



## ARAB BANKING CORPORATION (B.S.C.)

### CORPORATE GOVERNANCE CHARTER

<b>Adopted by virtue of a Board Resolution dated 23 December 2010 and amended on:</b>
29 March 2012
11 November 2012
16 November 2014
22 March 2015
13 November 2016
26 March 2017
15 May 2017
24 July 2017
25 March 2018
20 December 2018
22 July 2019
24 November 2019
09 February 2020
19 April 2020

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## SECTION - 1

### EFFECTIVE DATE AND DEFINED TERMS

#### 1.1 EFFECTIVE DATE

This Charter shall become effective on 31<sup>st</sup> December 2010, whereupon the Corporate Governance Principles and Guidelines approved by the Board on 19<sup>th</sup> May 2004 (as amended on 28<sup>th</sup> March 2006 and 27<sup>th</sup> December 2007) shall be replaced by this Charter.

#### 1.2 DEFINED TERMS

In this Charter the following capitalised terms have the following meanings:

**"Approved Person"** means any director, officer or employee of the Company whose appointment to such position is required to be approved by the CBB.

**"Board"** means the board of directors of the Company.

**"CBB"** means the Central Bank of Bahrain.

**"Chairman"** means the chairman of the Board.

**"Code"** means the Corporate Governance Code of Bahrain.

**"Code of Conduct"** means the code of conduct of the Company from time to time in force.

**"Company"** means Arab Banking Corporation (B.S.C.).

**"Company Law"** means the Commercial Companies Law of Bahrain (Decree No-21, issued 20<sup>th</sup> June 2001).

**"Controlling Shareholder"** means any shareholder of the Company who either alone or with his associates holds 10% or more of the share capital or is able to exercise (or control the exercise of) 10% or more of the voting power in the Company.

**"Director"** means a member of the Board.

**"Executive Director"** means a Director who is an officer or employee, or is otherwise involved in day-to-day management, of either:

- (a) the Company;
- (b) another company which is a controlling shareholder of the Company;
- (c) another company of which the Company is a controlling shareholder; or
- (d) another company which is controlled by a controlling shareholder of the Company.

In this definition, the word "company" which is a controlling shareholder of the Company excludes sovereigns such as government owned entities and government ministries.

**"GCEO"** means the Group chief executive officer.

"**Group**" means the Company and its subsidiaries for the time being.

"**HC Module**" means the CBB Rulebook, Volume 1 (*Conventional Banks*), High-Level Controls Module.

"**Independent Director**" means a Director that satisfies the criteria set-forth in Appendix A.

"**Material Risk Taker**" means such employees of the Company as the CBB may require from time to time to be identified as such and any other employee, or group of employees, of the Company from time to time designated as such by the Remuneration Committee.

"**MOIC**" means the Ministry of Industry and Commerce of Bahrain.

"**Non-executive Director**" means any Director who is not an Executive Director.

"**Secretary of the Board**" means the corporate secretary to the Board as determined by the Board.

## SECTION - 2

### THE BOARD

#### 2.1 THE BOARD'S ROLE AND RESPONSIBILITIES

**2.1.1 The role of the Board** – Each Director acknowledges and agrees to the Board's role and under the Company Law responsibilities, in particular:

- (a) the Board's role as distinct from the role of the shareholders (who elect the Board and whose interests the Board serves) and the role of the officers (whom the Board appoints and oversees), and
- (b) the Board's fiduciary duties of care and loyalty to the Company and the shareholders.

**2.1.2 Responsibilities of the Board** – The Board's responsibilities include (but are not limited to):

- (a) those responsibilities assigned to the Board by the Articles of Association of the Company;
- (b) establishing the objectives of the Company;
- (c) the overall business performance of the Company;
- (d) monitoring management performance;
- (e) the adoption and annual review of strategy;
- (f) monitoring the implementation of strategy by management;
- (g) causing financial statements to be prepared which accurately disclose the Company's financial position;
- (h) convening and preparing the agenda for shareholder meetings;
- (i) monitoring conflicts of interest and preventing abusive related party transactions;
- (j) assuring equitable treatment of shareholders including minority shareholders;
- (k) the adoption and review of management structure and responsibilities;
- (l) the adoption and review of the systems and controls framework; and
- (m) overseeing the design and operation of the remuneration systems of the Company and the Group and ensuring that such systems are not primarily controlled by the GCEO or other members of the executive management of the Group.

**2.1.3 Responsibilities of the Board with regard to risk recognition and assessment** - The Board is responsible for ensuring that the systems and controls framework, including the Board structure and organisational structure of the Company, is appropriate for the Company's business and associated risks. The Board shall ensure that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the Company is exposed in its business activities.

The Board shall regularly assess the systems and controls framework of the Company. In its assessments, the Board must demonstrate to the CBB that:

- (a) The Company's operations, individually and collectively, are measured, monitored and controlled by appropriate, effective and prudent risk management systems, commensurate with the scope of the Company's activities.
- (b) The Company's operations are supported by an appropriate control environment. The compliance, risk management and financial reporting functions shall be adequately resourced, independent of business lines and must be run by individuals not involved with the day-to-day running of the various business areas. The Board shall additionally ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as on-going monitoring of accounts and transactions, in keeping with the requirements of relevant law, regulations and best practice (with particular regard to anti-money laundering measures). The control environment must maintain necessary client confidentiality and ensure that the privacy of the Company is not violated, and ensure that client's rights and assets are properly safeguarded; and
- (c) Where the Board identifies any significant issues related to the Company's adopted governance framework, appropriate and timely action will be taken to address any identified adverse deviations from the requirements of the HC Module.

**2.1.4 Strategy review process** – In its strategy review process under Sections 2.1.2(e) and 2.1.2(f), the Board shall:

- (a) review the Company's business plans and the inherent level of risk in these plans;
- (b) assess the adequacy of capital to support the business risks of the Company;
- (c) set performance objectives; and
- (d) oversee major capital expenditures, divestitures and acquisitions.

The Board shall ensure that the Company notifies the CBB in writing of all major proposed changes to the Company's strategy and/or corporate plan prior to the implementation of such major changes.

**2.1.5 Delegation by the Board** – The Directors are responsible both individually and collectively for performing the responsibilities outlined in Sections 2.1.2 (*Responsibilities of the Board*). Although the Board may delegate certain functions to committees or management, it may not delegate its ultimate responsibility to ensure that an adequate, effective, comprehensive and transparent corporate governance framework is in place.

## **2.2 THE BOARD'S DECISION-MAKING PROGRESS**

**2.2.1 Nature of Board meetings** – The Board shall be collegial and deliberative, to gain the benefit of each individual Director's judgment and experience. The Chairman shall take an active lead in promoting mutual trust, open discussion, constructive dissent and support for decisions after they have been made.

**2.2.2 Number of Board meetings** – The Board shall meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All Directors shall attend the Board meetings whenever possible and the Directors shall maintain informal communication between Board meetings.

**2.2.3 Information for meetings** – The Chairman is responsible for the leadership of the Board and for the efficient functioning of the Board. The Chairman shall ensure that all Directors receive an agenda, minutes of prior meetings, and adequate background information in writing before each Board meeting and when necessary

between meetings. All Directors shall receive the same Board information. At the same time, Directors shall have a legal duty to inform themselves and they shall ensure that they receive adequate and timely information and shall study it carefully.

**2.2.4 Membership** – The Board shall have no more than 12 members and no fewer than 4 members, and shall regularly review its size and composition to assure that it is small enough for efficient decision making yet large enough to have members who can contribute from different specialties and viewpoints. The Board shall recommend changes in Board size to the shareholders when a needed change requires amendment of the Company's Memorandum of Association.

**2.2.5 Duties of Non-executive Directors** – Potential Non-executive Directors shall be made aware of their duties before their nomination, particularly as to the time commitment required. The Remuneration Committee shall regularly review the time commitment required from each Non-executive Director and shall require each Non-executive Director to inform the Committee before he accepts any Board appointments to another Company.

**2.2.6 Maximum number of other directorships** – A Director shall not hold:

- (a) more than one directorship of any category of a CBB licensed bank in Bahrain (such as a "Wholesale Bank" or "Retail Bank" as defined by the CBB) unless otherwise permitted by the CBB; or
- (b) more than three Directorships in public companies in Bahrain,

and with the provision that no conflict of interest may exist, and the Board shall not propose the election or re-election of any Director who does.

