Vice Chairman
2. Mr. Saleh Mohammed Al Yousef
3. Mr. Ebrahim Fayez Al Shamsi
4. Mr. Jamal Bin Ghalaita
5. Dr. Bassem Awadallah
6. Mr. Saud Saleh Al Saleh
7. Mr. Yousif Ali Fadil Bin Fadil

## Executive Director

Mr. Adnan Ahmed Yousif – President & Chief Executive

All current Directors were elected for a 3-year term on 20 March 2017.

## BOARD COMMITTEES

The Board has put in place a number of Board committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board committees are:

### Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel (Non-Executive Director), and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive (Executive Director), Mr. Abdul Elah Sabbahi (Non-Executive Director) and Mr. Saleh Mohammed Al Yousef (Independent Director). The Board Executive Committee comprises a minimum of four Directors and meets at least four times a year. The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility to make recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments.

### Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The Committee is chaired by Mr. Saud Saleh Al Saleh (Independent Director), and its other members are Mr. Ebrahim Fayez Al Shamsi (Independent Director) and Mr. Yousef Ali Fadil Bin Fadil (Independent Director). The Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration of the Directors, based on their attendance at Board and Committee meetings. It also recommends to the Board the level of remuneration of the Executive Management members and other ABG employees under an approved performance-linked incentive structure. The Committee also performs the role of a Nominations Committee, as described below.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. When an issue relating to the personal interest of a Director is discussed in the Committee, the interested Director withdraws from the meeting and abstains from voting. The Committee is responsible for identifying persons qualified to become members of the Board or the Chief Executive Officer, the Chief Financial Officer, the Board Secretary and other executive officers considered appropriate (except for the Head of the Internal Audit Department), and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new Directors, and for conducting seminars and other training programmes from time to time for members of the Board.

### Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Ebrahim Fayez Al Shamsi (Independent Director). Other members are Dr. Bassem Awadallah (Independent Director), and Mr. Mohyedin Saleh Kamel (Non-executive Director). The Committee is governed by a formal written Charter, adopted by it and approved by the Board. The Committee meets formally at least four times a year. External auditors attend at least one meeting annually; moreover, external auditors have unrestricted access to the Committee and its Chairman throughout the year.

The Board of Directors has delegated to the Board Audit and Governance Committee the responsibility for ensuring that an effective internal auditing and continuous internal controls monitoring environment, and a sound system of accounting and financial control, are in place. The Committee achieves this through regular review of internal audit reporting, external auditors' management letters, central banks' inspection reports and the Group's accounting and financial policies and practices, financial reporting and disclosure controls and procedures, and the adequacy and effectiveness of the internal control procedures at the Head Office and at ABG's subsidiaries. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements and accounting standards. It also considers and approves the annual audit plans, ensures coordination between the internal and external auditors, monitors the independence, qualifications, effectiveness and performance of the external auditors, and makes recommendations to the Board regarding the appointment, retirement and remuneration of the external auditors and the appointment of the Head of the Group's Internal Audit Department.

The Committee reviews the Group's annual and interim financial statements to recommend their approval to the Board of Directors, the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

The Committee ensures that there are in place systems of control appropriate to the business of the Group and the information needs of the Board. These include systems and functions for identifying and monitoring risk, the financial position of the Group and compliance with applicable laws, regulations and best banking practice. The Committee ensures that all such information is produced on a timely basis. The various internal controls and processes are subject to independent review by the Group's Internal Audit Department, which reports directly to the Committee, as stated above, and external auditors and regulators as appropriate. Management letters and other issues of importance raised by external auditors, and inspection reports issued by the CBB's inspectors, or inspectors of any other applicable authorities where ABG or its subsidiaries operate, are reviewed by the Committee once issued. Acting on behalf of the Board, the Committee ensures that appropriate corrective action is taken.

The Committee also oversees and monitors the implementation of the corporate governance policy framework, providing the Board with reports and recommendations based on its findings.

The Board has adopted a 'whistleblower' programme, allowing employees confidentially to raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any member of the Board Audit and Governance Committee or, alternatively, to an identified officer or employee who, in turn, reports the matter to the Committee.

#### **Board Risk Committee**

The Board Risk Committee is chaired by Mr. Yousif Ali Fadil Bin Fadil (Independent Director), with its other members being Mr. Jamal Bin Ghalaita (Independent Director) and Dr. Khalid Ateeq (Non-executive Director). The Board Risk Committee meets formally at least twice a year but may meet more frequently at the request of the Chairman of the Committee. It can call for the attendance of the President

& Chief Executive, Head of Credit and Risk Management and other senior executives of the Group at any of its meetings.

The Group's risk appetite is determined by the Board, based on the recommendations of the Board Risk Committee. The Board Risk Committee is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving management's strategy for the managing of risk and for ensuring that all necessary steps are taken by management to identify, measure, monitor and control risk. The Committee's objective is to oversee the Group's risk management systems, practices and procedures, as well as to ensure effective risk identification, management and compliance with internal guidelines and external requirements. The Committee reviews issues identified by the Internal Audit and Compliance departments of ABG and/or any of its subsidiaries, such as weaknesses or breakdowns in controls.

#### **Board Sustainability and Social Responsibility Committee**

The Board Sustainability and Social Responsibility Committee is chaired by Dr. Bassem Awadallah (Independent Director), and other members are Mr. Abdul Elah Sabbahi (Non-Executive Director) and Mr. Saleh Mohammed Al Yousef (Independent Director). The Committee leads the Al Baraka Sustainability and Social Responsibility Programme. It oversees the formulation of policies and strategies by Executive Management, intended to make ABG and its subsidiaries a model Islamic banking group, offering banking and financial services in a sustainable and socially responsible manner and in conformity with the objectives of Shari'a.

The Committee aims to adhere to the spirit of Islamic finance that enjoins Sustainability and Social Responsibility as a principal feature of Islamic banking and finance. The Committee demonstrates its commitment to the spirit of Sustainability and Social Responsibility inherent in Islamic finance by setting various quarterly and annual targets for Executive Management.

All minutes and reports of meetings of the Committee are disseminated to all members of the Board of Directors.

#### **UNIFIED SHARI'A SUPERVISORY BOARD**

ABG's Unified Shari'a Supervisory Board (USSB) is elected by the shareholders at Annual General Meeting upon recommendation by the Board of Directors. The USSB is actively involved in the development of the Group's products and services, and certifies or oversees the certification by individual subsidiaries' USSBs of every product and service accordingly as complying with the standards and principles of Shari'a.

The USSB operates independently within its own charter which covers its policies, procedures and responsibilities. In carrying out its responsibilities, the USSB has full access to the Board, Executive Management and Management and Officers of the subsidiaries. In addition to reviewing and advising on Shari'a compliance of all products and services, it oversees the audit of the operations of the Group from a Shari'a perspective.

The USSB meets at least six times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

# Corporate Governance (Continued)

## DIRECTOR'S ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2017

Name of the Board/ Committees	No. of meetings in 2017	Dates of the meetings	Member's name	No. of meetings attended
Board of Directors	7	22/02/2017 20/03/2017 10/05/2017 04/06/2017 07/08/2017 13/11/2017 24/12/2017	Sh. Saleh Abdullah Kamel	5
			Mr. Abdulla A. Saudi	7
			Mr. Abdullah Saleh Kamel	5
			Mr. Saleh Mohammed Al Yousef	7
			Mr. Adnan Ahmed Yousif	7
			Mr. Abdul Elah Sabbahi	7
			Mr. Ebrahim Fayeze Al Shamsi	7
			Mr. Jamal Bin Ghalaita	7
			Mr. Yousef Ali Fadil Bin Fadil	7
			Dr. Bassem Awadallah	7
			Mr. Mohyedin Saleh Kamel	6
			Mr. Saud Saleh Al Saleh	6
			Dr. Khalid Abdulla Ateeq	5
Board Executive Committee	4	29/01/2017 06/05/2017 27/09/2017 03/12/2017	Mr. Abdullah Saleh Kamel	3
			Mr. Saleh Mohammed Al Yousef	3
			Mr. Adnan Ahmed Yousif	4
			Mr. Abdul Elah Sabbahi	4
			Mr. Yousef Ali Fadil Bin Fadil	1
Board Audit & Governance Committee	5	12/02/2017 10/05/2017 07/08/2017 13/11/2017 20/12/2017	Mr. Saleh Mohammed Al Yousef	1
			Mr. Ebrahim Fayeze Al Shamsi	5
			Dr. Bassem Awadallah	5
			Mr. Mohyedin Saleh Kamel	2
			Mr. Saleh Mohammed Al Yousef	1
Board Affairs & Remuneration Committee	4	20/02/2017 04/06/2017 14/09/2017 09/12/2017	Mr. Saleh Mohammed Al Yousef	1
			Mr. Ebrahim Fayeze Al Shamsi	4
			Mr. Yousef Ali Fadil Bin Fadil	4
			Mr. Saud Saleh Al Saleh	3
Board Risk Committee	3	02/03/2017 10/05/2017 11/11/2017	Mr. Jamal Bin Ghalaita	3
			Mr. Yousef Ali Fadil Bin Fadil	2
			Mr. Mohyedin Saleh Kamel	1
			Mr. Saud Saleh Al Saleh	1
Board Sustainability & Social Responsibility	3	21/02/2017 03/06/2017 24/12/2017	Dr. Khalid Abdulla Ateeq	2
			Mr. Saleh Mohammed Al Yousef	2
			Mr. Adnan Ahmed Yousif	1
			Mr. Abdul Elah Sabbahi	3
Dr. Bassem Awadallah	3			

