



Corporate Governance Manual

Policy

Corporate Governance Manual V3.0

Board Affairs Division

GM – Board Affairs

CONTENTS

GLOSSARY	3
1. DEFINITIONS	4
2. INTRODUCTION	5
3. BOD RESPONSIBILITIES, AUTHORITIES AND DUTIES.....	5
4. BOD COMPOSITION AND QUALIFICATIONS OF MEMBERS.....	7
5. ROLE OF THE CHAIRMAN OF BOD	8
6. ORGANIZATION AND FUNCTIONING OF BOD.....	8
7. TRAINING OF THE BOD MEMBERS.....	9
8. CORPORATE ETHICS & VALUES	9
9. BOARD COMMITTEES	10
10. EXECUTIVE & SENIOR MANAGEMENT RESPONSIBILITIES, AUTHORITIES AND DUTIES	10
11. INTERNAL CONTROL ARRANGEMENTS & RISK MANAGEMENT DIVISION	11
12. REMUNERATION POLICIES AND SYSTEMS	15
13. DISCLOSURE AND TRANSPARENCY	17
14. CORPORATE STRUCTURE	17
15. PROTECTION OF STAKEHOLDERS' RIGHTS.....	18

GLOSSARY

Term	Description
ABK or the Bank	Al Ahli Bank of Kuwait and its Subsidiaries (ABK Group)
AOA	Articles of Association
AML/CFT Unit	Anti-Money Laundering/Combating Financing of Terrorism Unit
BAC	Board Audit Committee
BCGC	Board Corporate Governance Committee
BRC	Board Risk Committee
BOD/Board	Board of Directors of ABK
BCC	Board Compensation Committee
BNC	Board Nomination Committee
CBK	Central Bank of Kuwait
CD	Compliance Department
CMA	Capital Market Authority
GCEO	Group Chief Executive Officer
GCFO	Group Chief Financial Officer
GCIA	Group Chief Internal Auditor
CIO	Chief Information Officer
GCRO	Group Chief Risk Officer
GDCEO	Group Deputy Chief Executive Officer
IA	Internal Audit
IFRS/IAS	International Financial Reporting Standards/ International Accounting Standard
EM	Executive Management includes GCEO, GDCEO and Division Head of ABK's Business lines with credit approval and whose appointment is subject to regulatory approval.
RMD	Risk Management Division
SM	Senior Management meaning Heads of Division without Credit Approval Authorities and AGM's, Executive/Senior managers who deputise for them with direct or indirect responsibility for planning and controlling activities of ABK.

1. DEFINITIONS

- **Corporate Governance:** a set of systems, organizational structures and operations that attain institutional control as per global standards and principles through determining the responsibilities and duties of the BOD, EM & SM of the bank taking into account protection of shareholders and relevant stakeholders rights.
- **Banks Governance:** This is the method by which BOD, EM & SM organize banks affairs and business. It determines sound ways for setting banks' goals and strategies and their daily activities, achieving the principle of questioning before shareholders and considering the rights of related parties, rules and instructions issued by regulatory authorities, safeguarding depositors' interests and the required development of strong risk management systems.
- **Non-executive board member:** A member of the BOD who is not involved in the day to day management of the bank.
- **First degree relatives:** Father, mother, husband, wife and children.
- **Related Parties:** Determined based on IAS 24 and amendments.
- **Parent Bank:** A bank that has one or more subsidiaries.
- **Group:** The parent bank and all its subsidiaries.
- **A subsidiary:** An entity controlled by the parent bank.
- **Stakeholders:** Any person or entity that has a relation with the bank such as depositors, shareholders, creditors, customers, suppliers, society and other related parties.
- **Financial Remunerations:** salaries, wages, allowances and the like, periodical or annual bonus related to performance, long or short term motivation schemes and any other in kind benefits including share-based options.
- **Bank:** Kuwaiti traditional and Islamic bank registered at CBK.
- **Board of Directors:** The bank chairman and board of directors unless otherwise stated.
- **Independent Director:** A member who is not affected by any factor that may limit his/her ability to consider the bank's matters, discuss them, and make a decision on them with objectivity and for the interests of the bank, with the consideration of the corporate governance rules and regulations, and who is fulfilling the provisions stated in the section 4.

2. INTRODUCTION

Purpose

The primary purpose of this CG Manual (henceforth referred to as “Manual”) is to establish CG practices across ABK to facilitate compliance with CG regulations and leading practices and maximization of shareholder value.