## **2.3 DIRECTOR'S INDEPENDENCE OF JUDGEMENT**

**2.3.1 Independent judgment** – Every Director shall bring independent judgment to bear in decision-making. No individual or group of Directors shall dominate the Board's decision-making and no one individual shall have unfettered powers of decision.

**2.3.2 Information from Executive Directors** – Executive Directors shall provide the Board with all relevant business and financial information within their cognizance, and shall recognize that their role as a Director is different from their role as an officer of the Company.

**2.3.3 Independence of Non-executive Directors** – Non-executive Directors shall be fully independent of management and shall constructively scrutinize and challenge management including the management performance of Executive Directors.

**2.3.4 Number of Non-executive Directors and Independent Directors** – At least half of the Company's Board shall be Non-executive Directors and at least three of those persons shall be Independent Directors. So long as the Company has a Controlling Shareholder, at least one-third of the Board shall be Independent Directors.

**2.3.5 Chairman to be Independent Director** – The Chairman shall be an Independent Director.

**2.3.6 Deputy Chairman/men** – The Deputy Chairman/men shall not be the GCEO.

**2.3.7 Review of independence** – The Board shall review the independence of each Independent Director at least annually in light of interests disclosed by them and the criteria in Appendix A (*Definition of Independent Director*). Each Independent Director shall provide the Board with all necessary and updated information for this purpose.



**2.3.8 Meeting of Independent Directors** – To facilitate free and open communication among Independent Directors, each Board meeting shall be preceded or followed with a session at which only Independent Directors are present, except as may otherwise be determined by the Independent Directors themselves. The Chairman (if not an Independent Director) shall meet with the Independent Directors (separately from the other Directors) on an "as needed" basis so that the Independent Directors may provide feedback to the Chairman on the running of the Board.

## **2.4 THE BOARD'S REPRESENTATION OF ALL SHAREHOLDERS OF THE COMPANY**

**2.4.1 Shareholder representation** – Each Director shall consider himself as representing all shareholders and shall act accordingly. The Board shall avoid having representatives of specific groups or interests within its membership and shall not allow itself to become a battleground of vested interests. If the Company has a controlling shareholder (or a controlling group of shareholders acting in concert), the latter shall recognize its or their specific responsibility to the other shareholders, which is direct and is separate from that of the Board. Minority shareholders shall generally look to Independent Directors' diligent regard for their interests, in preference to seeking specific representation on the Board.

**2.4.2 Controlling Shareholders' responsibilities** – To the extent the Company has a controlling shareholder, both controlling and non-controlling shareholders shall be aware of controlling shareholders' specific responsibilities regarding their duty of loyalty to the Company and conflicts of interest and also of rights that minority shareholders may have to elect specific Directors under the Company Law or if the Company has adopted cumulative voting for Directors. The Chairman or other individual delegated by the Chairman shall take the lead in explaining this with the help of Company's lawyers.

## **2.5 DIRECTORS' ACCESS TO INDEPENDENT ADVICE**

**2.5.1 Independent advice** – The Board shall ensure by way of formal procedures that individual Directors have access to independent legal or other professional advice at the Company's expense whenever they judge this necessary to discharge their responsibilities as Directors and this shall be in accordance with the Company's policy approved by the Board.

**2.5.2 Access to Secretary of the Board** – Individual Directors shall also have access to the Secretary of the Board, who shall have responsibility for reporting to the Board on Board procedures. Both the appointment and removal of the Secretary of the Board shall be a matter for the Board as a whole, not for the GCEO or any other officer.

**2.5.3 Recording dissent** – Whenever a Director has serious concerns which cannot be resolved concerning the running of the Company or a proposed action, he shall consider seeking independent advice and shall ensure that the concerns are recorded in the Board minutes and that any dissent from a Board action is noted or delivered in writing. Upon resignation, a Non-executive Director shall provide a written statement to the Chairman, for circulation to the Board, if he has any such concerns.

## **2.6 DIRECTORS' COMMUNICATION WITH MANAGEMENT**

**2.6.1 Management participation** – While management members are not entitled by right to attend Board meetings, the Board encourages participation by management regarding matters the Board is considering, and also by management members who by reason of responsibilities or succession, the GCEO believes shall have exposure to the Directors.

**2.6.2 Access to management** – Non-executive Directors shall have free access to the Company's management beyond that provided in Board meetings. Such access shall be through the chairman of the Audit Committee or the GCEO.

## 2.7 COMMITTEES OF THE BOARD

**2.7.1 Creation of committees** – The Board may, from time to time, create specialised committees when and as such committees are needed. The Board has established the following specialised committees:

- (a) The Executive Committee. The operation of the Executive Committee is currently suspended pursuant to a resolution of the Board dated 15<sup>th</sup> May 2017.
- (b) The Audit Committee, which is responsible to the Board for ensuring the integrity and effectiveness of the Group’s system of financial, accounting and risk management controls and practices and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates. The Committee is also responsible for recommending the appointment, compensation and oversight of the external auditors and the appointment of the internal auditor. The formal mandate of the Audit Committee is set out in Appendix B (*Audit Committee Charter*).
- (c) The Corporate Governance Committee, which assists the Board in shaping and monitoring the corporate governance policies and practices of the Group and evaluating compliance with policies and procedures; the Committee also reviews and assesses the adequacy of the Group’s policies and practices on corporate governance. The Committee also makes recommendations to the Board with regard to appointments to the Board and the size and composition of the Board and its committees. The formal mandate of the Corporate Governance Committee is set out in Appendix C (*Corporate Governance Committee Charter*).
- (d) The Board Risk Committee, which is responsible for the continual review and approval of the Group’s Credit and Risk Policies and the consideration and approval of related limit applications and those matters that are beyond senior management’s delegated authority. The Committee reviews and makes recommendations to the Board regarding the Medium Term and Annual Risk Strategy/Appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Group’s Risk Policies and Strategy. The formal mandate of the Board Risk Committee is set out in Appendix D (*Board Risk Committee Charter*).
- (e) The Remuneration Committee is responsible for overseeing the design and operation of the remuneration systems of the Company and the Group, with particular regard to Approved Persons and Material Risk Takers, and for ensuring that such systems are not primarily controlled by the GCEO or other members of the executive management of the Group, as well as senior management appointments. With regard to remuneration, the overarching purpose of the Remuneration Committee is to consider, agree and recommend to the Board an overall remuneration policy and philosophy for the Company and the Group that is aligned with the Company’s long term business strategy, business objectives, risk appetite, values and long term interests, whilst recognising the interests of relevant stakeholders. The formal mandate of the Nomination and Compensation Committee is set out in Appendix E (*Remuneration Committee Charter*).
- (f) The Board Strategy Committee. The formal mandate of the Board Strategy Committee is set out in Appendix F (*Board Strategy Committee Charter*).

**2.7.2 Maximum number of committee posts held by a Director** – No Director shall be a member of more than three Board committees at any one time.

**2.7.3 Non-Directors on Committees** – The Board or a committee may invite non-Directors to participate in a committee’s meetings so that the committee may gain the benefit of their advice and expertise in financial or

other areas.

**2.7.4 Mandate of Committees** – Committees must act only within their formal written mandates (as approved by the Board) and, therefore, the Board may not allow any committee to dominate or effectively replace the whole Board in its decision-making responsibility.

## **2.8 ATTENDANCE AT BOARD / COMMITTEE MEETINGS**

**2.8.1 Minimum attendance** – Individual Directors should attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Notwithstanding the Articles, voting and attendance proxies for Board meetings are prohibited at all times. In accordance with the Articles, the Board may deem that any Director that fails to attend any three consecutive meetings of the Board to have resigned.

**2.8.2 Recording of attendance record** – The absence of Directors at Board and committee meetings must be noted in the meeting minutes. In addition, Board attendance percentage must be reported during any general assembly meeting when Directors stand for re-election.

**2.8.3 CBB notification of non-attendance** – In the event that a Director has not attended at least 75% of Board meetings in any given financial year, the Company is required by the HC Module to notify the CBB indicating which Director has failed to satisfy this requirement, his level of attendance and any mitigating circumstances affecting his non-attendance. The CBB shall then consider the matter and determine whether disciplinary action, including disqualification of that Director is appropriate.

