



**Group Corporate  
Governance Manual**

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Corporate Governance Manual**

## 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.....	9
6. ORGANIZATION AND FUNCTIONING OF BOD.....	9
7. TRAINING OF THE BOD MEMBERS.....	10
8. CORPORATE ETHICS & VALUES.....	10
9. BOARD COMMITTEES.....	11
10. EXECUTIVE MANAGEMENT RESPONSIBILITIES, AUTHORITIES AND DUTIES.....	11
11. INTERNAL CONTROL ARRANGEMENTS & RISK MANAGEMENT.....	12
12. REMUNERATION POLICIES AND SYSTEMS.....	18
13. DISCLOSURE AND TRANSPARENCY.....	19
14. CORPORATE STRUCTURE.....	20
15. PROTECTION OF STAKEHOLDERS' RIGHTS.....	20



# Corporate Governance Manual

## GLOSSARY

Term	Description
ABK Group or Bank's Group	Al Ahli Bank of Kuwait, its Subsidiaries, and overseas branches.
AOA	Articles of Association
AML/CFT Unit	Anti-Money Laundering/Combating Financing of Terrorism Unit
BAC	Board Audit Committee
BCGCC	Board Corporate Governance and Compliance Committee
BRAC	Board Risk and AML&CFT Committee
BOD/Board	Board of Directors of ABK
BNC	Board Nomination Committee
BCHRC	Board Compensation and Human Resources Committee
CBK	Central Bank of Kuwait
CD	Compliance Division
CGD	Corporate Governance Division
CMA	Capital Market Authority
CEO	Chief Executive Officer (Including Subsidiaries and Branches Inside/Outside Kuwait)
DGCEO	Deputy Group Chief Executive Officer
EM	Executive Management (AGM - GCEO): This cluster encompasses top-tier positions within the company, ranging from Assistant General Managers to the Group Chief Executive Officer. Individuals in these roles hold significant decision-making authority and are responsible for steering the company's strategic direction.
GCEO	Group Chief Executive Officer
GCFO	Group Chief Financial Officer
GCIA	Group Chief Internal Auditor
GCRO	Group Chief Risk Officer
HRD	Human Resources Division
IA	Internal Audit
IFRS/IAS	International Financial Reporting Standards/ International Accounting Standard
RMD	Risk Management Division

## 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 and EM of the bank taking into account protection of shareholders and relevant stakeholders rights.
- **Banks Governance:** This is the method by which BOD and EM 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.
- **First Degree Relatives:** Father, mother, husband, wife and minor children.
- **Related Parties:** Determined based on IAS 24 and amendments thereto.
- **Parent Bank:** A bank that has one or more subsidiaries.
- **Group:** Al Ahli Bank of Kuwait, its Subsidiaries, and overseas branches.
- **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 employees.
- **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 for employees.
- **Board of Directors (BOD):** The bank chairman and board members, unless otherwise determined.
- **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 this manual.
- **Non-Executive Board Member:** A member of the BOD who is not involved in the day-to-day management of the bank.



# Corporate Governance Manual

## 2. INTRODUCTION

### **Purpose**

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

### **Objective**

The primary objective of CG Manual is to consolidate and articulate ABK’s Group CG framework that has been implemented and comprises of (i) duties and responsibilities of BOD and BOD Chairman (ii) charters of the Board and its committees (iii) role of EM (iv) specific policies and (v) role of Board Affairs Division.

### **Applicability and Implementation**

This Manual and subsequent amendments will be effective from the date of BOD approval across ABK group and the responsibility for oversight of implementation and execution of the CG framework resides with the BCGCC. However, the delegation of oversight over the implementation and execution of the CG framework from the BOD to BCGCC does not in any way exempt the responsibility of the BOD to ensure overall observance of CG framework and ensure effective CG practices within ABK Group.

The CG requirements set forth in this manual are subject to the Central Bank of Kuwait (CBK) instructions and directives. Furthermore, any new directives issued by CBK will supersede the relevant section of this manual after it has been updated and approved by the BOD.

### **Distribution of the Manual**

A shortened version of this manual is available to the public through ABK's website. Board members and all employees are expected to view the manual to facilitate compliance with ABK’s CG framework.

### **Manual Administration and Update**

This Manual, and any subsequent updates thereto, will be reviewed by BCGCC and recommended to BOD for approval.