■ Was not a Board Member in Meeting No. 1 & 2

- ▲ Executive Committee: Was not a Member in Meeting No. 1
- ▲ Audit & Governance Committee: Was not a Member in Meeting No. 1
- ▲ Remuneration Committee: Was not a Member in Meeting No. 1
- ▲ Risk Committee: Was not a Member in Meeting No. 1
- ▲ Sustainability & Social Responsibility: Was not a Member in Meeting No. 1
- Executive Committee: Just attended Meeting No. 1 as a Member
- Audit & Governance Committee: Just attended Meeting No. 1 as a Member
- Remuneration Committee: Just attended Meeting No. 1 as a Member
- Risk Committee: Just attended Meeting No. 1 as a Member
- Sustainability & Social Responsibility: Just attended Meeting No. 1 as a Member

## BOARD OF DIRECTORS' PROFILES

### Shaikh Saleh Abdullah Kamel

Chairman

Chairman of Dallah Albaraka Holding Company E.C.; Chairman, General Council for Islamic Banks and Financial Institutions; Chairman, Jeddah Chamber of Commerce & Industry; and Chairman, the Islamic Chamber of Commerce, Industry and Agriculture. Member of the Advisory Panel of the Islamic Development Bank. He is also a Director of several international organisations. A highly-respected international businessman and pioneer of Islamic banking, with experience spanning over five decades, Shaikh Saleh Abdullah Kamel founded Dallah Albaraka Group and the Al Baraka Banking Group. Recognising his achievements and his role in promulgating Islamic economic principles — encapsulated in the message of his Group: "Reconstruction of the Earth" — Shaikh Saleh Kamel has been awarded the highest of certificates, trophies and accolades. A Saudi national, he holds a Bachelor of Commerce degree.

### Mr. Abdulla A. Saudi

Vice Chairman

Chairman, United Bank for Commerce and Investments, Tripoli, Libya and Executive Chairman, ASA Consultants W.L.L., Bahrain. Board member of Credit Lebanese Bank Beirut. Previously, Founder, President & Chief Executive, Arab Banking Corporation (B.S.C.), Bahrain from 1980 to 1994. He also founded Arab Financial Services (E.C.) and ABC Islamic Bank (E.C.), Bahrain. Prior to that he was the Founder, Chairman and General Manager of Libyan Arab Foreign Bank, Tripoli 1972-1980. In addition, he held positions at the Central Bank of Libya for 14 years. Mr. Saudi is a world-renowned international banker of over five decades standing. He has received many international accolades and decorations, including: the title of one of the "Most Innovative Bankers" in 1980 at a presentation at Georgetown University, Washington D.C.; "Best Banker" award from the Association of Arab American Banks in 1990; "Arab Banker of the Year" award from the Union of Arab Banks in 1993. He also has several gold medals and awards, notably those bestowed by the King of Spain and the President of Italy in 1977, and the Grand Medal of the Republic of Tunisia in 1993. Recently, he was honoured with the Integrity Award for Combating Forgery by the Arab Union - subordinate of the Arab League – in 2012. Mr. Saudi, a Libyan national, holds a Certificate in Management and Accounting.

### Mr. Abdullah Saleh Kamel

Vice Chairman

President and Chief Executive Officer of Dallah Albaraka Group, Saudi Arabia. Chairman of Aseer Company; Chairman of Amlak Real Estate Development and Finance; Chairman of Okaz Press and Publishing Corporation; Vice-Chairman of King Abdullah Economic City Emaar. Previously held executive positions at Dallah Group, culminating in the position of Vice President for Business Sector until 1999 when he assumed his current position. Mr. Abdullah Kamel has over 29 years' experience. Mr. Abdullah Kamel is active in public and charitable activities through his membership of many international and local organizations and associations, such as Jeddah Chamber of Commerce (a Board Member twice), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum. Mr. Abdullah Kamel, a Saudi national, studied Economics at University of California, Los Angeles, USA.

### Mr. Saleh Mohammed Al Youssef

Board Member

Board Member, Al Baraka Bank Lebanon. Previously, Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. Prior to that, Mr. Al Youssef held executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He has also served as Chairman of ABC Islamic Bank (E.C.), Bahrain and of the Supervisory Board of Arab Banking Corporation – Daus & Co. GmbH, Frankfurt; as Chairman and Managing Director of Afkar Holding Co.; Commissioner, Capital Markets Authority, Kuwait; and on the Boards of Directors of the Financial Securities Group; Gulf Bank K.S.C. Kuwait; Arab Banking Corporation (B.S.C.), Bahrain; Ahli United Bank B.S.C., London; and Gulf Investment Corporation. He has over 35 years' experience in the banking industry. A Kuwaiti national, he holds a Bachelor of Commerce Degree from Kuwait University.

### Mr. Adnan Ahmed Yousif

President & Chief Executive

Mr. Yousif has led Al Baraka Banking Group (ABG) since inception. He is the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of both Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia. Mr. Yousif was Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). He is the recipient of the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. He holds the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network, and was twice named Islamic Banker of the Year (2004 and 2009). In addition, he was awarded the 2012 "LARIBA Award for Excellence in Achievement". The Al Jinan University of Lebanon has granted him an Honorary Doctorate of Philosophy in Business Administration and he has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility. In 2016, Mr. Yousif was decorated with the Title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development at Oman International Conference on Social Responsibility 2016. In 2017, Mr. Yousif was elected Chairman of the Bahrain Association of Banks, was named Islamic Finance Personality of the Year 2017 at the Global Islamic Finance Awards ceremony and was awarded with the Outstanding Contribution to CSR in Islamic Banking by CPI Financial. Mr. Adnan holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation for over 20 years and last served as Director on its Board.

# Corporate Governance (Continued)

## Mr. Abdul Elah Sabbahi

Board Member

Vice President, Dallah Albaraka Group; Chairman of Al Baraka Bank Tunisia. Chairman of Arab Leasing International Finance, Saudi Arabia and La Société de Promotion du Lac de Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Albaraka Holding Co. E.C., Bahrain; Al Amin Investment Co., Jordan and a number of other international companies. Mr. Sabbahi has over 38 years' experience in international banking and business, the last 27 of which were with the Dallah Albaraka Group in Saudi Arabia. Mr. Sabbahi, a Saudi national, holds a Bachelor of Science Degree in Accounting from King Abdulaziz University, Saudi Arabia.

## Mr. Ebrahim Fayez Al Shamsi

Board Member

Board Member, Al Baraka Turk Participation Bank and Al Baraka Bank Syria. Previously Member of the Board of Arab Fund for Economic & Social Development, Kuwait; Chief Executive Officer of Emirates Islamic Bank, Dubai; and Deputy General Manager, Abu Dhabi Fund for Development. Mr. Al Shamsi has 45 years' varied experience in the financial services industry and in service of the U.A.E. Government. Mr. Al Shamsi, a U.A.E. national, holds a Bachelor of Commerce degree.