## SECTION - 3

### LOYALTY TO THE COMPANY

#### 3.1 PERSONAL ACCOUNTABILITY

**3.1.1 Acknowledgment of personal accountability** – Each Director and officer shall understand that under the Company Law he is personally accountable to the Company and the shareholders if he violates his legal duty of loyalty to the Company, and that he can be personally sued by the Company or the shareholders for such violations.

**3.1.2 Duty of loyalty** – The duty of loyalty described in Section 3.1.1 (*Acknowledgment of personal accountability*) includes a duty not to use property of the Company for his personal needs as though it was his own property, not to disclose confidential information of the Company or use it for his personal profit, not to take business opportunities of the Company for himself, not to compete in business with the Company, and to serve the Company’s interest in any transactions with the Company in which he has a personal interest.

**3.1.3 "Personal interest"** – A Director and a CBB approved person shall be considered to have a “personal interest” in a transaction with the Company if:

- (a) he himself, or
- (b) a member of his family (i.e. spouse, father, mother, sons, daughters, brothers or sisters), or
- (c) another company of which he is a Director or controlling shareholder,

is a party to the transaction or has a material financial interest in the transaction. Transactions and interests which are de minimis in value shall not be included.

**3.1.4 Code of Conduct** – The Board has established corporate standards for Directors and employees of the Company, which are set out in this Charter and the Code of Conduct. The Code of Conduct shall be communicated throughout the Company.

#### 3.2 AVOIDANCE OF CONFLICTS OF INTEREST

Each Director and CBB approved person shall make every practicable effort to arrange his personal and business affairs to avoid a conflict of interest with the Company.

#### 3.3 DISCLOSURE OF CONFLICTS OF INTEREST

**3.3.1 Disclosure to the Board** – Each Director and CBB approved person shall inform the entire Board of conflicts of interest (and potential conflicts of interest) in their activities with and commitments to, other organisations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure shall include all material facts in the case of a contract or transaction involving the Director or CBB approved person. The Directors and CBB approved persons must understand that any approval of a conflict transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision.

Each Director and CBB approved person shall declare in writing all of their other interests in other enterprises or activities (whether as a shareholder of above 5% of the voting capital of a company, a manager, or other form of significant participation) to the Board (or the Remuneration Committee or the Audit Committee) on an annual basis.

**3.3.2 Unanimous Board approval for material conflicts** – Any decision to enter into transactions under which a Director or CBB approved person would have conflicts of interest or personal interest(s) that are material, shall be formally and unanimously approved by the full Board.

**3.3.3 Material conflicts of interest** – Subject to Section 3.3.2 (*Unanimous Board approval for material conflicts*) Directors shall:

- (a) not enter into competition with the Company;
- (b) not demand or accept substantial gifts from the Company for himself or his connected persons;
- (c) not misuse the Company's assets;
- (d) not use the Company's privileged information or take advantage of business opportunities to which the Company is entitled, for himself or his associates; and
- (e) absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a conflict of interest exists.

#### **3.4 DISCLOSURE OF CONFLICTS OF INTEREST TO SHAREHOLDERS**

The Company shall disclose to its shareholders in the Annual Report any abstention from voting motivated by a conflict of interest and shall disclose to its shareholders any authorization of a conflict of interest contract or transaction in accordance with the Company Law.

## SECTION - 4

### APPOINTMENT, TRAINING AND EVALUATION OF THE BOARD

#### 4.1 BOARD NOMINATIONS TO SHAREHOLDERS

**4.1.1 Proposed Directors** – Each proposal by the Board to the shareholders for election or re-election of a Director shall be accompanied by a recommendation from the Board, a summary of the advice of the Corporate Governance Committee, and the following specific information:

- (a) the term to be served, which may not exceed three years (but there need not be a limit on re-election for further terms);
- (b) biographical details and professional qualifications;
- (c) in the case of an Independent Director, a statement that the Board has determined that the criteria in Appendix A (*Definition of Independent Director*) have been met;
- (d) any other directorships held;
- (e) particulars of other positions which involve significant time commitments; and
- (f) details of relationships between:
  - (i) the candidate and the Company; and
  - (ii) the candidate and other Directors of the Company.

**4.1.2 Age of Directors** – Without prejudice to the right of the shareholders of the Company to elect or nominate Directors of any age, the Board considers that Directors that they propose for election or re-election by the shareholders should not generally exceed the age of 64 at the time of the relevant election.

**4.1.3 Term limits** – There are no limits on the number of terms that can be served by a Director.

**4.1.4 GCEO** – If the GCEO also sits on the Board, he/she shall resign and/or be removed from the Board if he/she ceases to be the GCEO.

**4.1.5 Share ownership** – Directors are not required to own any shares in the Company.

**4.1.6 Chairman confirmation** – The Chairman shall confirm to shareholders when proposing re-election of a Director that, following a formal performance evaluation, the person's performance continues to be effective and continues to demonstrate commitment to the role. Any term beyond six years (e.g. two three-year terms) for a Director shall be subject to particularly rigorous review, and shall take into account the need for progressive refreshing of the Board.

#### 4.2 INDUCTION AND TRAINING OF DIRECTORS

**4.2.1 Induction of new Director/s** – When a new Director is inducted, the Chairman or the Company's legal counsel or compliance officer or other individual delegated by the Chairman, shall review the Board's role and duties with that person, particularly covering legal and regulatory requirements of this Charter, the Code and the HC

Module.

The Chairman shall ensure that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction shall include meetings with senior management, visits to Company facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

**4.2.2 Induction open to continuing Directors** – All continuing Directors shall be invited to attend orientation meetings and all Directors shall continually educate themselves as to the Company’s business and corporate governance.

**4.2.3 Management programs and presentations** – Management, in consultation with the Chairman, shall hold programs and presentations to Directors respecting the Company’s business and industry, which may include periodic attendance at conferences and management meetings. The Corporate Governance Committee shall oversee Directors’ corporate governance educational activities.

**4.2.4 Director appointment agreements** – The Company shall have a written appointment agreement with each Director which recites the Directors’ powers, duties, responsibilities and accountabilities and other matters relating to their appointment including their term, the time commitment envisaged, the committee assignment (if any), their remuneration and expense reimbursement entitlement, and their access to independent professional advice when that is needed.

### **4.3 EVALUATION OF THE BOARD AND EACH COMMITTEE**

**4.3.1 Annual evaluation** – At least annually the Board shall conduct an evaluation of its performance and the performance of each committee and each individual Director. The evaluation process shall include:

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

**4.3.2 Administration of evaluation by committee** – While the evaluation is a responsibility of the entire Board, it shall be organized and assisted by an internal Board committee and, when appropriate, with the help of external experts.

**4.3.3 Reporting to shareholders** – The Board shall report to the shareholders, at each annual shareholder meeting, that evaluations have been done.

## SECTION - 5

### REMUNERATION

#### 5.1 STANDARD FOR ALL REMUNERATION

Subject to Section 5.3, the remuneration of both Directors and employees of the Company shall be sufficient enough to attract, retain and motivate persons of the quality needed to run the Company successfully, but the Company shall avoid paying more than is necessary for that purpose. In particular, Approved Persons and Material Risk Takers must be remunerated fairly and responsibly (HC-5.1.1)

#### 5.2 NON-EXECUTIVE DIRECTORS' REMUNERATION

Remuneration of Non-executive Directors shall not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

#### 5.3 COMPLIANCE WITH REMUNERATION RULES

The remuneration of Directors and employees of the Company shall be in accordance with the requirements of the HC Module, the Code, the Company Law, the constitutional documents of the Company and such other legal and/or regulatory requirements which may from time to time be applicable to the Company.



## SECTION - 6

### THE BOARD MANAGEMENT STRUCTURE

#### 6.1 ESTABLISHMENT OF MANAGEMENT STRUCTURE.

##### 6.1.1 Senior Officers - The Board shall approve the appointment of the following senior officers of the Company:

- (a) the GCEO and any of his deputies;
- (b) the Executive Vice President and Group COO;
- (c) the Executive Vice President and Group Chief Banking Officer;
- (d) the Group Chief Financial Officer;
- (e) the Group Chief Auditor;
- (f) the Group Chief Risk and Credit Officer;
- (g) the corporate secretary; and
- (h) any other officer designated Grade 17 or above,

and shall also include such other officers as the Board considers appropriate, or as required by a relevant licensing or listing requirement.