## 3. BOD RESPONSIBILITIES, AUTHORITIES AND DUTIES

- (a) BOD is responsible for setting the strategy, approving the Bank’s strategic objectives, and supervising the implementation of those objectives, as well as approving the risk strategy, governance standards and corporate values. BOD shall also oversee the Executive Management.
- (b) The Board of Directors shall: (i) approve internal control policies; (ii) ensure EM’s adherence to the approved strategies, policies and procedures and applicable laws and regulations; (iii) ensure EM’s prudent management of all risks.

- (c) Direct the GCEO to develop the budget and business plans in order to achieve the strategy/objectives.
- (d) Approve the budgets, business plans and meet regularly with the GCEO to:
  - 1) Assess the progress on the strategic business plans and initiates appropriate corrective actions; and
  - 2) Discuss various aspects of ABK's operations and critically question and review explanations and information provided.
- (e) Provide sufficient oversight on the EM performance in order to ensure they carry out their assigned roles in line with the bank's strategy/objectives and the policies approved by the Board.
- (f) BOD shall assume ultimate responsibility 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 that ABK is managed in a prudent manner within the applicable laws, in-house policies and procedures.
- (g) 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.
- (h) Ensure that each BOD member carries out his 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.
- (i) Provide EM with written policies that are regularly reviewed and updated covering all aspects of ABK's activities and ensure EM:
  - 1) Establish written work procedures in compliance with the approved policies to guide the day-to-day activities of ABK;
  - 2) Communicate written policies and work procedures appropriately; and
  - 3) Regularly review the work 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.
- (j) Setting key performance indicators for EM in line with the long-term strategy/objectives and monitoring the performance of EM against these strategy/objectives and ensuring that the EM knowledge and expertise remain appropriate given the nature of the bank and risk profile.
- (k) Appoint an experienced and competent GCEO and obtain BOD approval regarding the appointment of experienced and competent (i) DGCEO and CEO-Kuwait (ii) GCFO (iii) GCIA (iv) GCCO and (v) GCRO (vi) others.

- (l) Ensure that the organizational structure facilitates effective decision-making, sound governance, and establishes clear lines of responsibility, accountability and authorities for:
  - 1. BOD
  - 2. EM
  - 3. Those responsible for the controlling functions.
- (m) Ensure that the role and responsibilities of the Chairman of BOD and GCEO are not conducted 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 affect the independence of their respective decisions. The separation of responsibilities shall be pursuant to written instructions approved by BOD and reviewed whenever needed.
- (n) Ensure policies and controls are reviewed with GCEO and Internal Control functions (Compliance, RM, IA) at the group level, in order to determine the improvement areas, 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.
- (o) Ensure succession plans for all EM positions are prepared and periodically reviewed that includes required qualifications, experience and competency of the potential successor.
- (p) The Board and the Executive Management shall make sure that banking secrecy 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 Articles of Association of ABK and other pertinent regulatory directives. The BOD is composed of eleven members, of which a minimum of 4 members are independent and not exceeding half of the total number of board members, elected by the Ordinary General Assembly to ensure adequate representation within Board committees in line with the regulatory requirements of corporate governance.
- (b) BOD committees shall take into account the instructions issued by the regulatory authorities regarding the controls for forming BOD committees.
- (c) 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 members shall have:
  - 1) Adequate knowledge and experience in finance, accounting, loans, banking operations, strategic planning, governance, risk management, internal controls, bank laws and regulations, and
  - 2) Reasonable understanding of local, regional and global economic and market forces and legal and regulatory environments.
- (d) The independent board member shall, from the beginning of nomination and during his/her directorship, fulfill the following terms:

1. The direct or indirect shareholding of the independent board member and any of his first-degree relatives shall not exceed 1% of the bank's total shares.
2. The independent board member, 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.
3. The independent board member, 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, who fulfill all other independence conditions, may apply for nomination.
4. The independent board member may not have a first-degree relationship with any member of the Board, or Executive Management of the bank or its group.
5. The independent board member, 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.
6. The independent board member, 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.
7. The independent board member 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 it may not obtain 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.
8. The independent board member, during nomination, or during the two years precedent to the date of nomination, may not be a partner in the external audit firm of the bank, a member of the auditing team that conducts audit on the bank group, and may not have a first-degree relative relationship with the partner in charge of the external auditing.
9. The independent board member should 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.
10. The term of the directorship of the independent members may not exceed two terms.