Objective

The primary objective of this Manual is to consolidate and articulate ABK’s CG framework that has been implemented and comprises of (i) duties and responsibility of BOD (ii) charters of the Board and its committees (ii) role of committee secretary, GCEO, EM, SM, Business division, credit and expenditure mandates (iii) specific policies and (iv) role of Board Affairs Department.

Applicability and Implementation

This Manual and subsequent amendments will be effective from the date of BOD approval across ABK and the responsibility for oversight of implementation and execution of the CG framework resides with the BCGC. However the delegation of oversight of implementation and execution of the CG framework from the BOD to BCGC does not in any way amend the responsibility of the BOD to ensure overall observance to CG framework.

The CG requirements in this Manual are subject to the directives and regulations of CBK. Furthermore going forward any CBK directives issued will override the relevant section in this manual pending an update and BOD approval of the manual.

Distribution of the Manual

A condensed version of the manual will be made available to the public via ABK’s eahli website and ABK’s BOD members and all employees are expected to read the manual to facilitate compliance with ABK’s CG Framework.

Administration and Update

BCGC is overall responsible for the implementation of this Manual and has delegated the responsibility for administration and update of this manual to the GM, Board Affairs in his capacity of Chief Corporate Governance officer. This Manual and any subsequent updates will be reviewed by BCGC and recommended to BOD for approvals.

3. BOD RESPONSIBILITIES, AUTHORITIES AND DUTIES

- (a) Approve and oversee the implementation of the ABK’s strategic objectives, risk strategy, corporate governance, corporate values and oversight of EM and SM across ABK.
- (b) Overall responsible for ABK’s business and its financial soundness, fulfillment of regulatory requirements, protecting the legitimate interests of shareholders, depositors, creditors, staff and stakeholders and ensuring ABK is managed in a prudent manner within the applicable laws, internal policies and procedures.
- (c) Establish ABK’s strategy and oversee its EM and SM who are responsible for the day-to-day operations of ABK. In addition (i) approve the internal control policies (ii) ensure adherence to the

- approved strategies, policies and procedures, appropriate laws and regulations and (iii) ensure all risks are prudently managed.
- (d) Maintain public's trust in ABK by ensuring its activities strike an appropriate balance between profitability and risk specifically its impact on the depositors and overall financial stability of ABK.
 - (e) Ensure every BOD member discharge their responsibilities in an objective manner without any bias towards any individual or group of shareholders irrespective of the influence of the individual or group of shareholders. Further ensure all transactions with related parties across ABK are appropriately reviewed and actioned in line with approved policy.
 - (f) Provide EM and SM with written policies that are regularly reviewed and updated covering all aspects of ABK's activities and ensure EM and SM (i) establish written procedure in compliance with the approved policies to guide the day to day activities of ABK (ii) communicates written policies and procedures appropriately and (iii) regularly review the procedures to reflect any amendment or changes to laws, regulations, policy and economic conditions as well as any other financial and banking industry related matters.
 - (g) Establish objectives together with risk appetite and direct the GCEO to develop strategies as part of the budgeting and business planning exercise to meet the objectives.
 - (h) Approve GCEO's strategic business plans and meet regularly with the GCEO to (i) assess the progress on the strategic business plans and initiates appropriate corrective actions and (ii) discuss various aspects of ABK's operations and critically question and review explanations and information provided.
 - (i) Establish performance standards for EM and SM consistent with long term objectives and monitor EM and SM performance against these objectives. Ensure EM's knowledge and expertise remains appropriate given the nature and risk profile of ABK.
 - (j) Appoint an experienced and competent GCEO and approve the appointments of experienced and competent (i) GDCEO (ii) GCFO (iii) GCIA (iv) CIO and (v) GCRO.
 - (k) Ensure the organizational structure facilitates effective decision making, good governance and establishes clear lines of responsibility, accountability and authorities for (i) BOD (ii) EM (iii) SM and those responsible for the control functions.
 - (l) Ensure the role and responsibilities of the Chairman of BOD and GCEO is not discharged by the same individual and further the Chairman of BOD and GCEO are neither first degree relatives or have a relationship that may be perceived to impede the objectivity of either position unless prior approval is sought from CBK.
 - (m) Ensure policies and controls are reviewed with GCEO and Internal Control functions (AML/CFT Unit, CU, IA, RMD) in order to determine areas needing improvement, as well as to identify and address significant risks and issues. Further ensure the Internal Control functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.
 - (n) Ensure succession plans for all EM and SM positions are prepared that includes required qualifications, experience and competency of the potential successor. For details refer to the Succession Planning Framework.
 - (o) The Board and the executive management shall make sure that the banking confidentiality is maintained by the bank's service providers in case that they come to know matters or data of confidential nature

