



**BAHRAIN
MIDDLE EAST
BANK**

بنك البحرين والشرق الاوسط

**CORPORATE GOVERNANCE REPORT
31 DECEMBER 2019**

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Board of Directors

Sh. Khalifa bin Duaij Al Khalilfa	Chairman – Independent
Mr. Abdulrahman Abdulla Mohamed Husain	Vice Chairman – Independent
Mr. Ebrahim Husain AlJassmi	Independent Director
Mr. Khalil Ismaeel Al Meer	Independent Director
Mr. Yousif Abdulla Mohamed Taqi	Independent Director
Mr. Emad Yousef AlMonayea	Independent Director
Dr. Jaffar Mohammed AlSayegh	Independent Director

Executive Committee

Mr. Abdulrahman Abdulla Mohamed Husain	Chairman
Mr. Emad Yousef AlMonayea	Vice Chairman
Dr. Jaffar Mohammed Salman Jasim AlSayegh	Member

Audit & Risk Committee

Mr. Yousif Abdulla Mohamed Taqi	Chairman
Mr. Ebrahim Husain AlJassmi	Vice Chairman
Mr. Khalil Ismaeel Al Meer	Member

Nomination, Remuneration & Corporate Governance Committee

Sh. Khalifa bin Duaij Al Khalilfa	Chairman
Mr. Khalil Ismaeel Al Meer	Vice Chairman
Mr. Ebrahim Husain AlJassmi	Member
Mr. Yousif Abdulla Mohamed Taqi	Member

Bahrain Middle East Bank B.S.C.

Corporate Governance Report

BOARD OF DIRECTORS

Sheikh Khalifa bin Duaij Al Khalifa

Chairman - Independent Director

Appointed to the Board on 14 January 2019

Sh. Khalifa bin Duaij Al Khalifa is the President of the Court of HRH the Crown Prince. Prior to that, he was the director of the Investment Department at the Pension Fund Commission. He serves as an Independent Board Member in BBK and is also on the Board of HRH the Crown Prince's International Scholarship Program, Palm Capital, Isa Bin Salman Educational Charitable Trusts and the Arab Thought Foundation. He is an MBA holder from John Hopkins University and Master's in Social & Public Policy from Georgetown University. He brings over 21 years of experience In Government, Diplomatic and Investment sectors.

External Directorships:

Position	Name of Entity	Location
Board Member	BBK	Bahrain
Board Member	HRH the Crown Prince's International Scholarship Program	Bahrain
Board Member	Palm Capital Company WLL	Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Bahrain
Board Member	Arab Thought Foundation	Lebanon
Non-Executive Director	Al Azzam Contracting and Properties Investment Management Group S.P.C	Bahrain
Chairman	Bahrain Financial Markets Association	Bahrain
Chairman	British University of Bahrain W.L.L.	Bahrain

Mr. Abdulrahman Abdulla Mohamed Husain

Vice Chairman, Independent Director

Chairman, Executive Committee

Appointed to the Board on 14 January 2019

Mr. Abdulrahman Abdulla Mohamed Husain, currently retired, has over 40 years of experience in the Banking Industry. He was the General Manager of the Banking Group in the National Bank of Bahrain. He serves as an Independent Board Member In Al Baraka Islamic Bank, Vice Chairman of Takaful International Company, and a Board Member of Taib Bank. He is an MBA holder from the University of Hull.

External Directorships:

Position	Name of Entity	Location
Board Member	Taib Bank B.S.C.	Bahrain
Board Member	Al Baraka Islamic Bank B.S.C.	Bahrain
Vice Chairman	Takaful International Company B.S.C.	Bahrain

Mr. Ebrahim Husain AlJassmi

Independent Director

Appointed to the Board on 14 January 2019

Mr. Ebrahim Husain AlJassmi, currently retired, has over 37 years of experience in both Islamic and Conventional banking. He was the CEO of Khaleeji Commercial Bank and prior to that the CEO of Liquidity Management Centre Bahrain. He served as an independent Board Member in Bahrain Islamic Bank and Ibdar Bank. He is an MBA holder from the University of Bahrain and has a B.Sc. of Economics from the University of Kuwait. He is currently serving as the Vice Chairman of Dividend Gate Capital.

External Directorships:

Position	Name of Entity	Location
Vice Chairman	DGC B.S.C. (Closed)	Bahrain
Chairman	E H E Consulting W.L.L	Bahrain
Board Member	Silver Bullet Garage W.L.L.	Bahrain

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Mr. Khalil Ismaeel Al Meer

Independent Director

Appointed to the Board on 14 January 2019

Mr. Khalil Ismaeel Al Meer, currently retired, has over 33 years of experience in both Islamic and Conventional Banking. He was the CEO of Khaleeji Commercial Bank and a GM of the Corporate Banking Division in BBK. He serves as an independent Board Member in Naseej and Solidarity Takaful (KSA). He has a B.Sc. in Business Administration from the University of Bahrain.

External Directorship:

Position	Name of Entity	Location
Board Member	Naseej B.S.C.	Bahrain
Board Member	Solidarity Saudi Takaful Co.	KSA

Mr. Yousif Abdulla Mohamed Taqi

Independent Director

Appointed to the Board on 14 January 2019

Mr. Yousif Abdulla Mohamed Taqi, currently retired, has over 35 years of experience In Banking, Audit and Advisory. He was the CEO of Al Salam Bank Bahrain and a Deputy General Manager at Kuwait Finance House Bahrain ("KFH"). He serves as an independent Board Member in KFH and Eskin Bank. He is also a non-executive director on the Board of Aluminum Bahrain ("ALBA"). He is a Certified Public Accountant (CPA) and has a B.Sc. in Accounting from Husson University, USA.

