

Remuneration report

The Bank follows a total compensation approach to remuneration. This includes the Bank's variable remuneration policy for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talent.

The Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain in 2014, and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the Annual General Meeting on 10 March 2015.

The key features of the remuneration framework are summarised below.

Remuneration strategy

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

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

- 1 Fixed pay
- 2 Benefits
- 3 Annual (short term) performance bonus
- 4 Annual (long term) performance bonus
- 5 Subsidiaries Board Remuneration

A robust and effective governance framework ensures that the Bank operates within clear parameters of its remuneration strategy and policy. All remuneration matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration and Governance Committee (NRG).

The Bank's remuneration policy, in particular, considers the role of each employee and sets the criteria to determine whether an employee is a material risk-taker and/or an approved person in a business line, control or support function.

An approved person is an employee whose appointment requires prior regulatory approval because of the significance of his role within the Bank, and an employee is considered a material risk-taker if they are the head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives, summarised in our performance management system.

This assessment also takes into account adherence to the Bank's values, risks and compliance measures, and, above all, integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long term but, importantly, also on how it is achieved in order to ensure the long-term sustainability of the business.

Nomination, Remuneration and Governance Committee (NRG) role and focus

The NRG has oversight of all reward policies for the Bank's employees. The NRG is the supervisory and governing body for compensation policy, practices, and plans. It is responsible for determining, reviewing, and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all remuneration decisions. The NRG ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed periodically to reflect changes in market practices, the business plan, and the risk profile of the Bank.

The responsibilities of the NRG with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to the following:

- Approve, monitor, and review the remuneration system to ensure the system operates as intended.
- Evaluate the approved persons and material risk-takers performance in light of the Bank's corporate goals, agreed strategy, objectives and business plans.
- Review and recommend remuneration for the approval of the Board.
- Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, contributions, expenses, bonuses, and other employee benefits.
- Recommend the Group Chief Executive's remuneration for the Board of Directors' approval.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate the same short-run profit but take a different amount of risk on behalf of the Bank.
- Ensure that for material risk-takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and backtesting results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses, and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

NRG Members

As outlined in the Corporate Governance section of the annual report, the Board is satisfied that all Directors are non-executive and that the majority of the NRG members are independent including the Chairman of the Committee. The NRG comprises the following members:

NRG member name	Appointment date	Number of meetings attended	
		2020	2019
Murad Ali Murad	20 June 2004	5	5
Sh Khalifa bin Duajj Al Khalifa	6 March 2011	5	5
Marwan Mohammed Al Saleh*	10 March 2015	–	–
Mohamed Abdulrahman Hussain	29 March 2017	5	5
Edrees Musaed Ahmad**	24 March 2020	2	–

The aggregate remuneration paid to NRG members during the year in the form of sitting fees amounted to BD 9,750 [2019: BD 8,750].

* Seized to be a Committee member since 24 March 2020.

** Became a Committee member since 24 March 2020 and attended all meetings during his membership.

External consultancy

A consultant was appointed during the year to develop a framework that will align employees' remuneration with the compliance of AML/CFT requirements. This alignment will be reflected in the individuals annual performance assessment in the form of specific Key Performance Indicators.

Scope of application of the remuneration policy

The variable remuneration policy is adopted on a group basis covering BBK Bahrain and BBK Kuwait. BBK India compensation practices are aligned with the Principles for Sound Compensation Practices issued by the Financial Stability Board (FSB) in April 2009 and adopted by the Reserve Bank of India. Invita and CrediMax are excluded because the remuneration guidelines are not applicable to them.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10 percent of the Bank's net profit after all required deductions in any financial year. Board remuneration is subject to approval of the shareholders in the AGM. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

Employees' variable remuneration

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

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

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

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

The NRG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRG demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings and risk profile. It is the Bank's objective to pay bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRG.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control and support functions

The remuneration level of employees in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

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

Variable compensation for business units

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

Risk assessment framework

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

The Bank's NRG considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Bank's current capital position and its ICAAP.

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

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

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

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

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

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

Malus and claw back framework

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

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

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

- Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/ the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Claw back can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over three years.
Upfront short-term share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred short-term share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over three years.
Long-term performance share awards	Share-based reward schemes, under which the Bank allocates certain numbers of shares every year to executive management and senior employees based on performance, potential, and job criticality level. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.

All deferred and long-term awards are subject to malus provisions. All share awards and related dividends are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme.

All the shares and deferred cash components of the variable remuneration are being held and administered in a trust registered in the Kingdom of Bahrain.