##### 6.1.2 Group Organisation Chart - The senior officers of the Company referred to in Section 6.1.1 shall have reporting lines as set out in the Group Organisation Chart, as from time to time approved by the Board.

#### 6.2 TITLES, AUTHORITIES, DUTIES AND REPORTING RESPONSIBILITIES.

##### 6.2.1 Appointment of Management - The Board shall adopt by-laws prescribing each senior officer's title, authorities, duties and internal reporting responsibilities. This shall be done with the advice of the Remuneration Committee and in consultation with the GCEO, to whom the other officers shall normally report. These provisions shall include but shall not be limited to the following:

- (a) the GCEO shall have authority to act generally in the Company's name, representing the Company's interests in concluding transactions on the Company's behalf and giving instructions to other officers and Company employees;
- (b) the chief financial officer shall be responsible and accountable
  - (i) for the complete, timely, reliable and accurate preparation of the Company's financial statements, in accordance with the accounting standards and policies of the Company; and
  - (ii) for presenting the Board with a balanced and understandable assessment of the Company's financial situation, and
- (c) the Secretary of the Board's duties shall include arranging, recording and following up on the actions, decisions and meetings of the Board and of the shareholders (both at annual and extraordinary meetings) in books to be kept for that purpose;

- (d) The internal auditor's duties shall include providing an independent and objective review of the efficiency of the Company's operations including a review of the accuracy and reliability of the Company's accounting records and financial reports as well as a review of the adequacy and effectiveness of the Company's risk management, control, and governance processes.
  
- 6.2.2 Limitations on authority** – The Board shall also specify any limits which it wishes to set on the authority of the GCEO or other officers, such as monetary maximums for transactions which they may authorize without separate Board approval.
  
- 6.2.3 Secretary of the Board** – The Secretary of the Board shall be given general responsibility for reviewing the Company's procedures and advising the Board directly on such matters. Whenever practical, the Secretary of the Board shall be a person with legal or similar professional experience and training.
  
- 6.2.4 Succession planning** – At least annually the Board shall review and concur in a succession plan addressing the policies and principles for selecting a successor to the GCEO, both in emergencies and in the normal course of business. The succession plan shall include an assessment of the experience, performance, skills and planned career paths for possible successors to the GCEO.

## SECTION - 7

### COMMUNICATIONS WITH SHAREHOLDERS

#### 7.1 SHAREHOLDERS' MEETINGS.

**7.1.1 Conduct of shareholders' meetings** - The Board shall observe both the letter and the intent of the Company Law's requirements for shareholder meetings including the following.

- (a) Notices of meetings must be honest, accurate and not misleading. They shall clearly state and, where necessary, explain the nature of the business of the meeting.
- (b) Meetings shall be held during normal business hours and at a place convenient for the greatest number of shareholders to attend.
- (c) Notices of meetings shall encourage shareholders to participate by proxy and shall refer to procedures for appointing a proxy and for directing the proxy how to vote on a particular resolution. The proxy agreement shall list the agenda items and shall specify the vote (such as "yes," "no" or "abstain").
- (d) Notices shall ensure that all material information and documentation is provided to shareholders on each agenda item for any shareholder meeting, including but not limited to any recommendations or dissents of Directors.
- (e) The Board shall propose a separate resolution at any meeting on each substantially separate issue, so that unrelated issues are not "bundled" together.
- (f) In meetings where Directors are to be elected or removed the Board shall ensure that each person is voted on separately, so that the shareholders can evaluate each person individually.
- (g) The chairman of the meeting shall encourage questions from shareholders, including questions regarding the Company's corporate governance guidelines.
- (h) The minutes of the meeting must be made available to shareholders upon their request as soon as possible but not later than 30 days after the meeting.
- (i) Disclosure of all material facts must be made to the shareholders by the Chairman prior to any vote by the shareholders.

**7.1.2 Director attendance at shareholder meetings** – The Company shall require all Directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the respective chairmen of the Audit Committee and Remuneration Committee are ready to answer appropriate questions regarding matters within their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).

**7.1.3 Attendance of external auditor at shareholder meetings** – The Company shall require its external auditor to attend the annual shareholders' meeting and be available to answer shareholders' questions concerning the conduct and conclusions of the audit.

**7.1.4 Website** – The Company shall maintain the Company website. The Company shall dedicate a specific section of its website to describing shareholders' rights to participate and vote at each shareholders' meeting, and

shall post significant documents relating to meetings including the full text of notices and minutes. For confidential information, the Company shall grant a controlled access to such information to its shareholders.

**7.1.5 Notices of shareholder meetings** – In notices of meetings at which Directors are to be elected or removed the Company shall ensure that:

- (a) where the number of candidates exceeds the number of available seats, the notice of the meeting shall explain the voting method by which the successful candidates will be selected and the method to be used for counting of votes, and
- (b) the notice of the meeting shall present a factual and objective view of the candidates so that shareholders may make an informed decision on any appointment to the Board.

## **7.2 DIRECT SHAREHOLDER COMMUNICATION**

The Chairman (and other Directors as appropriate) shall maintain continuing personal contact with controlling shareholders to solicit their views and understand their concerns. The Chairman shall ensure that the views of shareholders are communicated to the Board as a whole. The Chairman shall discuss governance and strategy with controlling shareholders. The Board shall encourage investors, particularly institutional investors, to help in evaluating the Company's corporate governance.

## **7.3 CONTROLLING SHAREHOLDERS**

So long as the Company has one or more controlling shareholders, the Chairman and other Directors shall actively encourage the controlling shareholders to make a considered use of their position and to fully respect the rights of minority shareholders.

## SECTION - 8

### DISCLOSURE OF CORPORATE GOVERNANCE

#### 8.1 DISCLOSURE UNDER THE COMPANY LAW

**8.1.1 Website** – The Company shall publish this Charter on its website.

**8.1.2 Compliance and reporting** – At each annual shareholders' meeting the Board shall report on the Company's compliance with this Charter and the Code, and explain the extent if any to which it has varied them or believes that any variance or noncompliance was justified, and on the matters on which the Board is required to report as specified from time to time in the Code or pursuant to any other applicable laws and regulations.

**8.1.3 Information maintenance** – Any information requiring to be disclosed pursuant to Section 8.1.2 shall be maintained on the Company's website or held at the Company's premises on behalf of the shareholders.

**8.1.4 Board responsibility for disclosure** – The Board shall oversee the processes of disclosure and communications with internal and external stakeholders. The Board shall ensure that disclosures made by the Company are fair, transparent, comprehensive and timely and reflect the character of the Company and the nature, complexity and risks inherent in the Company's business activities.

## SECTION - 9

### MISCELLANEOUS

#### 9.1 MISCELLANEOUS PROVISIONS

**9.1.1 Relationship with the articles** – In the event of any conflict between the terms of this Charter and the articles of association of the Company, the terms of the articles of association of the Company shall prevail.

**9.1.2 Retention policy** – Once the official minutes of a meeting of the Board have been approved, all prior drafts of such minutes and related notes shall be destroyed.

**9.1.3 Interaction with third parties** – Without prejudice to Section 7.2 (*Direct Shareholder Communication*), individual Directors may, at the request of the management of the Company (but not otherwise), from time to time meet or otherwise communicate with various interested third parties with regard to the affairs of the Company. Such communications should generally be effected by, or with the concurrence of, the Chairman. However, as a general rule, Directors should maintain any information relating to the Company that they acquired in the course of their duties in strict confidence.

## APPENDIX A

### DEFINITION OF INDEPENDENT DIRECTOR

#### 1. Determination by the Board

Under this Charter an "Independent Director" is a Director whom the Board has specifically determined has no material relationship which could affect his independence of judgment, taking into account all known facts. The Board shall consider that, although a particular Director meets the formal requirements, he may not be independent owing to specific circumstances of the person or the Company, ownership structure of the Company, or for any other reason. The Board's determination shall be a good faith finding after diligent review and full discussion.