External Directorships:

Position	Name of Entity	Location
Board Member	Kuwait Finance House (Bahrain) B.S.C. (Closed)	Bahrain
Board Member	Eskin Bank B.S.C. (Closed)	Bahrain
Non-Executive Director	Aluminum Bahrain B.S.C.	Bahrain
Board Member	Al Sorouh Management Company WLL	Bahrain

Mr. Emad Yousef AlMonayea

Independent Director

Appointed to the Board on 14 January 2019

Mr. Emad Yousef AlMonayea is the Chairman & President of Vaayu Aerospace Inc. (USA), Partner and Executive Director of Vaayu Group (UAE), President of Aviation Academy of America (USA) and President of Vaayu Aerospace Inc. (USA). Prior to that, he was the CEO and Board Member of Kuwait Finance House Investment Co., Director of the International Investment Department in Kuwait Finance House and the Chairman of Liquidity Management Centre (Bahrain). He started his career with Kuwait Investment Authority, the sovereign fund of Kuwait. He serves as a member of the Advisory Board of Moravia Capital AG. He holds a Bachelor of Commerce and Political Science from the University of Kuwait and certificate of Strategies for Effective Negotiation from Harvard University, JFK School of Government, Executive Education. He has over 34 years of experience in Financial Institutions and Sovereign Wealth management.

External Directorships:

Position	Name of Entity	Location
Board Member	Moravia Capital AG (Advisory Board)	Switzerland
Chairman & President	Vaayu Group	UAE
Director	Vaayu Aviation Capital & Leasing (UK) Limited	UK
President	Aviation Academy of America	USA
President	Vaayu Aerospace Inc.	USA
President	Hondo Aerospace Inc	USA

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Dr. Jaffar Mohammed Salman Jasim AlSayegh

Independent Director

Appointed to the Board on 14 January 2019

Dr. Jaffar Mohammed AlSayegh is a Lecturer of Economics, International Trade, Public Finance, Marketing and FDI at the University of Bahrain and an Executive Manager at Ola Center for Studies and Consultancy. Prior to that, he was an Economic and Financial Advisor at the Shura Council and a Senior Economist at the Directorate of Economic Planning at the Ministry of Finance. He has a Ph.D. in Economics from Keele University and a Master of Arts in Economics. His professional and academic career spans over 35 years including the publishing of over 300 economic articles and many advisory roles on key economic policies.

Position	Name of Entity	Location
Executive Director	Ola Center for Studies & Consultancy	Bahrain

SENIOR MANAGEMENT AND COMMITTEES

Senior Management

Mr. Abdulla Dawood	Acting Chief Executive Officer
Mr. Hamad Al Hiddi	Head of Risk Management
Mr. Raza Shah	Head of Operations
Mr. Mohammed Ali Al Sitri	Head of Human Resources
Mr. Mohamed Alhusaini	Head of Compliance & MLRO
Ms. Sulagna Ghosh	Head of Internal Audit
Mr. Muhammed Naeem	Senior Manager – Financial Control

Executive Management Committee

Mr. Abdulla Dawood	Chairman
Mr. Hamad Al Hiddi	Member
Mr. Raza Shah Kakakhail	Member
Mr. Mohamed Alhusaini	Member

SENIOR MANAGEMENT

Mr. Abdulla Dawood

Acting Chief Executive Officer

Chairman of the Executive Management Committee

Mr. Abdulla Dawood is the Acting Chief Executive Officer of Bahrain Middle East Bank (BMB) and Chairman of B.M.B Property Services W.L.L, a subsidiary of Bahrain Middle East Bank. He joined BMB in July 2017.

He has a vast experience of more than 20 years in Treasury, Capital Markets, Institutional Banking, Retail and Corporate Banking in both conventional and Islamic Banks. Mr. Dawood holds a Master degree in Business administration and a Bachelor degree in Banking & Finance. He is a member of (ACI) The Financial Markets Association, Paris since 2005 and Kingdom of Bahrain Representative to Interarab Cambist Association (ICA).

Prior to joining BMB, He worked for Standard Chartered Bank, Bank of Bahrain & Kuwait and Khaleeji Commercial Bank.

Mr. Hamad AlHiddi

Senior Vice President - Head of Risk Management

Member of the Executive Management Committee

Mr. Hamad AlHiddi joined Bahrain Middle East Bank in December 2017 as Head of Risk Management Department. He is also a board member at B.M.B Property Services W.L.L, a subsidiary of Bahrain Middle East Bank.

He brings with him over 13 years of professional banking experience specializing in the field of Risk Management, Compliance and Anti-Money Laundering in both conventional and Islamic banking. He holds an Master's degree in business administration specializing in finance and he is a holder of an Associate PRM Certificate, which is a risk management professional certificate issued by the Professional Risk Managers' International Association (PRMIA). Besides his extensive formal education, he has also undergone intensive training in banking & finance covering the various facets of risk management in retail banking, wholesale banking, asset management and investments.

Prior to joining BMB, he served as Head of Risk Management, Compliance and MLRO at BOK International Bank, handled the risk management functions at SICO Investment Bank and in the early part of his career he served in the Risk Management & Compliance Department at Gulf Finance House and in the Credit Department at Kuwait Finance House in the Kingdom of Bahrain.

Mr. Raza Shah Kakakhail

Senior Vice President - Head of Operations

Member of the Executive Management Committee

Mr. Shah holds a Master's Degree in Public Administration (Major Finance) from University of Peshawar, Pakistan.