## 5. ROLE OF THE CHAIRMAN OF BOD

- (a) Ensure the proper functioning of the Board as well as the Board decisions are taken on a sound and well-informed basis by encouraging constructive agreement and discussion and ensure different and/or dissenting views are freely expressed and discussed within the decision-making process.
- (b) Facilitate constructive relationship between BOD, GCEO and EM.
- (c) Ensure Board members are provided with sufficient information in advance of meeting.
- (d) Ensure shareholders are provided with sufficient information in advance of the General Assembly meetings.
- (e) Ensure sound corporate governance standards are available within the Bank.

## 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 EM and is sent 3 days prior the meeting for each Board member together with supporting documents related to the meeting in coordination with the Board secretary.
- (b) The Board secretary shall write down all Board discussions, members' suggestions and results of voting that takes place during all the Board meetings. This recording shall be mandatory and included in the minutes of the meeting, which shall become part of the Bank's records. Any reservation or recommendation made by the independent and other board members shall be written down.
- (c) The roles and responsibilities of the BOD Chairman and members have been detailed under (i) The roles of the Chairman, and (ii) The roles 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 has set out banking transactions that require the Board approval including, but not limited to, the Board's authority to extend loans exceeding certain amount, the Board's authority on related party transactions, and any other banking operations within the Board authorities.
- (e) The Board secretary shall, under the supervision of BOD Chairman, ensure adherence to the procedures approved by the Board relating to circulation of information between the BOD members, BOD committees and EM, schedule BOD meetings and take record of minutes. The BOD has defined the duties of the Board secretary officially and 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 CEO (Group – Kuwait) on an annual basis.
- (h) The BOD annually reviews the effectiveness of its own governance practices to determine improvements that may be needed.

## 7. TRAINING OF THE BOD MEMBERS

- (a) Board members individually and collectively shall,
  - 1) Keep up to date of the issues relevant to ABK and participate in appropriate training sessions, particularly in corporate governance and risk management in addition to participation in conferences and seminars on financial and banking business; and
  - 2) Have a clear understanding of their role in corporate governance and exercise sound and objective judgment regarding the ABK affairs.
- (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 Programs are outlined in the Board Assessment & Training Program.

## 8. CORPORATE ETHICS & VALUES

The BOD has 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/procedures such as:

- 1) Code of Conduct
- 2) *General Remuneration Policy*
- 3) Related Party Transactions Policy
- 4) Conflict of Interest Policy
- 5) Stakeholder Protection Policy
- 6) Whistleblowing Policy
- 7) Customer Confidentiality Policy
- 8) *Disclosure and Transparency Policy*
- 9) *Insiders Procedure*

ABK confirms its commitment to the above policies/procedures through the annual report in the CG section. These policies are supported by the following:

- (a) Inclusion of specific items regarding corporate governance 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) Develop the appropriate mechanism to handle customer complaints in line with the regulatory instructions.
- (e) Establish information security and cybersecurity functions as well as approve relevant strategies/policies.



# Corporate Governance Manual

- (f) Establish a governance structure and periodically evaluate it in a way that 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.
- (g) Ensure adequate resources are available for its subsidiary to meet both group governance standards and local governance standards.
- (h) Develop and approve a governance control framework as an appropriate means of monitoring the compliance of subsidiaries with all applicable CG requirements.

ABK has posted a brief of these policies on its website and confirms its commitment to them in the CG section of the annual report.

## 9. BOARD COMMITTEES

- a) ABK's BOD has established Seven (7) committees to oversee the effectiveness of key operations across ABK comprising of (i) Board Audit Committee (BAC); (ii) Board Risk and AML&CFT Committee (BRAC); (iii) Board Nomination Committee (BNC); (iv) Board Compensation and Human Resources Committee (BCHRC); (v) Board Corporate Governance and Compliance Committee (BCGCC); (vi) Board Monitoring Committee for UAE Branches and DIFC Branch (BMC); (vii) Board Credit & Investment Committee (BCIC) that has authority from the BOD to ensure credit and investment decisions above EM approval authorities are reviewed and approved appropriately and its decisions are effective.
- 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. Noting that, the existence of these committees does not in any way exempt the Board of Directors of its direct responsibility for all matters related to the Bank, 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 is an integral part of ABK's overall CG framework, and further does not discharge EM from their responsibilities over Internal Control procedures.