#### 2. Formal Requirements

"**Independent Director**" means a Non-executive Director of the Company who will not have been a member of the Board for more than three consecutive full or partial terms as a result of his/her nomination/re-election, and who, or whose family shareholders either separately or together with him or each other, does not have any material pecuniary relationships or transactions with the Company (not counting Director's remuneration for this purpose) and in particular who, during the one year preceding the time in question met all the following conditions:

- (a) was not an employee of the Company;
- (b) did not:
  - (i) make to, or receive from, the Company payments of more than BD 31,000 or equivalent (not counting Director's remuneration);
  - (ii) own more than a 10% share or other ownership interest, directly or indirectly, in an entity that made to or received from the Company payments of more than such amount;
  - (iii) act as a general partner, manager, director or officer of a partnership or company that made to or received from the Company payments of more than such amount;
  - (iv) have any significant contractual or business relationship with the Company which could be seen to materially interfere with the person's capacity to act in an independent manner;
- (c) did not own directly or indirectly (including for this purpose ownership by any family member or related person) 5% or more of the shares of any type or class of the Company;
- (d) was not engaged directly or indirectly as an auditor or professional advisor for the Company; and
- (e) was not an associate of a Director or a member of senior management of the Company.

For purposes of this definition, the 'payments' referred to in paragraph (b)(i), (b)(ii) and (b)(iii) do not include monies received from dividends, deposits, investments and credit facilities arising from the Company's normal business activities, but instead ordinarily refer to monies received (and/or payable during the period in question) for services rendered to the Company by the director or company concerned, or paid (or payable) by the concerned director or company to the Company for services provided by the Company.

Dividends, deposits, investment accounts and credit facilities are to be considered under item (b)(iv) of this definition.

For the purpose of the definition of "independent director":

- (a) where the term "family" or "family member or related persons" is used reference is made to: spouse, father, mother, son(s) or daughter(s); and
- (b) where the term "associate" is used reference is made to:
  - (i) spouse, father, mother, son(s) or daughter(s); or
  - (ii) a person who is an employee or partner of the Director or of the firm represented or owned by the Director.



## APPENDIX B

### GROUP AUDIT COMMITTEE CHARTER

#### 1. Purpose of the Group Audit Committee

The purpose of the Group Audit Committee, without prejudice to Section 5 below, is to:

- (a) review the Company's accounting and financial practices;
- (b) review the integrity of the Company's financial controls (and to ensure the adequacy of credit provisioning), the financial statements and the effectiveness of the Company's internal controls and governance systems and frameworks; the information needs of the Board to perform its monitoring responsibilities must be defined in writing, and regularly monitored by the Group Audit Committee;
- (c) review the Company's compliance with legal requirements;
- (d) recommend the appointment, compensation and oversight of the Company's external auditor;
- (e) oversee the Company's internal audit function and recommend to the Board the appointment of the Company's Group Chief Internal Auditor (the "GCA"); and
- (f) oversee the Company's compliance function and recommend to the Board the appointment of the Company's Group Head of Compliance ("GHOC").

#### 2. Authority

In its review of the systems and controls framework in this Section 1, the Group Audit Committee may:

- (a) make effective use of the work of external and internal auditors. The Group Audit Committee must ensure the integrity of the Company's accounting and financial reporting systems through regular independent review (by internal and external audit). Audit findings must be used as an independent check on the information received from management about the Company's operations and performance and the effectiveness of internal controls;
- (b) appoint external advisors at its discretion to obtain assessments, stress/scenario tests and/or independent judgement;
- (c) engage senior management to assist the Group Audit Committee in the oversight of risk management; and
- (d) ensure that senior management have put in place appropriate systems of control for the business of the Company and the information needs of the Board; in particular, there shall be appropriate systems and functions for identifying as well as for monitoring risk, the financial position of the Company, and compliance with applicable laws, regulations and best practice standards. The systems must produce information on a timely basis.

#### 3. Group Audit Committee Membership and Qualifications

The Group Audit Committee shall have at least three members.

A majority of the members of the Group Audit Committee shall be Independent Directors (based on the

criteria stated in Appendix A (*Definition of Independent Director*) to the Corporate Governance Charter), including its chair.

Neither the Chairman of the Board nor the GCEO shall be a member of the Group Audit Committee.

At least one member of the Group Audit Committee has to have competence in accounting and/or auditing. The Group Audit Committee members as a whole shall have sufficient technical expertise to enable the Group Audit Committee to perform its functions effectively. Technical expertise means that members shall have recent and relevant financial ability and experience, which includes:

- (a) an ability to read and understand corporate financial statements including the Company's balance sheet, income statement and cash flow statement and changes in shareholders' equity;
- (b) an understanding of the accounting principles which are applicable to the Company's financial statements;
- (c) experience in evaluating financial statements that have a level of accounting complexity comparable to that which can be expected in the Company's business;
- (d) an understanding of internal controls and procedures for financial reporting; and
- (e) an understanding of the Group Audit Committee's functions and importance.

#### **4. Group Audit Committee Structure and Operations**

The Group Audit Committee shall elect one member as its chair who must be an Independent Director.

The Group Audit Committee shall meet at least four times a year.

The quorum necessary for the transaction of business shall be three members. A duly convened meeting of the Group Audit Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Group Audit Committee. All decisions of the Group Audit Committee shall be taken on a majority basis. In the event of a tied vote, the chairman of the Group Audit Committee shall have an additional casting vote.

The Group Audit Committee may meet without any other officer of the Company present. Only the Group Audit Committee may decide if a non-member of the Group Audit Committee shall attend for a particular meeting or a particular agenda item. Non-members who are Directors of the Company may attend meetings of the Group Audit Committee to provide their expertise, but may not vote.

The Group Audit Committee shall meet with the external auditor at least twice per year, and at least once per year in the absence of any members of executive management.

The GCA and GHOC report directly to the Chairman of the Group Audit Committee and administratively to the GCEO.

Either the GCA of the Company or such other member of the Company's internal audit function as the Group Audit Committee may determine shall act as the secretary to the Group Audit Committee.

The Group Audit Committee shall report regularly to the full Board on its activities.

## 5. Group Audit Committee Duties and Responsibilities

The following are the duties and responsibilities of the Group Audit Committee:

### 5.1 Financial Statements

- (a) review and discuss with the external auditor the results of its audit, any difficulties the auditor encountered, including any restrictions on its access to requested information and any disagreements or difficulties encountered with management;
- (b) review and discuss with management and the external auditor each annual and each quarterly financial statements of the Company including judgments made in connection with the financial statements;
- (c) discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary); review the representation letter, the external auditor's management letters and management's responses thereto;
- (d) review and discuss possible improprieties in financial reporting or other matters, and ensure that arrangements are in place for independent investigation and follow-up regarding such matters; and
- (e) review reports on loan loss provisions and evaluate the reasons which led to the need for significant items of provisions.
- (f) to encourage management accountability for the financial statements required by the Directors, the GCEO and Chief Financial Officer shall state in writing to the Group Audit Committee and the Board as a whole that the Company's interim and annual financial statements present a true and fair view, in all material respects, of the Company's financial condition and results of operations in accordance with applicable accounting standards.

### 5.2 External Audit

- (a) be responsible for the selection, appointment, remuneration, oversight and termination where appropriate of the external auditor, subject to ratification by the Company's Board and shareholders. The external auditor shall report directly to the Group Audit Committee;
- (b) developing and implementing policies to review and monitor the external auditor's independence and the effectiveness of the audit process, considering relevant professional, regulatory, ethical and other requirements;
- (c) discuss with the external auditor before the audit commences the nature and scope of the audit plan, and ensure effective co-ordination as between external auditors where more than one audit firm is involved;
- (d) developing and implementing policies to monitor rotation arrangements for audit engagement partners / external auditors; and
- (e) developing and implementing policies on the engagement of the external auditor to supply non-audit services, taking into account relevant regulatory requirements and best practise, including providing advance approval of any non-audit services to be supplied by the external auditor that are not prohibited by relevant legislation (in amounts to be pre-determined by the Group Audit Committee) and the fees for any such services.