Mr. Shah joined BMB in June 2010 and has over 19 years of combined experience across both commercial and investment banking including banking operations, business expansion, treasury, trade finance, Islamic banking, corporate finance and client relationship management. Previously, Mr. Shah was employed at Bank Alfalah Limited as Country Head, Afghanistan and MCB Bank Ltd., Pakistan in various managerial level capacities.

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Mr. Mohamed Alhusaini

Vice President - Head of Compliance & MLRO
Member of the Executive Management Committee

Mr. Alhusaini joined BMB in 2011. He has 10 years of experience initially starting in Risk Management and eventually taking up key Compliance and Corporate Governance roles. He is an ICA - International Diploma in Compliance - holder and a Member of the International Compliance Association (MICA).. He graduated with a Bachelor of Commerce degree majoring in Finance from McGill University in Montreal, Canada. Prior to joining BMB, Mr. Alhusaini worked with Eskan Bank, Kingdom of Bahrain.

Mr. Mohammed Al Sitri

Head of Human Resources & Admin.

Mr. Al Shaikh joined BMB in 1983. He has over 40 years of experience in human resources, administration, training and development of staff. He is also a board member at B.M.B Property Service W.L.L, a subsidiary of Bahrain Middle East Bank.

He has received extensive training in human resources and banking through courses in the U.K. and in the Kingdom of Bahrain. Prior to joining BMB, Mr. Al Shaikh worked with Aluminum Bahrain in the Human Resources Department.

Ms. Sulagna Ghosh

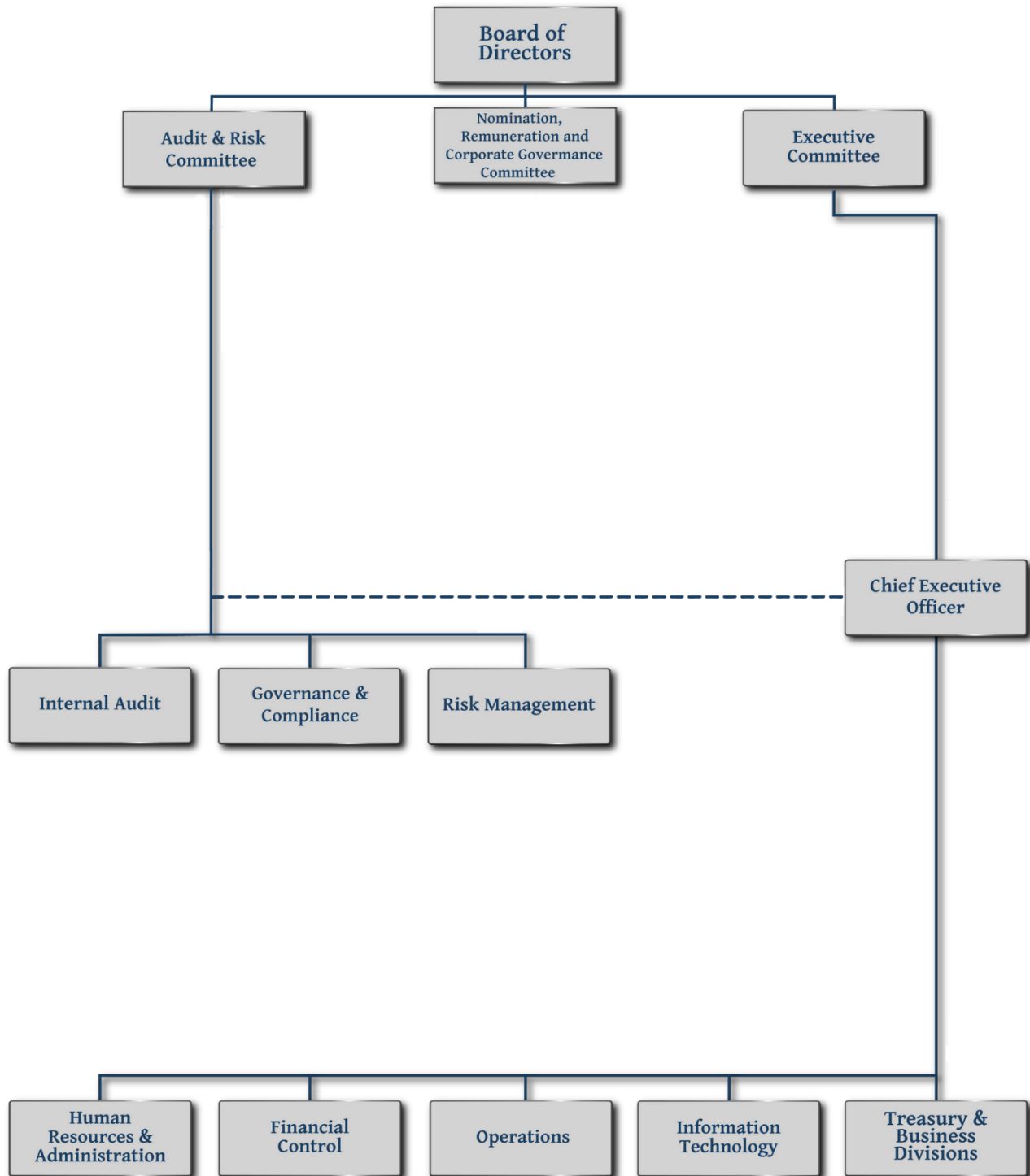
- Head of Internal Audit

Ms. Ghosh joined BMB in June 2017. Ms. Ghosh is a Member of The Institute of Internal Auditors and a qualified Chartered Accountant and an Associate Member of the Institute of Chartered Accountants of India.