4. BOD COMPOSITION AND QUALIFICATIONS OF MEMBERS

- (a) The BOD has been constituted as per the AOA of ABK and other pertinent regulatory directives. The BOD is composed of eleven members, of which a minimum of 4 members and not exceeding the half of the total number of the board members, elected by the Ordinary General Assembly to ensure adequate representation within Board committees in line with regulatory governance requirements.
- (b) The BOD composition includes members with relevant experience, integrity and specialized skills to collectively or individually facilitate constructive challenge and debate of issues both within the Board and its committees. The BOD have (i) adequate knowledge and experience in finance, accounting, lending, bank operations, strategic planning, governance, risk management, internal controls, bank regulation and (ii) reasonable understanding of local, regional and global economic and market forces and legal and regulatory environments.
- (c) The only exception in this case is that the number of the independent members shall not be less than 2 members as of 31/12/2020, and 4 members as of 30/6/2022.
- (d) The independent board member from the beginning of nomination and during his/her directorship shall fulfill the following provisions:
 - a. The direct or indirect shareholding of the director and any of his first degree relatives shall not exceed 1% of the bank's total shares.
 - b. The director, during nomination, or during the two years precedent to the date of nomination, may not have any controlling business, administrative or consultative relationship with any of the major shareholders of the bank, or any group shareholders, whose alliance may form a percentage that make them a major shareholder.
 - c. The director, during nomination, or during the two years precedent to the date of nomination, may not hold a directorship in the bank's board or any executive position within this bank or its group. The exception to this case, for one time only, is that at the beginning of applying these instructions, the current members of the board of the bank or its group, whose fulfill all other independence conditions, may apply for nomination.
 - d. The directors, may not have a first degree relationship with any member of the board, or executive management of the bank or its group.
 - e. The director, during nomination, or during the two years precedent to the date of nomination, has not been working for the bank or its group, or any of the major shareholders of the bank or its group.
 - f. The director, or any of his first degree relatives, may not have any credit relationship with the bank or its group, that exceeds the total amount specified in the regulations of the consumer and housing loans, and may not have any deposits or portfolios managed by the bank or its group; the total of which exceeds KD 100 thousand or the equivalent in other currencies.
 - g. The director, may not be an owner of a company, a major shareholder in that company, a member in its board of directors, an executive member therein, and may not obtaining a credit or a guarantor of a credit from the bank or its group in the amount that exceeds 5% of the total paid up capital.
 - h. The director, during nomination, or during the two years precedent to the date of nomination, may not be a partner in the external auditing bureau of the bank, a member of the auditing

team the conducts audit on the bank group, and may not have a first degree relative relationship with the partner in charge of the external auditing.

- i. The director may not be paid any salary or financial amount, with the exception of the remuneration paid to him for his directorship in the board, or the dividend paid to him as a shareholder or the interests received or due for his deposits or investments from the ordinary business activities of the bank.
- j. The term of the directorship of the independent members shall not exceed two terms.

5. ROLE OF THE CHAIRMAN OF BOD

- (a) Ensure board decisions are taken on a sound and well-informed basis by encouraging constructive criticism/challenge during critical discussions and ensure different and/or dissenting views are freely expressed and discussed within the decision-making process.
- (b) Facilitate constructive relationship between BOD and GCEO, EM & SM.
- (c) Ensure board members are provided with sufficient information in advance of meeting.
- (d) Ensure shareholders are provided sufficient information in advance of the General Assembly meetings.
- (e) Ensure sound corporate governance standards are implemented across ABK.