### 5.3 Internal Audit

- (a) oversee the Company's internal audit function and maintain tools to ensure the quality of the internal audit function;
- (b) ensure the GCA confirms at least annually, the organisational independence of the internal audit function to the Audit Committee.
- (c) review, discuss and make recommendations regarding the selection, appointment and termination where appropriate of the GCA;
- (d) provide the internal audit function with a framework to carry out their assignments with objectivity, including the budget allocated to the internal audit function, and monitor the responsiveness of management to the Group Audit Committee's recommendations and findings;
- (e) review and discuss the activities, performance and adequacy of the Company's internal auditing personnel and procedures and the effectiveness and efficiency of internal control and risk management frameworks, and any changes in those;
- (f) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (g) consider the major findings of internal investigations and management's response thereto; review and discuss Internal Audit Reports and corrective actions with particular attention to "Critical" and "Significant" issues, management responses, and ensuring the issues are resolved in line with the Central Bank of Bahrain specified timelines, and making appropriate recommendations to the Board where necessary;
- (h) discuss with the GCA periodically and, on at least an annual basis, approve:
  - (i) the Internal Audit Charter;
  - (ii) Internal Audit's Audit Manual including the risk assessment methodology; and
  - (iii) the Internal Audit plan, including approval of material changes thereto.
- (i) discuss with the GCA periodically:
  - (i) adequacy of the Company's internal controls;
  - (ii) progress against the Internal Audit plan;
  - (iii) the Internal Audit function and responsibilities and any scope restrictions encountered during the execution of the Internal Audit responsibilities; and
  - (iv) key performance measures regarding the operation and effectiveness of Internal Audit.
- (j) every five years, to commission an independent external quality assurance review of the internal audit function.

#### 5.4 Compliance

- (a) oversee the Company's compliance function, ensuring it is adequately resourced and has appropriate standing within the Company;
- (b) review, discuss and make recommendations to the Board regarding the selection, appointment and termination where appropriate of the GHOC;
- (c) provide the compliance function with a framework to carry out their tasks with objectivity, including the budget allocated to the compliance function, and monitor the responsiveness of management to the Group Audit Committee's findings and recommendations;
- (d) review and discuss the activities, performance and adequacy of the Company's compliance function including the effectiveness and efficiency of the compliance risk management framework;
- (e) consider the major findings of compliance reviews and management's responses;
- (f) ensure timely resolution of corrective action plans, with particular focus on "Critical" and "Significant" issues and ensuring they are resolved in line with the Central Bank of Bahrain specified timelines, and making appropriate recommendations to the Board where necessary;
- (g) discuss with the GHOC periodically and, on at least an annual basis, approve:
  - (i) The Group Compliance Policy
  - (ii) The Annual Compliance Risk Assessment, Maturity Assessment and Annual Compliance Plan, including any material changes
- (h) discuss with the GHOC periodically:
  - (i) the adequacy of the Company's control environment in relation to management compliance risk;
  - (ii) progress against the Annual Compliance Plan;
  - (iii) the compliance function and responsibilities and any scope restrictions encountered during the execution of the compliance responsibilities; and
  - (iv) key performance metrics related to compliance risks.
- (i) review and supervision of the implementation of, enforcement of and adherence to the Company's code of conduct; and
- (j) ensure that the compliance risk management framework is subject to an independent review by a third party consultant, other than the external auditor, every three years and when there are material changes to the business.

#### 5.5 Reporting Responsibilities

- (a) provide an open avenue for communication between internal audit, the external auditors and the Board;
- (b) regularly reports to the Board about the Group Audit Committee's activities, issues, and related

recommendations; and

- (c) review of any other reports the Company issues that relate to the Group Audit Committee's responsibilities.

#### 5.6 Other Responsibilities

- (a) review significant issues and concerns raised by subsidiaries' audit committees;
- (b) developing and implementing a formal policy detailing the Group Audit Committee's responsibilities related to the subsidiaries' audit committees;
- (c) ensure that the Company meets its obligations under CBB regulatory guidelines;
- (d) meet with Senior Management in separate closed sessions during the audit committee meeting; where the Director deem appropriate at each of its meetings;
- (e) meet separately with the GCA on a regular basis, to discuss any matters that the Audit Committee or Internal Audit believe should be discussed privately;
- (f) consider other matters referred to it from time to time by the Board; and
- (g) the Group Audit Committee will formally review this Charter on an annual basis.

#### 6. Group Audit Committee Resources and Authority

The Group Audit Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, accounting or other advisors as it deems necessary or appropriate, without seeking the approval of the Board or management. The Company shall provide appropriate funding for the compensation of any such persons.

#### 7. Group Audit Committee Performance Evaluation

The Group Audit Committee shall prepare and review with the Board an annual performance evaluation of the Group Audit Committee, which shall compare the Group Audit Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Group Audit Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

## APPENDIX C

### CORPORATE GOVERNANCE COMMITTEE CHARTER

#### 1. Constitution

Pursuant to Article 30 of the Articles of Association of Arab Banking Corporation (B.S.C.) (the "**Company**") which empowers the Board of Directors (the "**Board**") of the Company to establish committees from its member directors, the Board hereby **resolves** to constitute a corporate governance committee of the Board known as the "**Corporate Governance Committee**" with effect from 26 July, 2004.

#### 2. Purpose

The primary purpose of the Corporate Governance Committee is to assist the Board in shaping and monitoring the Corporate Governance policies and practices of the Company and evaluating compliance therewith.

#### 3. Composition

- (a) The Corporate Governance Committee shall have at least three members.
- (b) The Corporate Governance Committee shall include only Non-executive Directors of whom a majority are Independent Directors.
- (c) All the members of the Corporate Governance Committee shall be independent of the Company's risk taking functions and committees (for the avoidance of doubt, the Board Risk Committee is not a "risk taking" committee for the purposes of this mandate).
- (d) The Chairman of the Board of Directors of the Company will not be eligible for Membership of the Corporate Governance Committee.
- (e) The Corporate Governance Committee shall elect one member as its chair, provided that the chair shall be an Independent Director.

#### 4. Attendance at Meetings

- (a) The Corporate Governance Committee may at the request of the Chairman of the Corporate Governance Committee invite/request the attendance of the GCEO or any member of management at a meeting of the Corporate Governance Committee as non-voting guest in order to clarify any business transacted by such meeting.
- (b) The Secretary to the Board shall be the Secretary to the Corporate Governance Committee.

#### 5. Frequency of Meetings

Meetings shall be held as required, Provided that at least one meeting shall take place during each financial year.

#### 6. Term

Unless the Board otherwise specifies and subject to any earlier termination of office for whatever reason of a Member before the expiry of his term of office in the Corporate Governance Committee, the term of office of

the Corporate Governance Committee shall coincide with the term of office of the Board and the Members shall be appointed for a period equal to the duration of the Corporate Governance Committee.

**7. Quorum**

A meeting of the Corporate Governance Committee shall be valid if attended by a majority of its Members. If the Chairman is not present other members will elect a temporary Chairman for that meeting. The recommendations of the Corporate Governance Committee shall be passed by a majority vote of the Members present at a meeting at which a quorum is present and, in the event of an equal vote, the Chairman shall have a casting vote.

**8. Proceedings**

The proceedings of the Corporate Governance Committee shall so far as applicable be governed by the provisions of the Articles of Association of the Company for regulating proceedings of the Board.

**9. Duties**

The Corporate Governance Committee shall have the following duties and responsibilities:

- (a) Review and assess the adequacy of the Company's policies and practices on corporate governance, including the Corporate Governance Charter of the Company and any Board meetings policies and recommend any proposed changes to the Board for approval.
- (b) Review the Company's business practices, particularly as they relate to preserving the good reputation of the Company.
- (c) Make recommendations to the Board from time to time as to changes the Committee believes to be desirable to the size of of the Board relative to its various responsibilities and any committee of the Board.
- (d) Whenever a vacancy arises (including a vacancy resulting from an increase in Board size), recommend to the Board a person to fill the vacancy either through appointment by the Board or through shareholder election.
- (e) In performing the above responsibilities set for in paragraphs (c) and (d) (above), the Committee shall consider any criteria approved by the Board and such other factors as it deems appropriate. These may include judgment, specific skills, experience with other comparable businesses, the relation of a candidate's experience with that of other Board members, and other factors.
- (f) Consider all candidates for Board membership recommended by the shareholders and any candidates proposed by management.
- (g) Identify Board members qualified to fill vacancies on any committee of the Board and recommend to the Board that such person appoint the identified person(s) to such committee.
- (h) Develop appropriate criteria and make recommendations to the Board regarding the independence of Directors and nominees as may be necessary or proper.
- (i) Recommend to the Board the number, identity and responsibilities of Board Committees and the Chair and members of each Committee. This shall include advising the Board on Committee appointments and removal from Committees and rotation of Committee members and Chairs.