She has over 13 years of experience in audit and consulting in the financial services and private equity sector in India and in the Kingdom of Bahrain.

Prior to joining BMB, she served as a Manager at Ernst & Young, Kingdom of Bahrain, with primary focus on audit of key investment, commercial banks and asset management companies. Her work in India covered assurance and fraud investigation services in manufacturing, trading and service industries.

CORPORATE STRUCTURE



CORPORATE GOVERNANCE REPORT

Bahrain Middle East Bank B.S.C.

Corporate Governance Report

1. Introduction

BMB operates under a written Corporate Governance Framework (“CGF”) drawn from the Corporate Governance Code of the Kingdom of Bahrain and follows internationally recognized best practice principles and guidelines. The CGF of BMB depicts the goals, roles and responsibilities for its Board of Directors, management and staff, and includes well defined reporting lines and structures. At the department level, the Bank employs detailed policies and procedures, segregation of duties and dual controls to be in conformance with the Code.

2. Framework

The Corporate Governance Framework of the Bank includes:

- A Disclosure Policy;
- Code of Conduct policy;
- Code of Ethics;
- Whistle Blower Policy;
- Remuneration Policy;
- Key Persons Dealing Policy; and
- Corporate Governance Policy.

3. Shareholders

The shareholding structure of the Bank as at 31 December 2019 is as follows:

3.1 Top five shareholders

Name of the shareholder	Number of shares	% of shareholding
AN Investment W.L.L. (Bahrain)	323,088,497	80.77%
Al Fawares Holding Company K.S.C. (Kuwait)	57,906,308	14.48%
Securities Group K.S.C. (Kuwait)	11,760,000	2.94%
Shaikh Rashed Khalifa Hamad Al Khalifa (Bahrain)	2,160,000	0.54%
Various other shareholders	5,085,195	1.27%

3.2 Distribution of shareholders as percentage of total outstanding shares

Ordinary shares	Number of shares	Number of shareholders	% of shareholding
Less than 1%	7,245,195	13,120	1.81%
1% to less than 5%	11,760,000	1	2.94%
5% to less than 10%	-	-	-
10% to less than 20%	57,906,308	1	14.48%
20% to less than 50%	-	-	-
50% and above	323,088,497	1	80.77%
Total	400,000,000	13,138	100.00%

Shareholders (continued)

3.3 Distribution of shareholders by nationality

Country	% of shareholding
Kingdom of Bahrain	81.70%
State of Kuwait	18.09%
Kingdom of Saudi Arabia	0.20%
Others	0.01%
Total	100.00%

3.4 Shares held by government, directors and senior management of the Bank

Neither the Government of the Kingdom of Bahrain nor the directors and senior management of the Bank hold any shares of the Bank.

3.5 Insider Trading

No trading of the Bank's shares was undertaken by its Directors or senior management during the financial year 2019. Trading in the shares of the Bank has been suspended on the Bahrain Bourse since November 8, 2018.

4. The Board of Directors

4.1 Responsibilities of the Board

The Board is ultimately responsible for the governance and performance of the Bank. The Board discharges that responsibility by:

- Setting the strategic direction of the Bank including review of business plan, assess the adequacy of capital, set performance objectives and oversee major capital expenditures;
- Ensuring that collectively it has sufficient expertise to identify, understand and measure the significant risks to which the bank is exposed in its business activities, whilst ultimately reviewing, approving and understanding the risk strategy, guidelines, policy statements and the nature and level of various risks accepted by the Bank.
- Ensuring that the systems and controls framework, including the Board structure and organizational structure of the bank, is appropriate for the bank's business and associated risks through establishing a robust corporate governance system and risk management framework which includes setting risk limits, internal controls, policies and procedures and a compliance framework system to foster compliance with applicable laws and as well as professional standards and ethics by itself and Bank staff and monitoring the same for implementation;
- Reviewing its own and the Bank management's performance; and
- Preparation and reporting of the Bank's financial results in a fair and transparent manner.

4.2 Structure and Composition of the Board

In accordance with the Bank's Articles of Association, the Board is elected by the Bank's shareholders. The current composition of the Board is seven Directors, with all being Independent Directors. Collectively, the Board possesses knowledge, experience and skills appropriate for the Bank.

The Board is responsible for considering whether there is an appropriate balance of Executive and Independent Directors on the Board. The current members of the Board of Directors are all independent. The Board has concluded that the current Board composition is appropriate.

The roles and responsibilities of the Chairman and the CEO are separate from one another.

The Chairman's main responsibilities are:

- To lead the Board and ensure the effective engagement and contribution of all Directors, so that the Board may fully discharge its legal and regulatory responsibilities;
- To ensure effective communication with shareholders and ensure that the Board members understand the views of the major shareholders; and
- To develop a constructive relationship with the CEO and to manage his performance.

The day-to-day management of the Bank has been delegated by the Board to the CEO. The CEO is responsible for the control and monitoring of the Bank's business on a day-to-day basis, recommending strategy to the Board, leading senior management and implementing the Board's strategic and operational decisions.

Independent Directors have the flexibility to meet prior or post the Board meetings and to review issues without the presence of the other Board members.

4.3 Appointment / Re-election of the Board

Subject to the Ordinary General Meeting dated 30 December 2018 and to the approval of the Central Bank of Bahrain, The members of the Board were elected for a three-year term from 30 December 2018 to 30 December 2021. The Board was elected by acclamation.

4.4 Induction and professional development

Induction programs are tailored for all newly appointed Directors. The program comprises a comprehensive Directors' Handbook, meetings with other Directors and senior management, as well as comprehensive guidance on the duties and responsibilities of Directors, the Bank's policies and procedures and relevant legal and regulatory requirements.