## Mr. Jamal Bin Ghalaita

Board Member

Mr. Bin Ghalaita has been Chief Executive Officer (CEO), Emirates Islamic since 2011. He was previously Board Member of Emirates Islamic while serving as Group Deputy CEO and General Manager, Consumer Banking and Wealth Management at Emirates NBD. He has driven unprecedented growth at Emirates Islamic, as acknowledged through awards, including "Best Islamic Bank" in the U.A.E. Mr. Bin Ghalaita also serves as the Chairman of Emirates Islamic Financial Brokerage LLC and is a Board Member of Al Baraka Banking Group and Tanfeeth LLC. A U.A.E. national, he has been a banker for over 27 years, with key roles in corporate, retail, trade finance and human resources at Emirates Islamic and Emirates NBD Group. Achievements include planning the launch of Emirates Islamic and establishing new areas of business at Emirates NBD, including private banking, asset management and Emirates Money. Additionally, he is credited with overseeing the growth of the consumer banking and wealth management business.

## Mr. Yousef Ali Fadil Bin Fadil

Board Member

Board Member, Al Baraka Islamic Bank, Bahrain and Ajman Bank. Previously, General Manager of the Emirates Financial Company and before that he served as Executive Manager for Investment, Dubai Islamic Bank and held senior positions at National Bank of Umm Al Qaiwain. Mr. Bin Fadil has also served on the Boards of Directors of financial institutions including Union Insurance Company (U.A.E.); Bahrain Islamic Bank; Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 32 years' experience in banking. Mr. Bin Fadil, a U.A.E. National, holds a Bachelor's degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, U.S.A.

## Dr. Bassem Awadallah

Board Member

Personal Representative of His Majesty King Abdullah II Bin Al Hussein of the Hashemite Kingdom of Jordan, and Special Envoy to the Kingdom of Saudi Arabia. He is the Chief Executive Officer of Tomoh Advisory, a strategy and financial consultancy based in the United Arab Emirates. He is also Vice Chairman of the Arab Bank (Jordan) and member of the Board of Directors of Arab National Bank (Saudi Arabia); Previously, he held the following positions in Jordan: Economic Secretary to the Prime Minister (1992-1996); Economic Advisor to the Prime Minister (1996-1999); Director of the Economic Department at the Royal Hashemite Court (1999-2001); Minister of Planning and International Cooperation (2001-2005); Minister of Finance (2005); Director of the Office of His Majesty King Abdullah II (April 2006-November 2007); and Chief of the Royal Hashemite Court (November 2007-October 2008). Dr. Awadallah also served as the Secretary General of the Islamic Chamber of Commerce and Industry (2010-2013). He was awarded the King Abdullah Bin Abdulaziz Visiting Fellowship at the Oxford Centre for Islamic Studies in 2012. He is also a member of the Advisory Board of the Middle East Centre at the London School of Economics and Political Science, and is Vice Chairman of the Board of Trustees of Al-Quds University, in Palestine. Dr. Awadallah is the recipient of the Al Hussein Medal for Distinguished Service, the Al Kawkab Decoration of the First Order, and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan, as well as other decorations from several countries. Dr. Awadallah has 32 years of diverse experience. He holds a PhD in Economics and a Master of Science in Economics from the London School of Economics and Political Science. He also holds a Bachelor of Science in Foreign Service, International Economics, International Finance and Commerce, from Georgetown University, Washington, D.C.

## Mr. Mohyedin Saleh Kamel

Board Member

Deputy Chief Executive Officer of Direct Investments, Dallah Albaraka Holding Company. Previously, Chairman of the Boards of Directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd.; Member of the Boards of Directors of Dallah Real Estate Investment Company, Egypt; Almaza Real Estate Development Company, Egypt; Jabal Omar Development Company; Al Khozami Company; Saudi Research and Marketing Group; Dallah Health Co. Okaz Organization for Press and Publication; VFS Tasheel International company and Member of the Management Committee of Dallah Albaraka Holding Company, E.C; Mr. Mohyedin Kamel is a past member of the Board of Directors of Jeddah Chamber of Commerce and Industry and is active in public and community work in Saudi Arabia. A Saudi national with 16 years of varied experience, he studied Economics at the University of San Francisco, USA.

### Mr. Saud Saleh Al Saleh

Board Member

Mr. Saud Saleh Al Saleh is the Chairman of MAAD International Company, Chairman of Gulf Complexes for Housing Company, and Head of the Board of Trustees of Riyadh Economic Forum. Previously, he was Chairman of SAIB-BNP Paribas Asset Management Company; Vice Chairman of American Express (Saudi Arabia) Limited. He was also a Board Member of the following: the Saudi Arabian General Investment Authority, General Organization for Social Insurance, the Higher Education Fund, the Saline Water Conversion Corporation, Saudi Orix Leasing Company, Boeing Industrial Technology Group L.P., AMLAK International for Real Estate Development and Mortgage Finance and The Mediterranean & Gulf Cooperative Insurance & Reinsurance Co. Mr. Al Saleh has more than 33 years' experience in banking, including 26 years with The Arab National Bank followed by management positions at the Saudi Investment Bank, where he eventually became General Manager. Then he was appointed as a Minister as General Secretary of the Supreme Economic Council of the Kingdom of Saudi Arabia. A Saudi national, he holds a B.Sc. degree in Business Administration from Portland State University, Oregon, U.S.A. and an M.A. in Economics from The University of Rhode Island, U.S.A.

### Dr. Khaled Abdulla Ateeq

Board Member

Chief Executive Officer (CEO) and a Board Member of Family Bank in Bahrain. Dr. Ateeq served as the Executive Director of Banking Supervision at the Central Bank of Bahrain (CBB), where he was responsible for the licensing, inspection and supervision of financial institutions, ensuring that all banks and financial institutions, either operating in Bahrain or incorporated in Bahrain, complied with laws and regulations issued by the CBB. In addition, Dr. Ateeq is a Director of Al Baraka Islamic Bank (Bahrain). He has held senior posts with a number of firms, including Deputy CEO at Venture Capital Bank. He has over 37 years of experience in banking, finance, auditing, and accounting. Before joining the CBB, Dr. Ateeq was an Assistant Professor at the University of Bahrain. Dr. Ateeq holds a PhD in Philosophy of Accounting from Hull University, U.K.

## EXECUTIVE MANAGEMENT

The Board of Directors has delegated to the Group's Executive Management team the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. Its other responsibilities include: ensuring that resolutions of the Board of Directors are carried out; ensuring that the Group operates at all times in accordance with the principles of Shari'a and that the decisions and recommendations of the Unified Shari'a Supervisory Board are carried out; providing the Board of Directors with analysis, assessments and recommendations regarding the Group's activities and supplying the CBB with all information required under the CBB Law and relevant regulations. Executive Management disseminates to Group units strategic and other central decisions taken at the parent level, thus ensuring the implementation of Groupwide policies and common operational processes and procedures.

As at the end of 2017, the Executive Management Team consisted of the President & Chief Executive and the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; Legal Affairs; Treasury, Investments and Financial Institutions Commercial Banking; and Sustainability and Social Responsibility. All members of the Executive Management Team have been provided with a written appointment agreement specifying the rights and obligations attaching to the office of each member.

Executive Management also exercises control via a number of committees with specific responsibilities, among which are:

### Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President & Chief Executive with the remaining membership comprising the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; Treasury, Investments and Financial Institutions; Commercial Banking; IT; Sustainability and Social Responsibility; and Legal Affairs with Head of Internal Audit as observer.

### Asset and Liability Committee

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long-term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of ABG and the Group units and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President & Chief Executive and its remaining members are the Heads of: Strategic Planning; Operations and Administration; Finance; Credit and Risk Management; and Treasury, Investments and Financial Institutions, together with a senior member from the Bahrain-based subsidiary, Al Baraka Islamic Bank (Al Baraka Bahrain).

### Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President & Chief Executive, with the remaining membership being drawn from among Executive Management.

### Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks, and to introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President & Chief Executive, with remaining membership comprising the Heads of: Operations and Administration; Finance and Credit and Risk Management; together with the Manager of Credit Review and Analysis; and the Manager - Credit Portfolio Analysis.

# Corporate Governance (Continued)

## Head Office IT Steering Committee

The Head Office IT Steering Committee's role is to draw up the Group's short and long-term IT strategy, and to oversee and monitor its implementation throughout the Group with a view to effecting standardisation in information and operation management. The Committee is chaired by the Head of Operations and Administration. The other members are the Heads of: Finance, Strategic Planning, and Credit and Risk Management; together with senior support nominees drawn from the Group.

## Human Resources & Compensation Committee

The role of the Human Resources & Compensation Committee is to review the Human Resources policies, management and planning at the Group's Head Office. The Committee is chaired by the Head of Operations and Administration and the other members are the Heads of Strategic Planning and Finance.

## Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse (BB), for the purpose of ensuring the maintenance of a fair, orderly and transparent securities market, and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities, and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities. Furthermore, it is responsible for preventing the abuse of inside information by such insiders. The Committee is chaired by the President & Chief Executive and the other members are the Heads of: Internal Audit; Operations and Administration; Legal Affairs; Treasury, Investments and Financial Institutions and Investors' Relations.

## Other Committees

The Executive Management also forms ad hoc committees, as and when required, to address specific initiatives in which the Group may be engaged from time to time.

## EXECUTIVE MANAGERMENTS' PROFILES

### Mr. Adnan Ahmed Yousif

President & Chief Executive

Mr. Yousif has led Al Baraka Banking Group (ABG) since inception. He is the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of both Al Baraka Bank Tunisia and Itqan Capital in Saudi Arabia. Mr. Yousif was Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). He is the recipient of the Medal of Efficiency, a unique honor conferred by His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. He holds the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network, and was twice named

Islamic Banker of the Year (2004 and 2009). In addition, he was awarded the 2012 "LARIBA Award for Excellence in Achievement". The Al Jinan University of Lebanon has granted him an Honorary Doctorate of Philosophy in Business Administration and he has been awarded the Accolade of the Sudanese Presidency for Excellency in Social Responsibility. In 2016, Mr. Yousif was decorated with the Title of "High Commissioner to preach the United Nations Sustainable Development Goals 2030". He also won the Gold Award for Sustainable Development at Oman International Conference on Social Responsibility 2016. In 2017, Mr. Yousif was elected Chairman of the Bahrain Association of Banks, was named Islamic Finance Personality of the Year 2017 at the Global Islamic Finance Awards ceremony and was awarded with the Outstanding Contribution to CSR in Islamic Banking by CPI Financial. Mr. Adnan holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation for over 20 years and last served as Director on its Board.

### Mr. Majeed H. Alawi

Executive Vice President - Head of Internal Audit

Mr. Alawi has over 37 years of international banking experience, mainly in audit. He reports directly to the Audit and Governance Committee of the Board of ABG, for which he also acts as Secretary. He participates as an observer member in Audit Committee meetings of all ABG's subsidiaries. The audit function reviews the IT controls environment of IT systems, and compliance with local and international regulations relating to anti-money laundering and financial crime. Previously, he was an audit team leader at Arab Banking Corporation (B.S.C.)'s Internal Audit Department, prior to which he was Head of Operations at Banque National de Paris in Bahrain. Mr. Alawi is a Fellow of the Chartered Association of Certified Accountants, UK (1980).

### Mr. K. Krishnamoorthy

Executive Vice President - Head of Strategic Planning

Mr. Krishnamoorthy has over 41 years' experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. Before joining ABG in 2004, he headed the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada, after two years as a partner in a regional Gulf investment bank. Prior to that, he spent 13 years at Arab Banking Corporation (B.S.C.) in investment banking and treasury. His early career was spent as finance professional in India and Bahrain. Mr. Krishnamoorthy is an Associate of the Institute of Chartered Accountants of India and holds a B.Com (Hons) degree from Osmania University, India.

### **Mr. Abdulrahman Shehab**

Executive Vice President - Head of Operations and Administration

Mr. Shehab has over 41 years' experience with international financial institutions, both Islamic and conventional. He is a Member of the Boards of Banque Al Baraka D'Algerie and Al Baraka Bank (Pakistan) Ltd. Before joining ABG in May 2006, he was Assistant Chief Executive Officer – Head of Operations & Administration at Bahrain Islamic Bank from 2002-2006, which he joined from Faysal Islamic Bank of Bahrain (now Ithmaar Bank) where he worked from 1985-2002. Previously, he worked at Bahrain Middle East Bank and the Bahrain branches of American Express Bank, Bank of America and Chase Manhattan Bank. He started his career with Habib Bank Ltd. in 1973. Mr. Shehab holds a Master degree in Business Administration from Hull University, UK.

### **Mr. Hamad Abdulla Al Oqab**

Executive Vice President - Head of Finance

Mr. Al Oqab has over 24 years' experience in finance and auditing. He is Chairman of the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Member of the Boards of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algerie, Algeria. In addition, he serves as a member of the audit committees of Jordan Islamic Bank and Banque Al Baraka D'Algerie, a member of the Board of Sustainability & Social Responsibility Committee and Credit Committee of Jordan Islamic Bank, and a Member of the Board Executive Committee and Observing Member of the Board Audit Committee of Al Baraka Turk Participation Bank. Before joining ABG in February 2005, he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this, he was a member of the audit team at Arthur Andersen.

Mr. Al Oqab is a Certified Public Accountant and a Chartered Global Management Accountant.

### **Mr. Jozsef Peter Szalay**

Senior Vice President - Head of Credit and Risk Management

Mr. Szalay has over 41 years' international banking experience, encompassing credit and risk management, corporate banking and trade finance. Mr. Szalay has been a member of ABG's executive management team since September 2006. Previously, he worked with Gulf International Bank B.S.C., which he joined in 1979 as Regional Marketing and Credit Officer for Central Europe, subsequently working in credit and business development before becoming Chief Credit Officer and Member of the Group Risk Committee. Prior to that, he worked at Bank of Montreal, Canada, latterly being appointed its Middle East Representative. Mr. Szalay holds an M.A. (Econ.) from University of Budapest and a Banking Certificate from the Institute of Canadian Bankers. He is a graduate of the Advanced Management Program at INSEAD France.

### **Mr. Salah Othman Abuzaid**

Senior Vice President - Head of Legal Affairs

Mr. Abuzaid has over 33 years' professional experience as a judge, a practicing advocate and legal consultant for local, regional and international law firms and financial institutions. He also serves as Secretary to the Board of Directors of ABG and some of its Board Committees. He joined ABG as First Vice President - Head of Legal Affairs & Compliance, and was promoted to Senior Vice President. Before joining ABG, he worked at Al Baraka Islamic Bank (Bahrain) as Manager, Legal Affairs, prior to which he was based in the Sultanate of Oman from 2001-2004 working for an international law firm. In Oman, he was admitted to practice before all Omani courts. Before that, he spent 20 years in legal practice in Sudan. Mr. Abuzaid has an LLB degree from the Faculty of Law, University of Khartoum, Sudan.

### **Mr. Mohammed A. El Qaq**

Senior Vice President – Head of Commercial Banking

Mr. El Qaq has over 26 years of experience in commercial banking. Before joining ABG in August 2014, Mr. El Qaq was General Manager, International Banking & Syndications at Commercial Bank of Kuwait, prior to which he was a First Vice President at Arab Banking Corporation (B.S.C.), Bahrain, and Deputy Chief Executive & Head of Corporate Banking Group at Arab Banking Corporation (Jordan). He also served as a Member of the Board of Directors of ABC Islamic Bank from 2009-2012. Having started his career with the Housing Bank for Trade and Finance, Jordan, in 1990, he then worked with Arab Bank in Jordan and Qatar National Bank in Qatar. Mr. El Qaq holds a Master of Business Administration degree from Howard University, U.S.A.

### **Mr. Khalid Al Qattan**

Senior Vice President - Head of Treasury, Investments and Financial Institutions

Mr. Al Qattan has over 34 years of banking experience in treasury and operations. Before joining ABG in June 2007 as Vice President – and appointed to his present post in 2016 - he was Treasury Manager at Eskan Bank, Bahrain where he was responsible for liquidity management and served on several management committees. Prior to that, he worked at Shamil Bank, Bahrain, as Manager of Treasury operations, and at United Gulf Bank, Bahrain. Mr. Al Qattan holds a Master of Business Administration degree from the University of Hull, UK.

# Corporate Governance (Continued)

## Mr. Qutub Yousafali

Head of Group Compliance

Mr. Qutub Yousafali is a banking professional with more than 38 years' experience who joined ABG in January 2012. Previously, Mr. Yousafali worked with Arab Banking Corporation (B.S.C.) in Bahrain for nearly 18 years, latterly as Group Head of Compliance. He was responsible for overseeing and coordinating compliance functions and activities, including regulatory compliance, corporate governance, anti-money laundering and international sanctions across the network of offices worldwide. Prior to this appointment in 2009, Mr. Yousafali had held senior positions in the Arab World Division & Universal Banking in Arab Banking Corporation (B.S.C.). Previously, he worked for an affiliate bank in senior positions, including Head of Internal Audit and Finance. Mr. Yousafali started his professional career with Peat Marwick Mitchell & Co. (now KPMG), London.