- (j) Review the adequacy of the charters adopted by each committee of the Board, and recommend changes as necessary.
- (k) Assist the Board in developing criteria for identifying and selecting qualified individuals who may be nominated for election to serve on board of directors of subsidiaries of the Company.
- (l) Evaluate and recommend to the Board any changes or updates to the Board policy on nomination of Directors to boards of directors of subsidiaries of the Company.
- (m) Periodically review and recommend to the Board applicable Directors related policies, including retirement and indemnification issues (other than Directors' compensation, which shall fall within the remit of the Remuneration Committee).
- (n) Periodically assess the effectiveness of the Board of Directors in meeting its responsibilities, representing the long-term interests of stockholders.
- (o) Report annually to the Board with an assessment of the Board's performance.
- (p) Perform any other duties and responsibilities expressly delegated to the Corporate Governance Committee by the Board from time to time.
- (q) Receive notification by ABC directors of intention to serve on additional outside boards.

#### **10. Powers**

The Corporate Governance Committee shall be empowered and authorized to:

- (a) Obtain advise and assistance, as needed, from internal or external legal counsel, accounting firms, search firms or other advisors, with the sole authority to retain, terminate and negotiate the terms and conditions of the assignment.
- (b) Delegate its duties to sub-committees of the Corporate Governance Committee as necessary or appropriate.

#### **11. Reporting Procedures**

The Secretary to the Corporate Governance Committee shall submit the minutes of each meeting of the Corporate Governance Committee for the information of the Board at the next upcoming meeting of the Board, following such meeting of the Corporate Governance Committee.

#### **12. Corporate Governance Committee Performance Evaluation**

The Corporate Governance Committee shall prepare and review with the Board an annual performance evaluation of the Corporate Governance Committee, which shall compare the Corporate Governance Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Corporate Governance Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

## APPENDIX D

### BOARD RISK COMMITTEE CHARTER

#### 1. Introduction

The Board of Directors (the "**Board**") of Arab Banking Corporation (B.S.C.) (the "**Company**") has the responsibility for setting, and periodically reviewing the overall risk strategy/appetite of the Company which shall govern the parameters within which business is to be conducted. To facilitate this process, the Board resolved, in its meeting on 12 October 2004, to establish the Board Risk Committee (the "**Committee**"). The mandate given to the Committee, and the authorities vested thereby, are as follows:

#### 2. Membership

- (a) The Committee shall comprise at least three members. A majority of members of the Committee, including the Chairman shall be Independent Directors (based on the criteria stated in Appendix A (*Definition of Independent Director*) to the Corporate Governance Charter). Members of the Committee shall be appointed by the Board, on the recommendation of the Corporate Governance Committee in consultation with the chairman of the Committee.
- (b) Only members of the Committee have the right to attend Committee meetings. However, the GCEO, DGCEO, Group Chief Financial Officer, Group Chief Operating Officer, Group Head of Wholesale Banking, Group Head of Treasury & Financial Markets and Group Chief Credit and Risk Officer shall be regular attendees at Committee meetings. Other individuals may from time to time be invited by the Committee (acting through the secretary to the Committee) to attend all or part of any meeting.
- (c) Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.
- (d) The Committee shall collectively have sufficient risk management experience to enable the Committee to perform its functions effectively.

#### 3. Secretary

A representative of the Company's Credit & Risk Group shall act as the secretary of the Committee with the approval of the Chairman.

#### 4. Quorum

The quorum necessary for the transaction of business shall be three members, two of whom shall be independent. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. All decisions of the Committee shall be taken on a majority basis. In the event of a tied vote, the chairman of the Committee shall have an additional casting vote.

#### 5. Frequency of meetings

The Committee shall meet at least four times a year and otherwise as required.

**6. Notice of meetings**

- (a) Meetings of the Committee shall be called by the secretary of the Committee at the request of the Chairman of the Committee if he or she considers it necessary, or upon the recommendation of the Group Chief Credit and Risk Officer.
- (b) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and any other person required to attend prior to the date of the meeting. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time.

**7. Minutes of meetings**

- (a) The secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- (b) Draft minutes of Committee meetings shall be tabled for approval at the next following Committee meeting.

**8. Annual General Meeting**

The Committee chairman should attend the annual general meeting to answer shareholder questions on the Committee's activities, if at all addressed to the Committee.

**9. Duties**

The Committee should carry out the duties below for the Company and the Company's group as a whole, as appropriate. The Committee shall:

- (a) review and approve the Company's Group Risk Policies;
- (b) set an annual risk strategy/appetite, within which management is required to develop business strategy/plans, objectives and targets for achievement; at least annually, the Committee is to advise the Board on the recommended risk strategy/appetite within which business is to be conducted;
- (c) review and recommend the Internal Capital Adequacy Assessment Process to the Board for approval;
- (d) review and recommend the Internal Liquidity Adequacy Assessment Process to the Board for approval;
- (e) oversee and advise the Board on the current risk exposures of the Company and future risk strategy;
- (f) review and stay abreast of the Company's overall risk profile (financial and non-financial risks), and ensure management's conduct of business is within the stated risk policy and appetite parameters;
- (g) review the Company's capability to identify and manage new risk types;
- (h) review reports on any material breaches of risk limits and the adequacy of proposed action;

- (i) consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; the Committee shall also ensure the function has adequate independence and is free from management or other restrictions;
- (j) recommend to the Board the appointment and/or removal of the Group Chief Credit and Risk Officer;
- (k) the Group Chief Credit and Risk Officer shall be given the right of direct access to the chairman of the Committee; and
- (l) oversee the performance of the Group Asset Quality Review department ("GAQR") and ensure independence.

**10. Reporting responsibilities**

- (a) The Committee chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall produce a report of its activities and the Company's risk management and strategy to be included in the Company's annual report.

**11. Other matters**

The Committee shall:

- (a) have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of advisors as it deems necessary or appropriate, without seeking the approval of the Board or management; the Company shall provide appropriate funding for the compensation of any such persons; and
- (b) the Committee shall prepare and review with the Board an annual performance evaluation of the Committee, which shall compare the Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.

**12. Authority**

The Committee is authorised:

- (a) to seek any information it requires from any employee of the Company in order to perform its duties; and
- (b) to call any employee to be questioned at a meeting of the Committee as and when required.

## APPENDIX E

### REMUNERATION COMMITTEE CHARTER

#### 1. Remuneration Committee Purposes

The Remuneration Committee shall:

- (a) identify persons qualified to become senior officers of the Company listed in Section 6.1.1 of the Company's Corporate Governance Charter other than those officers falling with the paragraph (e) (the Group Chief Auditor, which shall be the responsibility of the Audit Committee) of Section 6.1.1);
- (b) approve the appointment of senior officers of the Company listed in Section 6.1.1 of the Company's Corporate Governance Charter other than senior officer appointments at Grade 19 or above and the appointment of the Group Chief Auditor and the corporate secretary (senior officer appointments at Grade 19 or above and the appointment of the Group Chief Auditor and the corporate secretary shall be approved by the Board);
- (c) oversee the design and operation of the remuneration systems of the Company insofar as they relate to Approved Persons and Material Risk Takers;
- (d) review the remuneration policies for Approved Persons and Material Risk Takers, which shall be approved by the shareholders and be consistent with the corporate values and strategy of the Company;
- (e) approve the remuneration policies of the Company and amounts for each Approved Person and Material Risk Taker, as well as the total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- (f) approve, monitor and review the remuneration systems of the Company to ensure that such system operates as intended;
- (g) ensure that Approved Persons and Material Risk Takers are remunerated fairly and responsibly;
- (h) recommend the remuneration of Board members based on their attendance and performance and in compliance with Article 188 of the Company Law;
- (i) oversee the design and operation of the remuneration systems of members of the Group other than the Company to ensure that they are aligned with the Company's long term business strategy, business objectives, risk appetite, values and long term interests, and recognise the interests of relevant stakeholders; and
- (j) recommend the remuneration of the members of the board of directors of Group members.