The Board of Directors (continued)

4.5 Assessment of the Board

The Board shall conduct an evaluation of its performance and the performance of all committees and directors at least once a year. A performance evaluation report of the Board and the committees shall be conducted and reported to the shareholders in the scheduled general meeting. The performance evaluation report was completed for the year 2019.

4.6 Meetings of the Board of Directors and Committees

The Board of Directors met as per its constitution and in line with the Articles of the Bank. However, due to the extra-ordinary circumstances and the seriousness of the issues being discussed, whereby those issues required careful study and time for consideration, the Board of Directors suspended its committees for the duration of the year as it decided that those issues should be discussed by the entirety of the Board. The Board has however directed the committees to meet as per their charters during 2020.

In addition to the regularly scheduled meetings, the Board of Directors received information between meetings in respect of activities of the management committee and developments in the Bank’s business.

4.6.1 Meetings of the Board of Directors

The Board of Directors met 7 times during the year ended 31 December 2019, on the dates listed below:

Name of Director	Board Meetings (Location: Kingdom of Bahrain)						
	14 Jan	6 March	18 April	18 July	11 Sept	24 Oct	20 Nov
Sh. Khalifa bin Duaij Al Khalilfa	✓	✓	✓	✓	✓	✓	✓
Mr. Abdulrahman A M Husain	✓	✓	✓	✓	✓	✓	✓
Mr. Ebrahim Husain AlJassmi	✓	✓	✓	✓	X	✓	✓
Mr. Khalil Ismaeel Al Meer	✓	✓	✓	✓	✓	✓	✓
Mr. Yousif Abdulla Taqi	✓	✓	✓	✓	✓	✓	✓
Mr. Emad Yousef AlMonayea	✓	✓	✓	✓	✓	✓	✓
Dr. Jaffar Mohammed AlSayegh	✓	✓	✓	X	✓	✓	✓

✓ - Present, including attendance through conference calls

X - Absent

4.6.2 Meetings of the Executive Committee

The Executive Committee of the Board of Directors has not met during the year ended 31 December 2019 due to the reasons described in 4.6.

4.6.3 Meetings of the Audit & Risk Management Committee

The Audit and Risk Management Committee of the Board of Directors met only one time during the year ended 31 December 2019 due to the reasons described in 4.6:

The Previous Members:

Name of Director	Audit & Corporate Governance Committee Meetings
	19 June 2019
Mr. Yousif Abdulla Taqi	✓
Mr. Ebrahim Husain AlJassmi	✓
Mr. Khalil Ismaeel Al Meer	✓

✓ - Present, including attendance through conference calls

X - Absent

4.6.4 Meetings of the Nomination, Remuneration and Corporate Governance Committee

The Nomination, Remuneration and Corporate Governance committee of the Board of Directors has not met during the year ended 31 December 2019 due to the reasons described in 4.6. As such, no remuneration was paid to its members.

4.7 Board Committees

The Board has established the following three committees to ensure that it carries out its functions and provides effective supervision and leadership:

- Executive Committee
- Audit & Risk Committee
- Nomination, Remuneration & Corporate Governance Committee

During the year 2018, the Audit Committee and Risk Committee have been combined to form the Audit & Risk Committee. In addition, the Nomination committee, the Remuneration Committee and the Corporate Governance committee were also combined. This is based on the activities of the Bank, the size of the Board and was done with the prior approval of the Central Bank of Bahrain.

4.7.1 Executive Committee (“EXCO”)

The primary responsibilities and functions of EXCO are to:

- Act on behalf of the Board when practicality and expediency dictates;
- Act in limited circumstances, on emergency matters that require immediate approval or other actions of the Board;

- Ensure continuity in the management of the business and affairs of the Bank;
- Discuss at greater lengths various macro management aspects of the Bank, including investments, credit, risk and capital adequacy aspects of the Bank;
- Provide an avenue where specific issues may be explored in greater depth than may be possible during Board meetings; and
- Act as an advisor to the Board on various matters.

4.7.2 Audit & Risk Committee

The primary responsibilities and functions of the Audit & Risk Committee are to provide assistance to the Board to fulfill its duties to ensure and oversee:

- The integrity of the Bank's financial statements;
- A sound risk management culture is established throughout the bank;
- The suitability, independence and performance of the Bank's auditors (internal and external);
- Internal controls, including controls over financial reporting and disclosure; and
- Compliance with legal and regulatory requirements.
- Appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to, relevant staff;
- Uncertainties attached to risk measurement are recognized;
- Management is taking all necessary steps to monitor and control all material risks consistent with the approved strategies and risk appetite;

Generally, the role of the Audit & Risk Committee is advisory in nature, with recommendations reported to the Board for final approval. However, in certain limited circumstances decisions may be taken by the committee, which are binding on the Board (i.e. approving the terms of engagement of the external auditor). The committee holds a minimum of four meetings per year and provides regular reports to the Board.

4.7.3 Nomination, Remuneration & Corporate Governance Committee

The Nomination, Remuneration & Corporate Governance Committee responsibilities are to:

- Identify persons qualified to become members of the Board or senior managers of the Bank (with the exception of the appointment of the internal auditor which is the responsibility of the Audit & Risk Committee), and make recommendations accordingly;
- Review the Bank's remuneration policies for approved persons consistent with Central Bank of Bahrain ("CBB") guidelines, corporate values and strategy of the Bank;
- Make recommendations regarding remuneration policies and amounts for approved persons to the Board, taking account of total remuneration including salaries, fees, expenses and employee benefits;
- Recommend Board member remuneration based on their attendance and performance; and
- Oversee Directors' corporate governance educational activities.
- To oversee the annual performance evaluation of the Board and individual Directors;

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- To ensure the compliance with regulatory requirements relating to corporate governance; and
- Report on corporate governance matters to the Bank's constituents; in particular reference to the regulator and shareholders.