Mr. Yousafali is a Fellow of The Institute of Chartered Accountants in England & Wales, UK.

## Dr. Ali Adnan Ibrahim

First Vice President - Head of Sustainability and Social Responsibility

Dr. Ibrahim has over 21 years of experience. He is the Head of the Group Sustainability and Social Responsibility Department, and specialises in market-based strategies for economic development, corporate sustainability, impact investing, Islamic micro-and-SME finance, mergers and acquisitions, and Shari'a-structuring. He develops strategies and processes to ensure that Al Baraka's businesses contribute to its communities. Dr. Ibrahim is also Chairman of the Sustainable Development Committee of the Bahrain Association of Banks, and is also a World Economic Forum Young Global Leader. Previously, Dr. Ibrahim was a counsel at Baker & McKenzie. As a Fulbright Scholar, Dr. Ibrahim received his doctorate in financial regulation from the Georgetown University (with distinction). He has attended leadership programs such as "Global Leadership and Public Policy in 21st Century" at Harvard University and "Transformational Leadership" at Oxford University. He has twice served as Co-Chair of the Islamic Finance Committee of the American Bar Association. Dr. Ibrahim has been published internationally on market-based strategies for economic development, financial inclusion, Islamic finance and its regulation, Islamic microfinance, comparative corporate governance and capital markets in developing countries.

## COMPLIANCE, POLICIES AND PROCEDURES

### Group Compliance

ABG Group is committed to complying with ever increasing international regulatory requirements. The Group Compliance function supports the Group units, updating policies when necessary. There is a continual drive to enhance the compliance culture through investment in advanced systems and effective staff training. The Group has never hesitated to decline business that might risk breaching the letter or the spirit of applicable laws, rules and regulatory standards.

The Head of Group Compliance, who is the Group Compliance Officer (GCO) has formulated a Group compliance strategy and compliance management framework for implementation throughout the ABG Group. They reflect the following core principles and practices which are firmly embedded in ABG and all its subsidiaries:

- comply with both the letter and the spirit of all applicable laws, rules and regulatory standards;
- conduct business strictly in accordance with all regulatory and ethical standards;
- encourage a strong compliance culture, with every individual held personally responsible for compliance; and
- maintain a robust corporate governance environment at all times.

ABG and its subsidiaries continue to enhance the compliance-related policies, procedures and framework. Staff skills have been upgraded by providing current and targeted training. Systems and automated tools are being introduced, as required, to improve compliance standards throughout the Group.

### An Independent Function

Group Compliance in ABG is an independent function responsible for:

- proactively identifying and evaluating compliance risks;
- developing and implementing compliance policies, programmes and plans;
- monitoring, managing, mitigating and reporting compliance risks;
- monitoring, investigating and reporting compliance breaches, incidents and risks; and
- advising management and staff on compliance and regulatory matters.

The GCO reports directly to the President & Chief Executive. He provides independent oversight on behalf of the Board of Directors, and reports to the Board of Directors whenever deemed necessary. In addition, the GCO has the right and the authority to contact the Central Bank of Bahrain (CBB), as and when he considers it necessary. The GCO is supported by dedicated compliance teams in all ABG subsidiaries. At the Group level, the GCO is responsible for coordinating the identification and management of the ABG Group's compliance risks, in collaboration with local Heads of Compliance in each of the subsidiaries.

Throughout its network of offices, ABG has issued written guidelines for staff. They describe the appropriate implementation of laws, regulations, rules and standards through policies and procedures, including the overarching Group Compliance Policy. This policy requires all subsidiaries, officers and staff to comply with all relevant laws, rules, regulations and standards of good market practice.

In the ABG Group, compliance risks fall broadly into the following categories:

- Regulatory Compliance and Corporate Governance;
- Anti-Money Laundering and Countering Financing of Terrorism;
- International sanctions; and
- Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS).

### **Regulatory Compliance and Corporate Governance**

At the Group level, policies are continuously developed for managing compliance risks in all the above categories. These policies are systematically cascaded down to the subsidiaries, which adapt and implement them in accordance with local regulatory requirements. In addition, the ABG Group has a strict Code of Conduct in place that all employees must adhere to at all times. The Code sets out to deter wrongdoing and to promote ethical conduct. It outlines the responsibilities of all members of the ABG Group, its officers and staff, who are expected to read, understand and uphold these standards and principles at all times.

The ABG Group has a whistleblowing policy in place, which provides a formal channel for staff to report any unethical conduct, gross mismanagement or corporate wrongdoing. Staff members are encouraged to report their concerns through specified communication channels which protect their identities, without fear of reprisal or victimisation. Reportable disclosures may include legal or regulatory wrongdoing, fraud or any other malpractice.

### **Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT)**

Risks relating to financial crime are proactively managed at the Group and subsidiary levels. The ABG Group is committed to complying with AML/CFT laws and regulations, as well as the recommendations of the Basel Committee and Financial Action Task Force. These laws, regulations and recommendations are reflected in the AML/CFT policies of ABG and each of its subsidiaries. The Group has strict Know Your Customer policies, which include detailed requirements for identifying and verifying customers. These policies preclude all operating units from establishing a new business relationship until all relevant parties to the relationship have been identified and verified, and the nature of the business they expect to conduct has been clearly established.

In line with the requirements of the CBB and the Group AML Policy, suitably qualified Money Laundering Reporting Officers (MLROs) are appointed in all subsidiaries. The MLROs are responsible for ensuring compliance with all relevant laws, regulations and policies in respect of AML/CFT. They also have responsibility for reviewing and monitoring customers and transactions, and reporting to their respective host regulators any suspicions concerning them.

At the Group level, ABG has appointed a Group MLRO, who is responsible for formulating and implementing ABG's AML strategies and policies on an ongoing basis. The Group MLRO coordinates the activities of each subsidiary's MLRO, overseeing appropriate AML training for all relevant staff, and reporting to the Board Audit and Governance Committee and the Board of Directors on all critical money laundering issues.

### **International Sanctions**

Owing to a raft of sanctions imposed by local and international regulatory bodies, sanctions compliance is one of the primary challenges faced by banks today, particularly those operating across multiple geographies. Breaches of sanctions expose banks to significant regulatory, reputational and commercial risks, including potential financial losses. As evidenced by the large number of cases reported and the very sizeable fines imposed, sanctions risk has become one of the most serious risks faced by banks worldwide.

Being mindful of such risks, ABG has a Group Sanctions Policy in place, which is implemented throughout its network in order to ensure uniform adherence to all relevant sanctions orders. This policy sets out various restrictions and prohibitions relating to customers and transactions subject to sanctions. These restrictions sometimes extend beyond the strict requirements of applicable laws in order to safeguard the ABG's reputation and standing.

ABG's strategy and policy for managing sanctions risk is determined at the Group level and implemented across all subsidiaries. The Group is increasing staff awareness of sanctions compliance and investing in screening systems to manage and minimise sanctions risk. Being mindful of its responsibilities, ABG is committed to further enhancing its sanctions risk management framework on an ongoing basis.

### **Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS)**

US legislation known as FATCA, aimed at preventing tax evasion by US citizens and residents by hiding their assets in accounts with non-US banks, became law in 2010. FATCA requires Foreign Financial Institutions (FFIs) such as ABG and its subsidiaries to enter into FFI agreements, under which they agree to identify and provide the US Internal Revenue Service (IRS) with information on accounts held by US persons and US-owned foreign entities, or otherwise face 30% withholding tax on certain payments made to them. FFIs are also required to withhold tax on certain payments made to other FFIs that have not entered into an FFI agreement, and on payments made to account holders who do not respond to requests to confirm their US person status and/or do not agree to the FFI reporting certain account-related information to the IRS.

Intergovernmental Agreements (IGAs) Models 1 and 2 were offered by the IRS to reduce the compliance costs and operational issues arising from the implementation of FATCA. A number of countries, including Bahrain, where ABG subsidiaries operate either have signed or are expected to sign an IGA Model 1 with the US. If the IGAs are signed in accordance with the FATCA regulations, ABG subsidiaries will be required to report the necessary US account-related information to their competent local authorities only, which in turn will provide the information to the IRS.

From the outset, the ABG Group has taken necessary steps to build awareness. It has also made substantial investments in training people and introducing systems in order to implement the new legislation throughout its network of offices. A robust Group FATCA strategy and policy is in place and is being implemented throughout the Group. As a result, all our subsidiaries comply with the applicable FATCA reporting and withholding requirements.