6. ORGANIZATION AND FUNCTIONING OF BOD

- (a) The board meets at minimum 6 times a year with at least one meeting being held every quarter. The agenda for every meeting is prepared by the Chairman in consultation with the board secretary and GCEO and is sent in advance of the meeting to every board member together with a presentation and supporting documents related to the meeting.
- (b) The board secretary shall makes record of all board discussions, suggestions and results of voting in every meeting which will be formalized through signed minutes and maintained as an integral part of ABK's records. They shall record any reservation or recommendation made by the independent and other board members. For additional details refer to BOD approved board secretary roles and responsibilities document.
- (c) The roles and responsibilities of the BOD Chairman and members have been detailed under (i) job description of Chairman and (ii) job description of BOD members. The BNC provides every new board member upon election with a guide, which sets out the member's rights, responsibilities and duties. Furthermore the BOD and its committees have the authority to seek assistance from external experts and consultants on the roles and responsibilities assigned to individual members.
- (d) The BOD have set out banking transactions that require the board approval including, but not limited to, the board's authority to extend loans exceeding certain limits or the board's authority on related party transactions or any other banking operations within the board authorities.
- (e) The board secretary under the supervision of the Chairman - BOD should ensure adherence to the procedures approved by the board relating to circulation of information between the BOD members, BOD committees and EM and SM, schedule BOD meetings and take record of minutes. The BOD have defined the duties of the board secretary in writing in line with the aforesaid level of responsibilities. Any decision for appointment or dismissal of the board secretary requires BOD approval.

- (f) The board member shall not be a member in any executive or administrative committee within the bank
- (g) The BOD assesses the performance of the GCEO on an annual basis.
- (h) The BOD annually reviews the effectiveness of its own governance practices and procedures to determine improvements that may be needed.

7. TRAINING OF THE BOD MEMBERS

- (a) Board members individually and collectively are expected to (i) keep abreast of issues relevant to ABK and participate in appropriate training sessions and seminars and (ii) have a clear understanding of their role in corporate governance and exercise sound and objective judgment about the affairs of ABK.
- (b) ABK is committed to providing its board members with sufficient summary on ABK's business at the time of their appointment and throughout their membership term or whenever requested.

Details of Board Training Program are outlined in the Board Assessment & Training Program.

8. CORPORATE ETHICS & VALUES

The BOD have set the tone at the top with regards to its commitment to implementing high standards of CG across ABK and promoting a work environment where such standards can thrive by implementing specific policies such as:

- i. Code of ethics & conduct
- ii. Related party transactions
- iii. Conflict of interest
- iv. Stakeholder protection
- v. Whistle blowing
- vi. Customer confidentiality

The above policies are supplemented with:

- (a) Inclusion of specific items on the meeting agenda of the BOD and its committees.
- (b) Self-assessments by the BOD and its committees.
- (c) Independent audit of the CG framework.
- (d) Established mechanism to handle customer complaints in line with the Regulatory instructions.
- (e) Established a governance structure which contributes to the effective oversight of subsidiaries and take into account the nature, scale and complexity of the different risks to which the group and its subsidiaries are exposed.
- (f) Ensured adequate resources are available for its subsidiary to meet both group standards and local governance standards.
- (g) Established appropriate means to monitor that its subsidiary complies with all applicable governance requirements.

ABK has published reference to the policies on its website and confirm the extent of its compliance with these polices in the governance section of the annual report.

9. BOARD COMMITTEES

ABK's BOD has established Board level committees that include:

- (a) 6 non-executive committees to oversee the effectiveness of key operations across ABK comprising of (i) Board Audit Committee (ii) Board Risk Committee (iii) Board Compensation Committee (iv) Board Corporate Governance Committee (v) Board Credit & Investment Committee (vi) Board Nomination Committee to ensure credit and investment decisions above EM approval authorities are reviewed and approved appropriately and (vii) Board Monitoring Committee Over UAE Branches & DIFC Branch.
- (b) Appoint an adequate number of non-executive and independent board members in the committees entrusted with tasks that may result in conflict of interest events

Details of Board Committees responsibilities and authorities are outlined in their respective BOD approved Charter.

This delegation of oversight responsibility from the BOD to Board Committees does not in any way amend the authority or responsibility of the BOD nor does this delegation of responsibility from BOD in any way authorize any Board Committee to conduct tasks outside the approved charter. The charter of the Board Committees are an integral part of ABK's overall CG framework and further does not discharge EM and SM from their responsibilities over Internal Control arrangements.

The names of members of the Board level committees are disclosed in the annual report together with their responsibilities and activities and supplemented with the respective committee charters. Further all of the Board Level committees submit periodic reports to BOD.

10. EXECUTIVE & SENIOR MANAGEMENT RESPONSIBILITIES, AUTHORITIES AND DUTIES

- (a) Under the direction of the BOD the GCEO should ensure ABK's activities are consistent with the business strategy, risk appetite and policies approved by the BOD together with implementing appropriate systems to manage financial and non-financial risks. Further EM and SM are responsible for setting up an effective internal control arrangement to ensure the activities of ABK are conducted in a manner consistent with its business strategy, risk appetite and policies approved by the BOD, as well as preparing and presenting business strategy and annual budget through the GCEO to the BOD.
- (b) EM and SM consists of a core group of individuals who are experienced and competent (inclusive of material risk takers and control staff) with responsibility and accountability for overseeing the day-to-day management of the operations at ABK.
- (c) EM and SM are expected to substantially contribute in the effective implementation of the corporate governance standards within ABK through (i) their personal conduct (ii) adequate oversight of those they manage and (iii) ensuring ABK's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by BOD.