In determining the composition of the Board, the Committee considers the knowledge, skills and experience required by the Board. No Director participates in any decisions regarding his own appointment or remuneration. The Committee is authorized to take certain appointment and remuneration decisions which may bind the Board. In all other cases, recommendations are made to the Board for its final approval.

5. Code of Ethics, Conflict of Interest and Whistle Blowing

The Nomination, Remuneration & Corporate Governance Committee reviews the Code of ethics and conflict of interest declarations by each Board member and employees of the Bank, and reports to the shareholders at each Annual General Meeting.

The Board maintains awareness of other commitments of its Directors and senior management. BMB implemented a Directors' Conflict of Interest Policy which is part of the Code of Conduct. As at 31 December 2018, the Board was satisfied that the other commitments of the Directors and senior management do not conflict with their duties pertaining to the current Board of Directors.

The Board confirms that it has not denied any employee access to the Audit & Risk Committee and that it has provided protection to whistle blowers from adverse personnel action.

6. Internal Controls Framework

The Board is responsible for establishing and reviewing the system of internal control and is committed to managing risks and ensuring that effective measures are in place to safeguard the Bank's assets, ensure proper accounting records and reliable financial information by procedures designed to avoid or reduce risks and ensure compliance with applicable laws and regulations. The Bank's internal controls over financial reporting comprise processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles.

While the Audit & Risk Committee oversees and reviews the Bank's policies and their implementation, day-to-day responsibility and implementation of internal control rests with the Senior Management and thus from a control perspective, the internal controls are facilitated through a three line of defense model that includes the setup of independent control functions, which report directly to the Board and/or the Audit & Risk Committee.

First line of defense	Functions that own and manage risk like the Business Units.
Second line of defense	Independent control functions that oversee or specialise in risk management and compliance.
Third line of defense	The internal audit function, which is an independent control function that provides assurance.

Risk Management Function

The Group's Risk Management function is an independent control function headed by the Head of Risk Management who reports directly to the Audit & Risk Committee of the Board and acts as the second line of defense. It is independent of the business lines to ensure an adequate separation of duties and to avoid conflicts of interest. It also acts as the focal point for risk management to the Board and the Audit & Risk Committee and It is responsible for monitoring and ensuring policies are adhered to as part of its policy supervision role and to ensure that all material risks are properly assessed and controlled under the risk framework that encompasses the risk management process.

Compliance Function

Also, under the internal control framework's second line of defense comes the Compliance function that ensures compliance with regulatory and statutory requirements and also includes compliance with anti-money laundering procedures and internal training in such procedures, which is monitored and implemented by the Bank's compliance officer. Moreover, the Bank's compliance officer also serves as its Money Laundering Reporting Officer ("MLRO") for financial crimes regulatory purposes.

Internal Audit Function

An internal audit function exists at Group, acting as the third line of defense which reports to the Audit & Risk Committee on the effectiveness of key internal controls and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of BMB's departments and subsidiaries. The Internal Audit produces an annual Risk-Based Internal Audit Plan which is approved by the Audit & Risk Committee and revisited to allow flexibility in a changing risk environment. Over the past year, Internal Audit has also been supporting the Management in conducting their internal investigations and recovery efforts.

On an ongoing basis, the Board along with Audit & Risk Committee and management reviews the internal controls and suggests changes to further enhance and improve the framework.

7. External Auditors

Ernst & Young were appointed as the external auditors of the Bank for the year 2019 by the shareholders in the Annual General Meeting held on 6 January 2020.

The Audit & Risk Committee and Articles of Association include measures to ensure ongoing independence of the Bank's external auditors. The details of audit and non-audit fees payable to the external auditors are available at the Bank's corporate office.

The Bank's external auditors have unhindered access to the Audit Committee, Executive Committee, and the Board of Directors, with or without members of management being present to discuss their audit findings and any other matter which should be brought to the attention of the Board.

8. Related-party transactions

Details of all transactions where a Director and/or other related parties might have potential interests are provided to the Board for its review and approval, and the interested Directors neither participate in the discussions nor vote on such matters.

For details of the Bank's related party transactions and balances at 31 December 2019, please see Note 24 of the audited consolidated financial statements as of 31 December 2019.

9. Communication with shareholders

In addition to the Bank's extensive disclosure through its annual report and website, the Chairman and the CEO are in regular dialogue with the controllers to ensure that the Board understands their views.

In compliance with CBB regulations under PD Module of the Volume 1 of CBB Rulebook, the Bank has an approved Public Disclosure policy that discloses material information about its activities to various stakeholders of the Bank.

10. Dividend policy

The Bank's dividend payout is dependent on the financial position of the Bank and the overall strategy as determined by the Board.

11. Remuneration

In 2014, the shareholders approved a Remuneration Policy and an Employee Shares Incentive Plan to comply with CBB's Guidelines on Sound Remuneration Practices. The Remuneration Policy formalizes the basis for remuneration in the Bank for the Directors and all staff, by effectively linking remuneration to performance. It also introduces new methods that ensure rewards are properly linked with the risks being taken and the timing and likelihood of future revenues. It introduces provisions for clawback and malus to protect the shareholders' interests in case of deterioration of the business due to past actions of individuals employed by the Bank. It also includes back testing and stress-testing methodologies to ensure that the policies adopted are suitable for the intended purpose.