Details of Board Committees responsibilities and authorities are outlined in their respective approved Charters. The names of members of the Board 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 committees submit periodic reports to BOD. The Chairman of the BOD shall obtain quarterly reports in order to follow up the BOD committees' activities.

## 10. EXECUTIVE MANAGEMENT RESPONSIBILITIES, AUTHORITIES AND DUTIES

- (a) Under the direction of the BOD, the GCEO shall ensure that 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. Furthermore, EM is responsible for setting up effective internal controls 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 contribution in preparing and presenting the Bank's business strategy and annual budget through the GCEO to the BOD.

- (b) EM consists of a core set of experienced and competent individuals designated by BOD (inclusive of heads of control functions) who are responsible and accountable for overseeing the management of the ABK.
- (c) EM shall substantially contribute in the effective implementation of the corporate governance standards within ABK through (i) personal conduct (ii) adequate oversight of the activities they manage and (iii) ensuring ABK's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by BOD, along with developing business processes that fit the corporate governance instructions and requirements
- (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 (excluding the Control functions) is responsible for monitoring delegation of duties to the staff and have established a management structure that promotes accountability and transparency and are ultimately responsible before 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 at least. 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 an 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 regulators in this regard.

## 11. INTERNAL CONTROL ARRANGEMENTS & RISK MANAGEMENT

ABK has effective Internal Control Arrangements and a RMD headed by the GCRO with independent and unrestricted access to the BOD Chairman and BRAC 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:** It's the business unit, whose functions and activities have the potential to create risks for the Bank and hence their responsibility is to assess and manage such risks.
- **Second Line of Defense:** It includes the Risk Management and Compliance Functions. The risk management shall be independent and enhance the first line of defense function through monitoring and reporting to the management and supervising the Bank's risk areas and assessing them independently from the first line of defense. the second line of defense also encompasses compliance function, which is responsible for monitoring compliance with laws, regulations and governance rules. These functions are independent of the first line of defense.
- **Third Line of Defense:** It is the internal audit function, which is independent of the first and second lines of defense.



# Corporate Governance Manual

## **The Scope and Framework of the Bank's Control Functions**

The Board of Directors (BOD) assigns the second and third lines of defense functions, in accordance with its approved policies and procedures, to the bank's controlling functions (Risk Management - Compliance Division - AML & CFT Division - Internal Audit Division). Accordingly, these divisions carry out the tasks required therefrom based on what is specified and approved. However, the exercise of these tasks may lead to interaction and debate with the various divisions/units of the bank.

In the event of any disagreement arising by any heads of divisions/units (executive management) to the work of the aforementioned controlling functions, the following should be done:

- The head of the concerned division/unit shall send a detailed memorandum to the GCEO or his/her representative that includes details of the disagreement.
- The GCEO or his/her representative, in turn, shall seek to resolve the disagreement between the bank's controlling functions and the head of the concerned division/unit.
- In the event that he/she is unable to settle the disagreement, the GCEO or his/her representative shall present the matter via a detailed memorandum to the Board committee that is responsible for following up on the work of the subject control function in question to take the appropriate opinion regarding that disagreement.

In light of the above, the opinion of the concerned committee may be as follows:

1. The concerned committee may decide the validity of the work carried out by the controlling function; Therefore, there is no point in objecting or commenting and issuing its directions to the head of the controlling function to complete the work.
2. The concerned committee may decide to conduct a special review by the bank's Internal Audit Division (IAD) - through the Board Audit Committee (BAC) - and issue a detailed report and opinion on this subject to be presented to the committee for recommendation.
3. If the disagreement or comment concerns the internal audit function itself, an external audit firm can be outsourced directly to submit a detailed report to BAC on the subject of the disagreement.

Based on the review report by IAD or by the external auditor or the detailed memorandum submitted by the GCEO or his/her representative on the subject submitted to the concerned committee, the concerned committee shall take the necessary action in this regard.