# Corporate Governance (Continued)

The OECD published the CRS in 2014, which is supported by the G20 countries to improve tax transparency through automatic exchange of information about the financial assets of tax residents of a country in other jurisdictions participating in the CRS programme. ABG and its subsidiaries are expanding their FATCA policies and frameworks to include CRS. As a result, all members of the ABG Group are taking all steps necessary to become fully compliant with CRS requirements, as and when these are adopted by the countries in which ABG subsidiaries operate.

## Group Disclosure Policy

The Group communication strategy aims to keep the market informed of material information in a timely, accurate and balanced manner. The Group's communications with the market ensures compliance with the CBB's directives as detailed in the Public Disclosure Module of its Rulebook, Volume 2, Part A and the CBB Disclosure Standards as specified under the CBB Capital Markets Regulations.

Material information is any information, financial or non-financial, relating to the business and affairs of ABG, the Group or any of ABG's subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's shares or in the decision of a prudent investor to sell, buy or hold the Group's shares or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its units. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and ABG's subsidiaries.

In order for the Group to comply fully with the CBB disclosure requirements as specified in the CBB Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements, and its annual audited financial statements, and any applicable ad hoc information requirement of the CBB from time to time.

Further, as a listed company on the Bahrain Bourse (BB) and NASDAQ Dubai, ABG is committed to adhering on a timely basis to all periodic information dissemination requirements of the BB and NASDAQ Dubai, as stipulated in their respective regulations and directives.

Additionally, the Group will publicly disclose and broadly disseminate material information immediately upon becoming aware of circumstances or events that underlie such material information, or when a decision to implement a material change is made by the Board of Directors or Executive Management.

As a listed company, ABG adheres to a strict policy, which delegates to certain specific individuals the authority to issue press releases or make announcements to the public, financial or non-financial, about the Group. Only the following persons are authorised to make public information via the media:

- Chairman of the Board of Directors
- Vice-Chairmen of the Board of Directors
- President & Chief Executive

In the event that any of the above mentioned persons is requested to make statements relating to the financial statements, financial indicators or general financial performance of the Group, that person will consult and/or confirm with the Head of Finance with regard to the accuracy, timeliness and reliability of the information prior to making any public announcements.

The Group distributes its Financial Statements and Prudential Returns to the CBB, BB and NASDAQ Dubai on a quarterly and an annual basis. Then the Group makes this information available on its website.

Press releases are posted on the Group's website and published in either Arabic or English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's website or in local newspapers as appropriate.

The Group has in place an effective framework for dealing with complaints received from its shareholders and other stakeholders. Different channels have been established to enable communication with investors, including through the offices of the Registrar, an online enquiry centre on the Group's website and dedicated telephone and facsimile lines. All complaints received are transmitted to the concerned department, Executive Management and the Board. In accordance with the CBB's disclosure requirements, the Group maintains at least the previous three years' financial performance information on its website.

## Regulations

The Group complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management and corporate governance.

The CBB, as the home supervisor, sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, which set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum capital adequacy ratio of 8% on a solo basis and 12.5% (including capital conservation buffer (CCB) of 2.5%) on a consolidated basis.

By the end of 2014, the CBB had issued the final regulation to give effect to the Basel III framework, which came into effect on 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by introducing a minimum common equity tier 1 (CET1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET1 capital, the regulatory adjustments including amounts above the aggregate limit for significant investments in

financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1st January 2019. The current capital position is sufficient to meet the new regulatory capital requirements.

Pursuant to the Group's Compliance Policy, which was approved and adopted by the Board of Directors in November 2009, as mentioned earlier ABG appointed a Compliance Officer, whose role is to assist management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice.

#### **Financial performance monitoring**

Executive Management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively. All subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by AAOIFI and with International Financial Reporting Standards (IFRS). These are consolidated quarterly, and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

#### **Related party transactions**

Dealings with persons or entities connected with the Group (including directors and shareholders) are called "related party transactions". The Group treats all such transactions at arm's length and requires that they have the specific approval of the Board. If a director is an interested party, he is required to abstain from voting on the respective matter. The Related Party Transactions pertaining to 2017 are reflected in Note 25 to the Consolidated Financial Statements.

#### **Code Of Business Conduct And Ethics**

ABG maintains a board-approved policy on the employment of immediate family members or other relatives of employees. The policy prohibits the employment and internal transfers where applicable, of first and second-degree relatives. However, the policy permits third and fourth degree relatives to be employed in positions other than where there is an actual, potential or perceived conflict of interest, or an opportunity for collusion. The Human Resources and Internal Audit departments are responsible for examining potential applications for employment to check whether there is likely to be an actual or potential conflict of interest as defined by the Group's policies, with particular reference to the code of conduct and conflict of interest policies.

## **REMUNERATION POLICY AND RELATED DISCLOSURES**

The Group's total compensation approach, which includes the variable remuneration policy, sets out the Group's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

Through the remuneration framework summarised below, the Group aims to comply with the CBB's regulations concerning Sound Remuneration Practices.

#### **Remuneration Strategy**

It is the Group's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Group's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Group's shareholders. These elements support the achievement of the Group's objectives, through balancing rewards for both short-term results and long-term sustainable performance. The Group's strategy is designed to share its success, and to align employees' incentives with its risk framework and risk outcomes.

The quality and long-term commitment of all of the Group's employees is fundamental to its success. The Group therefore aims to attract, retain and motivate the very best people, who are committed to maintaining a career with the Group, and who will perform their role in the long-term interests of its shareholders. The Group's reward package is comprised of the following key elements:

1. Fixed pay;
2. Benefits;
3. Annual performance bonus; and
4. The Long-Term Performance Incentive Plan.

A robust and effective governance framework ensures that the Group operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Affairs & Remuneration Committee (BARC) and approved by the Board of Directors thereafter.

The Group's remuneration policy, in particular, considers the role of each employee and sets guidance on whether an employee is a "Material Risk Taker" and/or an "Approved Person" in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Group, while an employee is considered a Material Risk Taker if either he/she is the head of a significant business line, or any individuals within their control have a material impact on the Group's risk profile.

# Corporate Governance (Continued)

In order to ensure alignment between what the Group pays its people and its business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives, summarised in its performance management system. This assessment also takes into account adherence to the Group's values, risks and compliance measures and, above all, acting with integrity. Altogether, performance is, therefore, judged not only on what is achieved over the short and the long-term but also importantly on how it is achieved, as the BARC believes the latter contributes to the long-term sustainability of the business.

## BARC Role and Focus

The BARC has oversight of all reward policies for the Group's employees. The BARC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for setting the principles and governance framework for all compensation decisions. The BARC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Group.

The responsibilities of the BARC with regard to the Group's variable remuneration policy, as stated in its mandate, include, but are not limited to:

- Approving, monitoring and reviewing the remuneration system to ensure the system operates as intended;
- Approving the remuneration policy and amounts for each Approved Person and Material Risk Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensuring remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees who earn the same short-run profit but take different amounts of risk on behalf of the Group;
- Ensuring that, for Material Risk Takers variable remuneration forms a substantial part of their total remuneration;
- Reviewing the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluating practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain; the BARC will question pay-outs for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment;
- Ensuring that, for approved persons in risk management, internal audit, operations, finance and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration;
- Recommending Board members' remuneration based on their attendance and performance, and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensuring appropriate compliance mechanisms are in place to make sure that employees commit themselves not to use personal

hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

- The aggregate remuneration paid to BARC members during the year in the form of sitting fees amounted to US\$48 thousand (2016: US\$49 thousand); other details concerning BARC membership are disclosed elsewhere in this report.

## External Consultants

The Bank used external consultants for some small updates to its remuneration process during the year and for generation of suitable reports for the BARC.

## Scope of Application of the Remuneration Policy

The remuneration policy has been adopted on a Group-wide basis.

## Board Remuneration

The Board of Directors' remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

## Variable Remuneration for Staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Group's strategic objectives.

The Group has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of both meeting satisfactory financial performance and the achievement of other non-financial factors that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the BARC aims to balance the distribution of the Group's profits between shareholders and employees.

Key performance metrics at the Group level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Group starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk the use of risk-adjusted measures (including forward-looking considerations).

The BARC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The BARC demonstrates that its decisions are consistent

with an assessment of the Group's financial condition and future prospects.

The Group uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base may be adjusted at the discretion of the BARC.