The Nomination, Remuneration and Corporate Governance Committee ("NRCC") is responsible for the effective implementation and maintenance of the Remuneration Policy. It approves the remuneration system in the Bank, which includes remuneration for each member of Executive Management and the total variable remuneration to be distributed. The remuneration pool is set to materially mirror the performance of the Bank. NRCC is also responsible for administering the long-term performance assurance measures such as deferral of remuneration or, when required, clawback and malus.

The foremost principle of the remuneration system is Risk Management, where remuneration must be effectively aligned with prudent risk taking practices and discipline at all levels of the Bank. The remuneration of all executive

management must be adjusted for all types of risks. Any given bonus or variable remuneration may not be linked directly to a revenue amount or a net profit figure without taking into account risk factors for possible adjustment.

As a minimum, the following risks are evaluated by the Audit & Risk Committee annually and remuneration adjusted accordingly:

- Credit;
- Market Risk;
- Operational Risk;
- Liquidity Risk;
- Investment Risk
- Capital Adequacy;
- Reputational Risk;
- Legal Risk;
- Regulatory Risk; and
- Timing of revenues, risks and cash flow.

In its review of those risks, NRCC with obtaining risk related inputs from the Head of Risk Management in line with the roles defined in the remuneration policy, uses various quantitative and qualitative data to form its opinion. The experience and judgement of the Board members is relied on in particular for assessing risks that are subjective in nature.

The deferral of remuneration is an instrumental tool in ensuring that, where profits and losses are realised over different periods of time, the remuneration is aligned to the time horizon of the risks. This would be applicable particularly where the time horizon of the future cash flows is either far into the future or uncertain. The NRCC examines closely pay-outs made out for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of the pay-out.

The forms of remuneration approved are cash and equity, with the form and mix of remuneration in either of those instruments' dependent on the proper alignment of risks.

The Remuneration system takes into account the overall performance of the Bank, however individuals employed at all levels are primarily remunerated based on their performance vis-à-vis achieving their set objectives. The system distinguishes between Executive Management engaged in risk taking and those in control functions, whose objectives are different and are measured accordingly.

Material Risk Takers are executives who through their activity and authority have a material impact on the risk exposure of the Bank and its ability to generate revenue and profits. Material Risk Takers are paid with both fixed and variable elements. The variable remuneration component constitutes a substantial portion of the potential total remuneration for such executives during each year and increases significantly along with the level of seniority and responsibility. Half of the variable remuneration paid to these officers is required to be in equity. On the other hand,

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executives and staff employed in control functions are remunerated independently of the business areas that they oversee. The performance measures of such persons must be based principally on the achievement of the objectives and targets of their functions rather than the performance of the business line they may be monitoring for the Bank. As such, the mix of fixed and variable remuneration for control function staff is weighted in favor of fixed remuneration.

11. Remuneration (continued)

The remuneration paid out to the Board Members, approved persons in business lines, approved persons in control functions, other material risk takers and other staff with details on amounts, deferrals and instrument type is disclosed below:

Fixed & Variable Remuneration (US\$ '000)	2019		2018	
	Fixed	Variable	Fixed	Variable
Members of Board of Directors - Sitting Fees	104	-	117	-
Members of Board of Directors - Other Remuneration	-	-	-	-
Approved Persons in Business Lines	321	-	499	-
Approved Persons in Control Functions	809	-	912	-
Other Material Risk Takers	66	-	58	-
Other staff not included in above categories	1,061	-	1,013	-

Variable Remuneration (US\$ '000)	2019		2018	
	Cash	Equity	Cash	Equity
Members of Board of Directors	-	-	-	-
Approved Persons in Business Lines	-	-	-	-
Approved Persons in Control Functions	-	-	-	-
Other Material Risk Takers	-	-	-	-
Other staff not included in above categories	-	-	-	-

No guaranteed bonuses or sign-on rewards were awarded during the year. The Bank paid severance payments of US\$ 94 thousand to four employees during the year.

In 2015, the Bank had initiated a share incentive plan under which eligible employees receive a portion of their annual performance-based incentive compensation in the form of shares vesting over a period of three years. These shares were granted to the employees at US\$ 15 cents per share. An income statement reversal of US\$ 97 thousand (2018: reversal of US\$ 286 thousand) was taken by the Bank based on management's best estimate of the number of shares that are likely to vest.

The movement in the number of shares is as follows:

Number of shares '000	2018	2017
Opening	1,950	3,856
Granted during the year	-	-

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Vested during the year	(764)	-
Forfeited during the year	(1,186)	(1,906)
Closing	-	1,950

The start and end date of the vesting period is based on continued employment as well as satisfaction of certain performance conditions. The determination of the amount of expense to be recognised as compensation expense in any year is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

11.1 Aggregate remuneration to the Board of Directors and senior management

The aggregate remuneration to the Board of Directors and senior management is disclosed above. Further details, including the specific amounts paid to Board Committee members, are available at the corporate office of the Bank.

12. Employment of Relatives of Approved Persons

As a matter of policy, the Bank avoids the employment of any close relative of any member of its existing staff. Employing relatives would be with consideration to the applicants' qualifications and merits and is subject to approval by the NRCC, with the condition that any conflicts of interest (if any) be fully disclosed and accepted by the committee.

The Chief Executive Officer discloses to the Board annually the close relatives of any approved persons occupying controlled functions within the Bank.

During the year, the Bank did not employ any close relatives of any staff of the Bank.