## **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 ensure 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 the different regulatory requirements, and (iv) ensure the existence of adequate controls to mitigate the risks. 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 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 GCIA whose appointment is approved by BOD through BAC and IA staff appointment is approved by the GCIA. The benefits and remuneration of the GCIA together with benefits and remuneration of all IA staff are determined by BAC. In addition, the IA function reports to 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 status of controls and information reported by the GCEO to the BOD. Furthermore, to ensure External Auditor's objectivity, an "External Audit Independence and Rotation Policy" has been implemented which regulates the consulting engagements that can be conducted with External Auditors.
- (e) The BOD has also implemented a "Whistleblowing Policy" that enables employees to report to the Chairman of BOD (or as mentioned in the approved policy) any wrongdoing without fear of retribution. Further, all reports are investigated and followed up in line with the approved 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 information security 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 shall adopt the strategies, policies and controls for Information security and cybersecurity systems.
- The Board of Directors shall have sufficient knowledge and experience relating to Information security and cybersecurity risks.
- The Board of Directors shall emphasize the importance that the Executive Management prepares follow-up reports on Information security risks and cybersecurity incidents and that the Executive Management is kept abreast of the latest developments to address these risks.



# Corporate Governance Manual

- The Board of Directors shall regularly discuss information security and cybersecurity risks during the Board meetings, and shall regularly reviews their levels and trends on continuous basis.
- The bank shall establish an information security function, approved by the Board of Directors, and it is independent of IT operations, and headed by an information security specialist who has the necessary skills, knowledge and competence. He/she shall be responsible for setting up 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. He shall report to the Board on the Bank's ability to manage information security and cybersecurity risks, following up the implementation of its objectives through BRAC.
- Information security personnel shall provide awareness of the cybersecurity risks and effective training for all employees and third-party vendors, whenever required.
- The Bank shall 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 shall be added to the annual internal assessment for the Internal Control systems.

## **The Key Responsibilities of RMD at the Bank are as follows:**

- (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 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 BRAC. The GCRO is independent and does not have any financial responsibilities and meets with the BOD members frequently and BRAC members regularly in the absence of the EM. 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. The Bank shall discuss these reasons with CBK before removing GCRO from his position as ABK's regulatory authorities.
- (c) RMD is resourced with qualified and experienced personnel who work under the supervision of the GCRO who is ultimately accountable before the BOD. Further, RMD is independent and has unrestricted access to all 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 in terms of its structure, independence and nature of activities.



# Corporate Governance Manual

## **Board Risk and AML&CFT Committee (BRAC)**

- (a) BRAC is formed from at least three non-executive BOD members, including its chairman who should be an independent board member. BRAC is 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, in addition to the issues related to AML & CFT.
- (b) The EM is responsible for the following:
  - 1) Implementing BOD approved strategies in addition to developing the work 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 BRAC;
  - 2) Establishing risk management structure, roles, responsibilities and methods of development, provided these are reviewed and recommended to BOD for approval through BRAC.
- (c) The BRAC is expected to remain cognizant on the rapid developments and growing complexities in Risk Management within ABK. The BRAC presents periodic reports to the BOD on these evolvments in addition the GCRO presents reports directly to the Chairman of BRAC.

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

## **Internal and External Auditing**

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

### **Internal Audit**

- (a) ABK's IA function is staffed by qualified and experienced individuals whose annual audit plan is approved by 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 BAC. The IA charter shall be reviewed by BAC and approved by BOD and the same shall be circulated within the Bank.
- (b) IAD reports to BAC, and the appointment of the GCIA requires BOD approval through BAC. Further, all staff of IAD are prohibited from carrying out any executive responsibilities and the financial remunerations of GCIA and internal auditors are determined by BAC.
- (c) ABK's IA function performs its activities and prepares its reports independently and retains the right to discuss their reports 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 auditor shall provide BAC with a copy of the audit report on the consolidated financial statements of the Bank, and meet with BAC to discuss this report and any other significant observations of the Bank. These meetings are convened in the presence of EM. BAC also meets with the external auditor in the absence of EM at least once a year.

- (b) BAC ensures external audit is conducted on a dual audit basis and in line with the “External Audit Independence & Rotation Policy”.
- (c) When the Board delegates an external audit firm or any other consultant (other than the external auditors of the bank) to review and assess the internal control systems for verifying the effectiveness and sufficiency of these systems, then these firms and entities should be directed to focus their review on material risks to the bank and other areas where review may be important in light of CBK’s reports, observations and directives. In addition, the external auditor shall provide an opinion on ABK’s compliance with CBK Corporate Governance, information security, and cybersecurity instructions.
- (d) The bank Group should disclose in their annual reports the fees, charges and other expenses paid for audit and consultation and for any other pertinent services.