- (d) The GCEO is responsible for supervision and control over the ABK's business, particularly with respect to ensuring compliance, risk control, independence of functions and segregation of duties. EM and SM (excluding the Control functions) are responsible for monitoring delegation of duties to the staff and have established a management structure that promotes accountability and transparency and are ultimately responsible to the GCEO and the Board for the performance of ABK.
- (e) The GCEO provides the BOD with periodic transparent and objective financial and administrative reports every two months. Further the GCEO is expected to implement BOD's resolutions without any interference and should any of the board members participate in the implementation of resolutions passed by the BOD, such participation shall be based on the explicit and specific approval of the BOD.
- (f) The GCEO is also responsible for ensuring the financial statements are prepared in line with IFRS as well as other approved standards including those issued by the regulator.

11. INTERNAL CONTROL ARRANGEMENTS & RISK MANAGEMENT DIVISION

ABK have effective Internal Control Arrangements and a RMD headed by the GCRO with independent and unrestricted access to the BOD Chairman and BRC Chairman.

The risk governance framework should include well defined regulatory responsibilities for risk management that are commonly referred to as the three lines of defense, namely:

- **First line of defense:** Business Line, which involves its functions and activities that have the potential to create risks for the Bank and hence the responsibility of these groups in assessing and managing these risks.
- **Second line of defense:** which includes Risk Management Team and Compliance Functions. The risk management shall be independent, enhance and complement the first line of defense function through monitoring and reporting to management and supervising the aspects of the Bank risk and assess them independently of the first line of defense. It includes the second line of defense The second line of defense also includes function of compliance which includes monitoring compliance with laws, regulatory instructions and Governance rules, these functions are independent of the first line of defense.
- **Third line of defense:** Internal Audit Function. It is a function independent of the first and second lines of defense

The key features of ABK's Internal Control Arrangements are:

- (a) The BOD approved organizational structure is consistent with ABK's nature and activities that ensures the approved strategy is implemented by setting specific objectives for each business, administrative and control functions. The approved organizational structure also establishes the duties, responsibilities, authorities and reporting lines of different levels of management that enforces dual control and segregation of responsibilities. This is supplemented with policies, procedures and job descriptions which establish the qualification and experience required for every position at ABK.

- (b) BOD also ensures on an annual basis the (i) adequacy of the Internal Control Arrangements required to protect ABK's assets (ii) accuracy of its financial statements (iii) compliance with these different regulatory requirements and (iv) overall ensuring the controls are adequate to mitigate the risk. In the annual report, BOD's assessment on the adequacy of the Internal Control Arrangements is included which is intended to disclose any material weakness in the Internal Control Arrangements of ABK. The annual report also includes the external auditor's opinion on the Internal Control Arrangements.
- (c) The BOD through the BAC has established an independent and experienced IA function whose scope, procedures and frequency of audit are risk based. Further in order to maintain objectivity of IA it is headed by the CIA whose appointment is approved by BOD through the BAC. The benefits and remuneration of the CIA together with benefits and remuneration of all IA staff are determined by the BAC in coordination with BNCC. In addition the IA function reports to the BAC which ensures its independence.
- (d) The BOD views Internal and External audit as a key control function whose reports provide an assessment on the state of controls and information reported by the GCEO to the BOD. Further to ensure External Auditor's objectivity an "External Audit Independence and Rotation Policy" has been implemented which restricts the consulting engagements that can be awarded to External Auditors.
- (e) The BOD has also implemented a "Whistle blowing policy" that enables employees to report to the Chairman of BOD any wrong doing without fear of retribution. Further all reports are investigated and followed up in line with the Whistleblowing policy.