Funding for distribution of a bonus pool is dependent on threshold financial targets being achieved by the Group. The performance measures ensure that total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool, as determined above, is subject to risk adjustments in line with the risk assessment and linkage framework.

#### Remuneration of Control Functions

The remuneration level of staff in the control and support functions is maintained at a level, which enables the Group to attract and thus employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

The Group's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment, apart from value-adding tasks, which are specific to each unit.

#### Variable Compensation for Business Units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Group. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the Group are treated differently by the remuneration system.

#### Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Group. In its endeavour to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The BARC considers whether the variable remuneration policy is in line with the Group's risk profile and ensures that, through the Group's ex-ante and ex-post risk assessment framework and

processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Group undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Group ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Group's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Group, which is considered within the context of the Group's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Group-wide notable events.

The size of the variable remuneration pool and its allocation within the Group takes into account the full range of current and potential risks, including:

- a) The cost and quantity of capital required to support the risks taken;
- b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
- c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The BARC keeps itself abreast of the Group's performance against the risk management framework. The BARC will use this information when considering remuneration to ensure that returns, risks and remuneration are aligned.

#### Risk Adjustments

The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions. In any year where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Group's total variable remuneration;
- At an individual level, poor performance by the Group will mean individual KPIs are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards;
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The BARC, with the Board's approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment;
- Consider additional deferrals or increase in the quantum of non-cash awards;
- Recovery through malus and clawback arrangements.

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# Corporate Governance (Continued)

## Malus and Clawback Framework

The Group's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Group to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Group to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Group during the relevant performance year.

Any decision to take back an individual's award can only be made by the Board of Directors.

The Group's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Group/employee's business unit to suffer material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the relevant performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the relevant performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

### Components of Variable Remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Up front share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Group's share price as per the rules of the Group's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

### Deferred Compensation

All employees earning over BHD100 thousand or equivalent, in total compensation shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Deferral	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 months	Yes	Yes
Deferred cash	0%	Over 3 years	-	Yes	Yes
Deferred share awards	60%	After 3 years	6 months	Yes	Yes

The BARC, based on its assessment of role profile and risk taken by an employee, may increase the coverage of employees that are subject to deferral arrangements.

Details of remuneration paid

#### a) Board of Directors

	US\$ '000	
	2017	2016
Sitting Fees	246	475
Remuneration	1,500*	1,500
Other	100	221

The category 'Other' includes the reimbursement of air fares and payment of per diem allowances for attending Board of Directors and Board Committees' meetings.

\*To be approved by AGM in March 2018.

#### b) Employee Remuneration

Total fixed remuneration for Approved Persons and Material Risk Takers affected by the policy amounted to US\$6,551 thousand (2016: US\$3,696 thousand) and the number of persons affected: 13 (2016:9).

The total variable remuneration for 2017 was US\$6,485 thousand (2016: US\$2,886 thousand).

#### c) Deferred Awards

Selected members of management in ABC's subsidiaries are entitled to deferred variable remuneration under a Management Incentive Programme based on pre-defined objectives and thresholds of performance. Annual amounts of such variable remuneration, in accordance with the said programme, are used to purchase shares in ABC, which purchases are deferred over a three year period, with annual vesting. Total amounts of deferred variable remuneration amounted to US\$3,853 thousand (2016: US\$4,329 thousand).

#### d) Severance Pay – Nil (2017-2016)

# Corporate Governance (Continued)

## (1) Employee remuneration

### Details of Remuneration Paid For the Financial Year Ended 2017

Categories of Employees	No.	Fixed Remuneration (US\$ '000)			Variable Remuneration (US\$ '000)						Total (US\$ '000)
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others		
									Total	Total	
Employees engaged in risk taking activities (business areas)	2	1,830	769	2,599	2,082	3,125	-	-	-	5,207	7,806
Approved Persons in risk management, internal audit, operations, financial control, AML and compliance functions	7	2,107	732	2,839	393	589	-	-	-	982	3,821
Employees, other than approved persons, engaged in functions under 2	4	917	196	1,113	119	177	-	-	-	296	1,409
<b>Total</b>	<b>13</b>	<b>4,854</b>	<b>1,697</b>	<b>6,551</b>	<b>2,594</b>	<b>3,891</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,485</b>	<b>13,036</b>

### Details of Remuneration Paid For the Financial Year Ended 2016

Categories of Employees	No.	Fixed Remuneration (US\$ '000)			Variable Remuneration (US\$ '000)						Total (US\$ '000)
		Salaries and Wages	Other Benefits & Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others		
									Total	Total	
Employees engaged in risk taking activities (business areas)	2	1,748	433	2,181	2,435	3,652	-	-	-	6,087	8,268
Approved Persons in risk management, internal audit, operations, financial control, AML and compliance functions	7	1,948	630	2,578	452	677	-	-	-	1,129	3,707
Employees, other than approved persons, engaged in functions under 3	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>9</b>	<b>3,696</b>	<b>1,063</b>	<b>4,759</b>	<b>2,886</b>	<b>4,329</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,216</b>	<b>11,975</b>

## (2) Deferred awards

	2017				
	Cash (US\$ '000)	Shares			Total (US\$ '000)
		Number ('000)	(US\$ '000)	Others (US\$ '000)	
Opening balance	-	15,556	7,871	-	7,871
Awarded during the period	-	10,275	3,853	-	3,853
Paid / released during the period	-	-	-	-	-
Service in value unvested opening awards	-	-	-	-	-
<b>Closing balance</b>	<b>-</b>	<b>25,830</b>	<b>11,724</b>	<b>-</b>	<b>11,724</b>

  

	2016				
	Cash (US\$ '000)	Shares			Total (US\$ '000)
		Number ('000)	(US\$ '000)	Others (US\$ '000)	
Opening balance	-	6,721	3,542	-	3,542
Awarded during the period	-	8,835	4,329	-	4,329
Paid / released during the period	-	-	-	-	-
Service in value unvested opening awards	-	-	-	-	-
<b>Closing balance</b>	<b>-</b>	<b>15,556</b>	<b>7,871</b>	<b>-</b>	<b>7,871</b>

## RISK MANAGEMENT

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process.

ABG's Head of Credit and Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the Group subsidiaries all necessary steps for adhering to the requirements of Basel III and, where and when still applicable, Basel II, under the Central Bank of Bahrain (CBB) rules. He is also responsible for introducing and implementing risk measurement software, monitoring the Group's compliance with risk measurement standards and providing the Risk Committee of the Board of Directors and Group management with reports on the various risks.

Risk management is an integral part of the Group's decision making process. The Board of Directors, acting on recommendations made by the Board Risk Committee defines and sets the Group's overall risk appetite, risk diversification and asset allocation strategies. This includes the policies regarding related party transactions, their reporting and approval. The Management Risk Committee and other executive committees guide and assist with management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors or under delegated authorities by committees of the management. Risk policies and processes to mitigate the risks are regularly reviewed.

The Group's risk management has the following objectives:

- a. unified Group-wide risk management with the ultimate aim of enabling the Group to calculate risk-adjusted return on capital;
- b. inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk-taking based on comprehensive Group-wide policies, processes and limits;
- c. professionally qualified staff and ongoing credit training;
- d. investing in technology and systems enabling best practice risk management;
- e. throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business;
- f. strict compliance with all Shari'a and legal requirements and regulatory directives; and
- g. maintaining clear, well documented policies via a "Group Credit and Risk Policies and Guidelines Manual" and credit and risk management manuals in each of the subsidiaries, which incorporate the policies and guidelines of the Group in addition to the local requirements.

Each of ABG's subsidiaries is governed by its respective Board of Directors. Group subsidiaries follow documented credit policies and procedures which, as stated above, reflect Group-wide policies and so ensure that sound risk management is in place in all ABG's subsidiaries.

A consolidating system for the calculation of capital adequacy, taking into account credit, market and operational risk, all in accordance with Basel III requirements, is in operation. This allows Head Office to retrieve data automatically. Furthermore, operational risk systems in each Subsidiary ensure a consistent approach to operational risk.

The Group has continued to maintain momentum towards achieving optimal risk management policies, practices and procedures, pursuing five key objectives:

- Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts to bring about resilient asset quality in face of increased challenges in some of the Group's markets.
- All subsidiaries ensure that their NPA provisioning policies are in line with both Group policies and local regulatory requirements.
- Subsidiaries continue to strive to ensure a high degree of cooperation between their business arms and risk management departments. Hiring and training of credit and risk management staff is an ongoing priority in each unit.
- Each subsidiary has an approved Credit and Risk Management Manual, covering all relevant risks to which it is subject, which accords with Group policies and procedures.
- All subsidiaries submit timely quarterly risk management reports to Head Office, which fully meet regulatory requirements. The contents of these reports are continuously expanded in order to provide Head Office with increasingly comprehensive data.