### **Board Audit Committee (BAC)**

- (a) The BOD appoints at least three non-executive members, including its chairman who should be an independent board member, at least 2 members of them should be qualified and/or experts in financials. The Chairman and Vice Chairman of 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) Internal audit (iv) External Auditor’s independence and objectivity and ensure their audits are carried on dual basis and (v) ensure IAD is adequately staffed, provided with regular training and unless prior approval is sought from CBK, none of IAD tasks are outsourced to External Auditors and/or consultants.

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

### **Compliance Governance:**

Compliance function is an essential element in the risk management framework of the bank due to the special nature of non-compliance risks, 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 Division should 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 Division, which shall have access to the Board of Directors.
- The Compliance Division shall notify the Board of Directors and the 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.



# Corporate Governance Manual

- The Compliance Division 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 Division reports to the BCGCC on the efficiency of the Bank's management of these risks.
- Although the role of the Compliance Division 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 with the Board and executive management of the Bank.
- The Compliance Division shall submit its periodic reports on the Group's Compliance activities and functions, along with any necessary recommendations, if any, and the extent of the Bank's compliance with regulatory legislation, instructions, and related developments to BCGCC and the BOD.

## 12. REMUNERATION POLICIES AND SYSTEMS

ABK's Remuneration Policy has been designed to attract, retain and reward qualified, skilled and experienced staff while fostering sound management of risk and controlling risk taking behavior of the staff across ABK.

The BOD is assisted by the BCHRC in its oversight responsibility over the design and monitoring of the ABK's Remuneration policy and practices and any subsequent updates will be reviewed by BCHRC and recommended to BOD for approval.

The delegation of oversight responsibility from the BOD to the BCHRC does not in any way exempt the authority or responsibility of the BOD.

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

### **Board Compensation and Human Resources Committee (BCHRC)**

BCHRC is a non-executive committee of the BOD of ABK comprising of three non-executive qualified and experienced BOD members, of which at least one member must be an independent board member. The Chairman and Vice Chairman of BCHRC have been elected from amongst the three members and the role of committee secretary is discharged by GM – Board Affairs. The key objectives of the BCHRC in relation to Remuneration policy are:

- a) Ensure coherent remuneration policy and practices across ABK to attract and retain key staff that create value for shareholders.
- b) Develop, review, and assess ABK's remuneration policy and its effectiveness on an annual basis.
- c) Make recommendation to the BOD regarding the level and components of the Remuneration of the GCEO and his/her assistants as well as the bank's executive staff.
- d) Liaise with BRAC and/or GCRO to ensure ABK's variable and deferred remunerations are aligned with its current risk profile and time horizon of the risks.

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

## **Remuneration Policy**

ABK Remuneration policy approved by the BOD reflects ABK's objectives and takes into consideration the soundness of its operations and financial position. The policy incorporates 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 and skilled professionals. The policy incorporates the possibility of applying the reduced Financial Remuneration system in case of negative or weak financial performance and claw back the paid remunerations. Furthermore, the BOD, through the BCHRC, 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 policy are as follows:

- a) Develop a system for the evaluation and objective measurement of staff performance at all levels.
- b) Link 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, AML/CFT 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 policy are also disclosed in the annual report together with the authorities of the BCHRC.

## **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 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 CBK. In addition, the Policy covers CMA Disclosure requirements, International Financial Reporting Standards and other applicable laws and regulations.

The bank will develop the appropriate human resources to participate and bear the burdens of such practice, as well as the identification of the competencies and responsibilities which are fundamental and pillars of a good disclosure and transparency system that supports good practices of the Bank's governance, thus promoting confidence in the Bank's practices.

In line with Disclosure and Transparency Policy, the EM 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.

The details of the Disclosure and Transparency process are set out in the BOD approved Disclosure and Transparency Policy.



# Corporate Governance Manual

## 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 of the Bank, ABK BOD members and the GCEO are fully aware of the organizational structure, objectives, management hierarchy, specific policies and the associated risks of all entities within ABK 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 periodic independent assessment and support from ABK’s IAD, RMD and Compliance.

## 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

For additional details, please refer to “Stakeholder Protection Policy” approved by BOD.