Cybersecurity Risks:

Within the overall risk governance framework of the Bank, including governance of information security systems and related powers to use different application systems, it is in view of the increasing importance of security information in the banking and financial business and in light of the challenges posed by the resulting risks for the rapid development of modern technologies used in banking business, it is necessary that the Banks' boards should raise awareness in the field of information security and focus their efforts on selecting systems that will strengthen information security protection in the face of vulnerability risks via internet (information security and cybersecurity risks). In this regard:

- The Board of Directors should adopt the strategies, policies and controls for Information security and cybersecurity systems.
- The Board of Directors should have sufficient knowledge and experience relating to Information and cybersecurity risks.
- The Board of Directors should emphasize the importance of executive management preparing follow-up reports on Information security risks and cyber events and that the executive management is kept abreast of the latest developments to address these risks.
- The Board of Directors shall regularly discuss information security and cybersecurity risks during the Board meetings, and shall regularly review their levels and trends on a continuous basis.
- The bank has established an information security function, approved by the Board of Directors, and it is independent of IT operations, and headed by an IT security specialist who has the necessary skills, knowledge and competence. They shall be responsible for the setting up of special policies and standards to implement, operate and monitor the cybersecurity controls in line with the Bank's strategy and risk appetite, making sure to get the necessary approvals for

any exception to those policies, taking into account the Bank's regulatory regulations and risk appetite. They shall report to the Board on the Bank's ability to manage information security and cyber security risks, following up the implementation of its objectives through the Risk Management Committee.

- Information security personnel should provide awareness of the cyber security risks and effective training for all employees and third party vendors, whenever required.
- The Bank will engage an independent specialized third party to assess and test the bank's capacity towards addressing and managing information security and cybersecurity risks in the light of the latest global practices, on an annual basis, whenever required.
- Information security and cybersecurity risk management systems should be added to the annual internal assessment for the Internal Control Review (ICR)

The key responsibilities ABK's RMD are:

- (a) Ensure ABK's asset and liability profile, its trading positions and its credit and operational activities do not expose ABK to losses that threaten its viability. RMD is also responsible for identifying, measuring, monitoring, controlling, mitigating risks and reporting on risk exposures taking into the account the extent to which risks overlap, measuring the exposures in light of risk appetite, monitoring risk exposures and determining the corresponding capital required. RMD takes into account risks resulting from launching new products, changing business volume, or as a result of changes in the operating environment or the portfolio quality or economic environment. These variables are incorporated in both the assessment of risk using qualitative and quantitative parameters and computation of capital required.
- (b) The GCRO reports directly to the Chairman of BRC, does not have any financial responsibilities and meets with the BOD members frequently and BRC members regularly in the absence of the GCEO. The GCRO is empowered to influence decisions related to risk exposures of ABK and cannot be removed from his/her position without the prior approval of BOD and discussion with the CBK who are ABK's apex regulator. For additional details refer to BOD approved GCRO's roles and responsibilities document.
- (c) RMD is resourced with qualified and experienced personnel who work under the supervision of the GCRO and are ultimately responsible to the BOD. Further RMD is independent and has unrestricted access to business units whose activities and exposures are under their review or to any other function/process within ABK whose activities have the potential to generate a material risk exposure.
- (d) ABK's annual report includes information on RMD, its structure, independence and nature of activities.

Board Risk Committee

- (a) BRC is formed from three non-executive BOD members, at least one of which should be an independent board member, including its Chairman who should be an independent board member and are responsible for advising the BOD on ABK's present and future risk strategy and appetite and monitoring implementation of BOD approved Risk Management policies and strategies.
- (b) The GCEO is responsible for (a) implementing BOD approved strategies in addition to developing the policies and procedures in coordination with RMD for managing all types of risks which are

reviewed and recommended to the BOD for approval through the BRC (b) establishing risk management structure, roles, responsibilities and methods of development, provided these are reviewed and recommended to BOD for approval through the BRC.

- (c) The BRC are expected to remain cognizant on the developments in Risk Management and Risk Management complexities within ABK. The BRC presents periodic reports to the BOD on these evolvments in addition the GCRO presents reports directly to the Chairman of the BRC.

Details of the BRC responsibilities and authorities are outlined in its BOD approved Charter.

Internal and External Auditing

ABK's BOD and the GCEO view the reports from both Internal and External Auditors as an independent and objective assessment of the state of controls and other matters.

Internal Audit

- (a) ABK's IA function is staffed by qualified and experienced individual whose annual audit plan is approved by the BAC and during the course of their activities are authorized by the BOD to unrestricted access to any information or any staff at ABK. Any changes to the annual audit plan require the approval of the BAC.
- (b) ABK's IA function reports to the Chairman of the BAC and the appointment of the CIA requires BOD approval through the BAC. Further all staff of IA are prohibited from carrying out any executive responsibilities and the financial remunerations of CIA and all IA staff is determined by the BAC in coordination with the BCC.
- (c) ABK's IA function performs its activities and prepares its report independently and retains the right to discuss their report with the auditees. The key objectives of IA activities using a risk based approach are to (i) verify the sufficiency and effectiveness of Internal Control Arrangements and whether they are operating as designed and (ii) verify internal policies are in conformity with the relevant laws, policies, regulations and instructions.