#### 2. Duties and Responsibilities with regard to officer appointments

With respect to the appointment of officers of the Company (excluding directors, which shall fall within the remit of the Corporate Governance Committee), the Remuneration Committee shall:

- (a) make recommendations to the Board from time to time as to changes the Remuneration Committee believes to be desirable in the structure and job descriptions of the officers including the GCEO, and prepare terms of reference for each vacancy stating the job responsibilities, qualifications needed

and other relevant matters, including integrity, technical and managerial competence, and experience;

- (b) oversee succession planning to propose replacements of key executives when necessary, and ensure that appropriate resources are available, and seek to minimise reliance on key individuals;
- (c) recommend persons to fill specific officer vacancies pursuant to Section 1(a) (above) considering criteria such as those referred to above;
- (d) approve the appointment of officers falling within the ambit of Section 1(b) (above); and
- (e) design a plan for succession and replacement of officers including replacement in the event of an emergency or other unforeseeable vacancy.

### **3. Remuneration Committee Duties and Responsibilities with regard to remuneration**

The Remuneration Committee shall consider, and make specific recommendations to the Board on, both remuneration policy and individual remuneration packages for Approved Persons and other Material Risk Takers, as well as the total variable remuneration to be distributed.

The Remuneration Committee shall ensure that the remuneration systems, in both design and operation, are compliant with the requirements of the HC Module, the Code, the Company Law, the constitutional documents of the Company and such other legal and/or regulatory requirements which may from time to time be applicable to the Company. The Remuneration Committee is responsible for the governance and oversight of all Group compensation systems and processes to ensure appropriate alignment with the Company's risk appetite and regulatory obligations.

The remuneration policy of the Company shall cover at least the following.

- (a) The following components:
  - (i) salary;
  - (ii) the specific terms of performance-related plans including any stock compensation, stock options, or other deferred-benefit compensation;
  - (iii) pension plans;
  - (iv) fringe benefits such as non-salary perquisites; and
  - (v) termination policies including any severance payment policies.
- (b) Policy guidelines to be used for determining remuneration in individual cases, including on:
  - (vi) the relative importance of each component note in clause (a) of this paragraph; and
  - (vii) specific criteria to be used in evaluating an officer's performance.

In reviewing the remuneration systems of the Company, the Remuneration Committee shall ensure that such systems include effective controls, including back testing and stress testing of the remuneration policy. The practical operation of the remuneration systems of the Company shall be regularly reviewed for compliance with regulations and internal policies and procedures. In addition, remuneration outcomes, risk measurements and risk outcomes should be regularly reviewed by the Remuneration Committee for

consistency with Board's approved risk appetite.

The Remuneration Committee shall evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain.

The Remuneration Committee must ensure that its decisions are demonstrably consistent with an assessment of the Company's financial condition and future prospects.

The Remuneration Committee shall evaluate the performance of Approved Persons and Material Risk Takers in light of the Company's corporate goals, agreed strategy, objectives and business plans and may consider the Company's performance and shareholder return relative to comparable companies, the value of awards to chief executives at comparable companies, and awards to the GCEO in past years.

The Remuneration Committee shall be responsible for retaining and overseeing outside consultants or firms for the purpose of determining the remuneration of Approved Persons and Material Risk Takers, administering remuneration plans, or related matters.

#### **4. Remuneration Committee Structure and Operations**

The Remuneration Committee shall have at least three members.

The Remuneration Committee shall include only Non-executive Directors of whom a majority are Independent Directors.

All the members of the Remuneration Committee shall be independent of the Company's risk taking functions and committees (for the avoidance of doubt, the Board Risk Committee is not a "risk taking" committee for the purposes of this mandate).

The Remuneration Committee shall elect one member as its chair, provided that the chair shall be an Independent Director.

The Remuneration Committee shall meet at least twice a year. Its meetings may be scheduled in conjunction with regularly-scheduled meetings of the entire Board.

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Remuneration Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Remuneration Committee. All decisions of the Remuneration Committee shall be taken on a majority basis. In the event of a tied vote, the chairman of the Remuneration Committee shall have an additional casting vote.

#### **5. Remuneration Committee Resources and Authority**

The Remuneration Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or search firms used to identify candidates, without seeking the approval of the Board or management. The Company shall provide appropriate funding for the compensation of any such persons.

#### **6. Performance Evaluation**

The Remuneration Committee shall preview and review with the Board an annual performance evaluation of the Remuneration Committee, which shall compare the Remuneration Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Remuneration Committee's charter. The report must be in the form of a written report provided at any

regularly scheduled Board meeting.



## APPENDIX F

### BOARD STRATEGY COMMITTEE CHARTER

#### 1. Introduction

The Board of Directors (the "**Board**") of Arab Banking Corporation (B.S.C.) (the "**Company**") has the responsibility for setting, and periodically reviewing the overall strategy of the Company. To facilitate this process, the Board resolved, during its meeting held on 25 March 2018, to re-establish the Board Strategy Committee (the "**Committee**"). The mandate given to the Committee, and the authorities vested thereby, are as follows:

#### 2. Membership

- (a) The Committee shall comprise of four members. The chairman and the members of the Committee shall be appointed by the Board.
- (b) Only members of the Committee have the right to attend Committee meetings. However, the Group Management Committee<sup>1</sup> shall be regular attendees at Committee meetings. Other individuals may from time to time be invited by the Committee (acting through the secretary to the Committee) to attend all or part of any meeting.
- (c) In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

#### 3. Secretary

The Group Head of Strategy shall act as the secretary of the Committee. The secretary of the Committee shall, in coordination with the chairman of the Committee and the GCEO, be responsible for determining appropriate issues for consideration by the Committee and placing them on the agenda.

#### 4. Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. All decisions of the Committee shall be taken on a majority basis. In the event of a tied vote, the chairman of the Committee shall have an additional casting vote.

#### 5. Frequency of meetings

The Committee shall meet as required to be effective. The Committee will agree its timetable and agenda having regard to the cycle of Board meetings.

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<sup>1</sup> Currently comprising of the GCEO, DGCEO, Group Chief Financial Officer, Group Chief Credit and Risk Officer, Group Head of Wholesale Banking, Group Treasurer and Group Chief Operating Officer.

**6. Notice of meetings**

- (a) Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of the GCEO.
- (b) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, and any other person required to attend prior to the date of the meeting. Supporting papers shall be sent to Committee members, and to other attendees as appropriate, at the same time.

**7. Minutes of meetings**

- (a) The secretary shall minute the proceedings of all meetings of the Committee, including recording the names of those present and in attendance.
- (b) Draft minutes of Committee meetings shall be tabled for approval at the next following Committee meeting. Once approved, minutes should be circulated to all other members of the Board, unless it would be inappropriate to do so.

**8. Duties**

The Committee should carry out the duties below for the Company and the ABC Group as a whole, as appropriate. The Committee shall:

- (a) review the 2018-2020 strategic plan proposed by the Group Management Committee;
- (b) subject to agreement of the plan, recommend its adoption to the Board;
- (c) periodically assess progress towards the achievement of the agreed plan and its associated strategic initiatives;
- (d) act as a sounding board to the Group Management Committee to advise and recommend particular actions in relation to the agreed plan; and
- (e) consider and, if appropriate, recommend to the Board any proposed changes to the agreed plan, provided that such recommendations shall only be made following evaluation by the Group Management Committee of the qualitative and quantitative impact of the proposed change(s) on the agreed plan.

**9. Reporting responsibilities**

- (a) The Committee chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

**10. Other matters**

- (a) The Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of advisors as it deems necessary or appropriate, without seeking the approval of the Board or management; the Company shall provide appropriate funding for the compensation of any such persons.
- (b) The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
- (c) In the third year of the strategy cycle, or sooner if deemed necessary by the Board or the Committee, the Committee shall prepare and review with the Board a performance evaluation of the Committee, which shall compare the Committee's performance with the above requirements and shall recommend to the Board any improvements deemed necessary or desirable to the Committee's charter. The report must be in the form of a written report provided at any regularly scheduled Board meeting.