A standard risk management framework has been established across the Group, reflected in operational manuals that closely adhere to Group policy regarding all the major categories of risk that the Group faces when carrying out its business. These are: Credit, Liquidity, Market (including Equity Price, Profit Rate and Foreign Exchange risk), Operational (including Fraud Risk and Information Security Risk) and Shari'a Compliance risks. Each of these major risks is discussed below.

### Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, Murabaha and Ijarah) and working capital and other financing transactions (Salam, Istisna'a, Musharaka or Mudaraba).

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures. Authority to approve credits is delegated by the subsidiary's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that subsidiary.

# Corporate Governance (Continued)

Mitigation of credit risk is chiefly achieved through obtaining various forms of collateral if this is deemed necessary.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties, and assessing their quality and adherence to laid down approval procedures. Each subsidiary also maintains policies and procedures covering "single obligor large exposures" and case-by-case approvals of "related party transactions".

During the year ABG and its Subsidiaries made all necessary preparations including acquiring credit rating and other systems and revising credit policies and procedures for introduction of the new FAS 30 Accounting Standard of AAOIFI on January 1, 2018.

## Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances.

ABG and its subsidiaries each has in place a liquidity management framework, taking into account its liquidity exposures in respect of its current and savings accounts, deposits from banks and other financial institutions, and its restricted and unrestricted investment accounts. This ensures that it maintains liquid assets at prudential levels so that cash can quickly be made available to honour all its obligations. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets, as well as the potential risk impact of withdrawals by large single depositors, ensuring that ABG does not rely excessively on one customer or small group of customers. In addition to its own internal liquidity management policies, each subsidiary is further required to maintain cash deposits with its respective central bank equal to a percentage of its deposits as directed by that central bank – in most cases 20%. ABG additionally holds liquid funds which are earmarked and available for its subsidiaries in the unlikely event that they should require assistance. Liquidity management reporting conforms to all local regulations.

## Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Mudaraba, Musharaka and other investments. Based on Group policies, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

## Profit Rate Risk or Rate of Return Risk

Profit rate risk or rate of return risk is the risk that the Group will incur a financial loss as a result of a mismatch in the profit rate on the Group's assets and unrestricted investment accounts. The Group is not liable to pay any predetermined returns to investment account holders, although it does apply appropriate income smoothing techniques to ensure that profits are fairly distributed to the investment account holders.

## Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of currency exchange rates over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2017 are detailed in Note 28 to the Financial Statements.

## Operational Risk

Operational risk is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk associated with carrying out the Group's operations is through internal procedures and monitoring and control mechanisms, while management of legal risk is through effective consultation with internal and external legal counsel. Other kinds of operational risk are managed by ensuring that trained and competent people – and appropriate infrastructure, controls and systems – are in place to ensure the identification, assessment and management of all substantial risks.

The Group is also exposed to risks relating to its fiduciary responsibilities towards fund providers. Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group subsidiaries have in place appropriate mechanisms to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with an ABG subsidiary's own funds, the respective subsidiary ensures that the basis for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

As mentioned above, Group policy dictates that the operational functions of booking, recording and monitoring transactions are carried out by staff independent of the staff initiating the transactions. Group subsidiaries have primary responsibility for identifying and managing their own operational risks. Each subsidiary is guided by policies, procedures and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, and reconciliations, and are based on the submission of timely and reliable management reporting.

Separate and independent Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions.

### **Information Security (Cyber Security) Risk**

The Group continued with enhancing management of information security (cyber security) risk in 2017. It has assessed the risks, identified controls and is implementing solutions. The Group already has comprehensive IT security policy and procedures, which are in line with leading industry practices. The Information Security Risk Management Committee at Head Office met regularly in 2017 and continued implementing a new Information Risk Management Framework and Group Policy and Guidance.

### **Compliance Risk**

Compliance risk is defined as the risk of legal or regulatory sanctions, material or financial loss or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, codes of conduct and standards. The landscape for compliance has changed substantially in recent years. As a result, ABG and its subsidiaries are continuously enhancing their compliance risk management framework. Please refer to separate section on Group Compliance function.

### **Shari'a Compliance Risk**

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and, in this respect, is akin to reputation risk. It also includes the risk of legal or regulatory sanctions that the Group or its subsidiaries may suffer as a result of failure to comply with laws and regulations. As mentioned above, the Group has in place a Compliance Policy that provides for the assessment of compliance risks, the implementation of appropriate controls, monitoring of effectiveness, and correction and eradication of exceptions. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and principles. In accordance with CBB regulations and AAOIFI Standards, the Group has been certified by the Unified Shari'a Supervisory Board to be in compliance with Shari'a Standards and Principles.

## **CAPITAL MANAGEMENT/CAPITAL ADEQUACY**

Capital is managed at ABG with a view to meeting the capital maintenance requirements directed by the CBB and achieving optimum utilisation in the course of carrying out its business, in accordance with its predetermined risk appetite and intended risk profile, and with the ultimate aim of maximising shareholders' returns. Capital management includes pro-actively making appropriate and necessary adjustments to reflect changes in the economic environment or in the degree or nature of risk associated with the Group's activities, including adjustment to its dividend policy, issue of Tier 1 or Tier 2 securities by way of public issue or private placement, etc.

Optimum capital management, therefore, addresses such crucial issues as:

- ensuring that adequate capital is held at all times to meet unexpected calls occasioned by such events as sudden withdrawals by depositors, earlier than expected drawdown of facilities, or unexpected losses;
- achieving the Group's return on capital objectives;
- meeting capital adequacy ratio targets and regulatory imperatives; and
- maintaining the Group's strong credit rating.

The Group's capital adequacy ratio as at 31 December 2017 was 17.27%, comfortably above the CBB's minimum regulatory requirement of 12.5% (including CCB of 2.5%).

Each of ABG's banking subsidiaries is directly regulated by its own home regulator, which stipulates a minimum capital adequacy ratio for that subsidiary. ABG ensures that each subsidiary adheres to these local capital adequacy requirements.

## **INFORMATION TECHNOLOGY**

The Head Office IT Steering Committee governs and supports IT strategies, policies, projects and initiatives across all ABG subsidiaries, and ensures that they are consistent with the Group's strategic aims as well as each subsidiary's local strategy. The Group's short, medium and long-term IT strategies are now well established, standardised around a few carefully chosen core banking solutions that have been successfully implemented across all ABG subsidiaries. The Head Office IT Steering Committee monitors the Group's IT strategy, updating it periodically to make sure it can enable ABG's strategic objectives.

ABG's web-based financial consolidation and reporting solution measures corporate performance against key performance indicators based on the Group's strategic objectives. It is used to set benchmarks for each subsidiary and to monitor their performances continuously. This tool captures data from each subsidiary in its local currency and performs monthly, quarterly and annual consolidations in US dollars. In this way, it enables the collection, processing, reporting and analysing of data from across the various subsidiaries.

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# Corporate Governance (Continued)

All of the Group subsidiaries have implemented core banking systems selected from a list approved by Head Office, so meeting central bank requirements for greater automation. The subsidiaries are now introducing satellite systems in areas such as risk management, cyber security, internet and mobile banking as well as many other areas. Following the merger of Al Baraka Bank (Pakistan) Ltd and Burj Bank Ltd in Pakistan, the two banks have started the process of adopting one banking system as part of their integration. Broadly speaking, the new core banking systems reduce the time to market for retail products and campaigns. They also increase automation, leading to greater effectiveness and efficiency.

The Head Office IT Steering Committee is working with subsidiaries to introduce systems that automate the process of complying with international anti-money laundering and know-your-client regulations, as well as the Foreign Account Tax Compliance Act (FATCA). These systems also screen transactions against the Office of Foreign Assets Control (OFAC) sanctions list.

Each subsidiary has a disaster recovery centre, which is tested and audited at least once a year. The Group is working towards a unified standard of business continuity and disaster recovery, helping all subsidiaries to adopt best practices.

A Group-level cyber security committee was set up in 2016 to make sure that the Group and its subsidiaries have the right people, technology and policies to guard against cyber frauds or attacks. The cyber security committee has completed gap analysis of information security framework in the units and is now working with the individual units to ensure that gaps in information security framework are rectified.