13. Corporate Social Responsibility

The Bank is devoted to fulfilling its commitments as a good corporate citizen in the communities in which it operates. The Bank seeks through social responsibility to exercise its role as a good citizen. BMB emphasize this obligation to our community by supporting initiatives that enhance value to the education infrastructure, local sport activities, health awareness and medical facilities. This in addition to encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth. We strive to support the local communities in its efforts to develop the quality of life of the people of the Kingdom of Bahrain.

Due to a challenging year in 2019, the bank has not spent any amount on such activities.

14. Large exposures

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures as stipulated in the CBB Rulebook. All of the Bank's exposures (excluding short term interbank exposures which are exempt) are considered large exposures as the regulatory capital of the Group is negative as of 31 December 2019.

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15. Corporate Governance Code and Status of Compliance

The Bank’s Board and management have endeavored to comply with the Corporate Governance requirements as prescribed in the High-Level Controls Module and Public Disclosures Module of the CBB Rulebook Volume 1. The Rulebook incorporates the Corporate Governance requirements issued by the Ministry of Industry and Commerce. The Bank’s Corporate Governance framework contains a full set of Charters, Policies, and a Corporate Governance Committee in line with the guidelines and industry best practices.

The External Auditors of the Bank have also reviewed the adherence of the Bank to the Corporate Governance Code and the disclosure requirements of the CBB.

The Code, in addition to its general provisions and definitions, contains eleven fundamental principles of corporate governance, each of which contains several guidelines and directives to be applied and considered by the Bank when declaring its compliance with the provisions of the Code pursuant to the Comply or Explain Principle.

The implantation of the Code shall be based on the “Comply or Explain” Principle, meaning that the Bank shall comply with the provisions of the Code or provide an explanation in the case of non-compliance, as provided in the table below;

It is also important to note that the implementation of the Comply or Explain Principle cannot prevail over any mandatory legal provisions of the Law whether in the Commercial Companies Law or other.

Compliance with the provisions of the Corporate Governance Code during the year ended 31 December 2019, as follows:

<u>Principle</u>	<u>Non-complaint</u>	<u>Partially complaint</u>	<u>Fully complaint</u>	<u>Explanation in case of non-compliance</u>
Principle 1: The Company shall be headed by an effective, qualified and expert board.			√	
Principle 2: The directors and executive management shall have full loyalty to the company.			√	
Principle 3: The Board shall have rigorous controls for financial audit and reporting, internal control, and compliance with law.			√	
Principle 4: The Company shall have effective procedures for appointment, training, and evaluation of the directors.			√	
Principle 5: The Company shall remunerate directors and senior officers fairly and responsibly.			√	

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Principle 6: The Board shall establish a clear and efficient management structure for the Company and define the job titles, powers, roles and responsibilities.			√	
Principle 7: The Company shall communicate with shareholders, encourage their participation, and respect their rights.			√	
Principle 8: The Company shall disclose its corporate governance.			√	
Principle 10: The Board shall ensure the integrity of the financial statements submitted to shareholders through appointment of external auditors.			√	
Principle 11: The Company shall seek through social responsibility to exercise its role as a good citizen.			√	

Compliance with the provisions of the High Level Controls of the CBB Rulebook Volume 1 during the year ended 31 December 2019, except for the following:

The Bank complies to the requirements of the above, as at 31 December 2018 with the following exceptions, which are duly explained below.

Rule-book Reference	Regulation	Status and Explanation
HC-6.2.1	The board must appoint senior management whose authority must include management and operation of current activities of the conventional bank licensee, reporting to and under the direction of the board. The senior management must include at a minimum: (a) A CEO; (b) A chief financial officer; (c) A corporate secretary; and (d) An internal auditor, and must also include such other approved persons as the board considers appropriate.	The positions of CFO was vacant as of 31 December 2019.
HC-6.4.16	The Head of Compliance, with the assistance of senior management must (a) report to the board of directors or the designated committee of the board on a quarterly basis, even if there are no issues to highlight	The newly elected Board was focused on issues such as ongoing investigations, recovery of assets and financial reporting. As such, some periodic reporting was put on hold. Regular reporting will resume in 2020.

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<p>HC-6.5.51</p>	<p>Senior management must ensure that all internal audit findings and recommendations are resolved within six months for high risk/critical issues and 12 months for any other issues from the issue date of the subject internal audit report.</p>	<p>An unresolved internal audit finding relates to the non-compliance with the CBB capital requirements of maintaining a minimum of \$100 million in shareholder's equity (LR-2.5.2B).</p> <p>The Board and Senior Management are assessing all possible alternatives to address the capital deficiency.</p>
<p>HC-6.6.9</p>	<p>[..]The CRO is responsible for supporting the board and the Risk Committee, as appropriate, in its engagement with and oversight of the development of the bank's risk strategy, risk appetite statement ('RAS') and for translating the risk appetite into a risk limits structure.</p>	<p>These requirements have been added to the CBB rulebook in July 2018.</p> <p>A Risk Appetite statement and risk limits structure document was developed and presented to the previous Board for approval in November 2018. However, the Board has resigned prior to approving the document.</p>

KEY PERFORMANCE INDICATORS

5 years key ratios	2019	2018	2017 (Restated)	2016 (Restated)	2015
Gross operating income (US\$ '000)	1,524	11,437	10,897	11,157	12,566
Net (loss) profit (US\$ '000)	(3,919)	(189,372)	3,491	5,073	5,079
Return on average assets (%)	-12%	-133%	2%	3%	3%
Return on average shareholders' equity (%)	-4%	-189%	6%	15%	15%
Cost-to-income (%)	377%	46%	41%	51%	44%