External Audit

- (a) The external auditors provide the BAC with their report on the consolidated financial statement of ABK and meet with the BAC to discuss their reports and any other significant observations. This meeting is convened in the presence of GCEO in addition to which the BAC also meets with the external auditors in the absence of GCEO at least once a year.
- (b) The BAC ensures external audit is conducted on a dual basis and in line with the BOD approved "External Audit Independence & Rotation Policy"
- (c) When the board delegates an external audit firm or an any other consultant (other than the external auditors of the bank) to review and assess the internal control arrangement for verifying the effectiveness and sufficiency of these arrangements, then the board should draw attention of these firms to focus their review on material risks to the bank and other significant issues as illustrated in CBK's reports, observations and directive. In addition the external audit firm should provide an opinion on ABK's compliance with CBK Corporate Governance instructions.
- (d) Banks should disclose in their annual reports the audit fees, charges and other expenses paid for audit and consultation and for any other pertinent services.

Board Audit Committee

- (a) The BOD has appointed three non-executive members, at least one of which should be an independent board member including its Chairman who should be an independent board member, who are qualified and experts in financial business to the BAC for a period not exceeding the service period of the BOD. The Chairman and Vice Chairman of the BAC are elected from amongst the three members and the role of BAC Secretary is discharged by GM – Board Affairs.
- (b) The BAC's objective is to assist the BOD in discharging its oversight responsibilities over (i) Integrity of ABK's financial statements (ii) Internal control arrangements including adequacy of staffing of control functions & Regulatory compliance (iii) IAD (iv) External Auditor's independence and objectivity and ensure their audits are carried on dual basis and (v) ensure IAD is adequately staffed, provided regular training and unless prior approval is sought from CBK none of IAD tasks are outsourced to External Auditors and/or consultants. The details of the BAC responsibilities are outlined in Charter approved by the BOD.

Details of the BAC responsibilities and authorities are outlined in its BOD approved Charter.

Compliance Governance:

Compliance function is an essential element in the risk management framework of the bank due to the special nature of risks of non-compliance, which include legal, or regulatory penalties or financial, reputational or other risks to which the Bank may be exposed in the event of non-compliance with laws, regulations, instructions, codes of conduct and sound banking practices, and accordingly:

- The Board of Directors shall approve the functions and responsibilities of the department responsible for compliance.
- The Board shall adopt a policy to ensure that the Bank complies with all legislations related to the activities of the Bank. This policy shall be periodically reviewed and the implementation thereof shall be verified.
- Compliance Department must have independence and sufficient powers and authority to ensure effectiveness of the Bank's compliance function. The Bank's management shall not interfere in the functions of the compliance department, which shall have access to the Board of Directors.
- The Compliance Department shall notify the Board of Directors and Senior Executive Management about the Bank's compliance with the regulatory legislations, instructions and controls to keep them updated with the latest developments In this area.
- The Compliance Department shall identify and evaluate at least once a year the topics related to non-compliance risks faced by the bank and the Bank's plans for the efficient management of these risks.
- The Compliance Department reports to the Board of Directors on the efficiency of the Bank's management of these risks, if any.
- Although the role of the Compliance Department is important in ensuring that the Bank meets all requirements of legislation, instructions and controls relating to the Bank's activities. However, this responsibility remains the responsibility of the Board and executive management of the Bank

12. REMUNERATION POLICIES AND SYSTEMS

ABK's Remuneration and Performance Management Policies have been designed to attract, retain and reward qualified, skilled and experienced individuals while fostering sound management of risk and controlling risk taking behavior of individuals across ABK.

The BOD is assisted by the BCC in its oversight responsibility over the design and monitoring of the ABK's Remuneration and Performance Management policies and any subsequent updates will be reviewed by BCC and recommended to BOD for approvals.

The delegation of oversight responsibility from the BOD to the BCC does not in any way amend the authority or responsibility of the BOD nor does this delegation of responsibility from the BOD in any way authorize the BCC to conduct any Remuneration and performance management related tasks outlined in the BCC's charter.

The BCC charter is part of the overall CG framework of ABK and further does not discharge EM and SM from their responsibilities to ensure full compliance and application of (i) BOD approved BCC recommendations and (ii) BOD approved Remuneration and Performance Management policy.