Deferred compensation

All employees at senior management level and above or earning BD 100,000 per annum in Bahrain and overseas branches, excluding India, are subject to the following rules of deferral:

1 The Group CEO, his deputies and business line General Managers:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Claw back
Upfront cash	40%	immediate	–	–	Yes
Deferred cash	10%	3 years	–	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

2 All other covered staff:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Claw back
Upfront cash	50%	immediate	–	–	Yes
Upfront share awards	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRG, based on its assessment of role profile and risk taken by an employee, could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2020 BD '000	2019 BD '000
Sitting fees and travel allowance	66,255	87,850
Remuneration*	649,500	585,000
Others	9,636	27,850

(b) Board of Directors of subsidiaries

	2020 BD '000	2019 BD '000
Sitting fees and travel allowance	8,400	6,300
Remuneration*	110,999	108,300
Others	–	–

* The amount received during the year for the performance of the previous year.

(c) Employees

1 Employee remuneration

BD 000's	2020									
	Number of staff	Fixed remuneration Cash	Sign on bonuses (Cash/shares)	Guaranteed bonuses (Cash/shares)	Variable remuneration					Total
					Upfront		Deferred			
					Cash	Shares	Cash	Shares	Others	
Approved Persons Business lines	13	2,408	-	-	594	18	96	580	-	3,696
Approved Persons Control and support	12	1,594	-	-	385	65	-	268	-	2,311
Other material risk-takers	34	3,121	-	-	601	110	13	504	-	4,349
Other Staff Bahrain Operations	556	12,702	-	-	1,799	-	-	-	-	14,501
Other Staff Branches and Subsidiaries	769	9,424	-	-	640	-	-	-	-	10,064
Total	1,384	29,249	-	-	4,019	193	110	1,351	-	34,922

The number of headcount includes the Bank, its overseas branches, wholly owned subsidiaries and subsidiaries of wholly owned subsidiaries.

Other adjustments to staff cost accruals amounting to BD 394,906 have not been included in the table above.

Board Remuneration paid during 2020 to Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 180,454 have been included in the table above.

BD 000's	2019									
	Number of staff	Fixed remuneration Cash	Sign on bonuses (Cash/shares)	Guaranteed bonuses (Cash/shares)	Variable remuneration					Total
					Upfront		Deferred			
					Cash	Shares	Cash	Shares	Others	
Approved Persons Business lines	15	2,927	-	-	1,128	17	193	1,066	-	5,331
Approved Persons Control and support	9	1,450	-	-	486	80	-	345	-	2,361
Other material risk-takers	34	3,153	-	-	697	127	15	585	-	4,577
Other Staff Bahrain Operations	573	13,519	-	-	2,928	-	-	-	-	16,448
Other Staff Branches and Subsidiaries	761	8,922	-	-	724	-	-	-	-	9,646
Total	1,392	29,970	-	-	5,964	224	209	1,996	-	38,363

The number of headcount includes the Bank, its overseas branches, wholly owned subsidiaries and subsidiaries of wholly owned subsidiaries.

Adjustment to the accrual of Variable Pay equivalent to BD 138,086 has been included in the table above.

Other Indirect staff cost amounting to BD 192,795 has not been included in the table above.

Board Remuneration and Sitting Fees received during 2019 by Members of Executive Management for representing the Bank in the boards of wholly owned subsidiaries and / or associate companies amounting BD 283,197 have been included in the table above.

2 Deferred awards

	2020			
	Cash BD '000	Shares		Total BD '000
		Number	BD '000	
Opening balance	596	15,743,685	6,753	7,349
Awarded during the period*	110	3,058,657	1,545	1,661
Paid out/released during the period	(197)	(4,881,346)	(2,041)	(2,238)
Service, performance and risk adjustments	-	43,892	-	-
Bonus share adjustment	-	551,562	-	-
Closing balance	509	14,516,450	6,257	6,772

* The number of shares for the 2020 Deferred Awards has been calculated using the year-end closing share price at BD 0.505 fils per share, as the award price will be determined 14 days after the AGM.

	2019			
	Cash BD '000	Shares		Total BD '000
		Number	BD '000	
Opening balance	595	16,829,259	6,481	7,075
Awarded during the period**	209	4,460,510	2,230	2,439
Paid out/released during the period	(207)	(5,546,084)	(1,958)	(2,165)
Service, performance and risk adjustments	-	-	-	-
Bonus share adjustment	-	-	-	-
Closing balance	596	15,743,685	6,753	7,349

** The number of shares for the 2019 Deferred Awards have been recomputed based on the share price 14 days after the AGM of the Bank at BD 0.5 per share, and updated for the actual awards distributed to staff during 2019.

In the case of long-term incentive plan awards, the shares awarded have been included for the purposes of the table above, assuming the probability of vesting.

Information on share awards included above also include components of long-term performance-based incentive awards (LTIP shares). The amounts included in the tables are based on total awards granted for the performance year and may not necessarily match the accounting charge which factors probability of vesting.