Board Compensation Committee

BCC is a non-executive committee of the BOD of ABK comprising of four non-executive knowledgeable, skilled and experienced BOD members, of which at least one member must be an independent board member. The Chairman and Vice Chairman of BCC have been elected from amongst the four members and the role of committee secretary is discharged by GM – Board Affairs and in his/her absence by GM – HRD. The key objectives of the BCC in relation to Remuneration and Performance Management policy are:

- (a) Ensure coherent remuneration policy and practices across ABK to attract and retain key individuals that create value for shareholders.
- (b) Develop ABK's remuneration and performance management policy and on a annual basis review its operation and effectiveness.
- (c) Liaise with the BRC and/or GCRO to ensure ABK's variable remuneration and deferred remuneration is aligned with its current risk profile and time horizon of risk.

Details of the BCC responsibilities and authorities are outlined in its BOD approved Charter.

Remuneration and Performance Management policy

ABK Remuneration and Performance Management policy approved by the BOD reflects ABK's objectives and takes into consideration soundness of its operations and financial position. The policy incorporate all aspects and components of financial Remunerations reinforcing effective risk management function and has been designed with a view to allure and maintain highly qualified, skilled and knowledgeable professionals. The policy incorporates the possibility of applying reduced Financial Remuneration system in case of negative or weak financial performance and claw back. Further the BOD through the BCC ensures an independent review of the policy is carried out by ABK's IAD or External Consultant on an annual basis. The key features of the Remuneration and Performance Management policy are as follows:

- (a) Incorporates a system for the evaluation and objective measurement of staff performance at all levels.
- (b) Links EM performance to prudent risk-taking and ABK's performance over the long run and not just the current year performance taking into account existing, potential and different types of risks.
- (c) Evaluation of the performance and determining the Remuneration of the staff working at supervisory functions such as Risk Management, Internal Audit, Anti-Money Laundering and Compliance are conducted by the respective heads of their Division and approved by the BOD through the respective Board committee.
- (d) The salient features of the Remuneration and Performance Management policy are also disclosed in the annual report together with the authorities of the BCC.

13. DISCLOSURE AND TRANSPARENCY

ABK has adopted a comprehensive and clear disclosure policy that ensures accountability and effective implementation through a BOD approved "Disclosure and Transparency Policy" and establishment of a dedicated Disclosure Unit. The Disclosure and Transparency Policy is in line with the guiding principles on Disclosure & Transparency outlined in CBK instructions on Corporate Governance (2/BS/IBS/284/2012) and outlines the centralized framework for ensuring compliance with the public disclosure requirements of CBK contained in their directive on Principles of Good Corporate Governance in Financial Institutions and in the Rules & Regulations Concerning Capital Adequacy Standard – Basel III issued by the CBK. In addition, the Policy covers CMA Disclosure requirements, International Financial Reporting Standards and other applicable laws, regulations.

The bank will develop the appropriate human element to participate and carry out the burden of this practice and define the competencies and responsibilities which are fundamental and pillars of a good disclosure and transparency system that supports good practices of bank governance, thus ensuring confidence in the bank's practices.

In line with Disclosure and Transparency Policy, the GCEO reports relevant progress to the BOD and make recommendations on how to enhance the disclosure practices in order to live up to International best practices, however this does not discharge the BOD from their responsibility for verifying the integrity, accuracy and impartiality of the disclosed information, ensuring the adherence to the approved policy and providing the mechanisms necessary for the proper implementation of the same.

Additional details on the Disclosure and Transparency process can be found in the BOD approved Disclosure and Transparency Policy.

14. CORPORATE STRUCTURE

ABK as a group includes its subsidiaries and overseas branches which has a clear structure and reporting line. Given the "vanilla" organization structure ABK BOD members and the GCEO are fully aware of the structure, objectives, management hierarchy, specific policies and the associate risks for all entities within ABK consolidated at a group level. Any addition to ABK's group structure or significant change in

the risk profile requires BOD approval and all entities within ABK group are subjected to independent audit from ABK's IA.

15. PROTECTION OF STAKEHOLDERS' RIGHTS

ABK's Stakeholder Protection Policy's primary intent is to formalize BOD commitment to protecting the rights of all stakeholders as established by relevant laws and regulations. The term "Stakeholders" include the following:

- Shareholders
- Regulators
- Customers (Depositors and Borrowers)
- Employees
- The community
- Other counterparties