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**CORPORATE GOVERNANCE**



BANK IS COMMITTED TO UPHOLD THE HIGHEST STANDARD OF CORPORATE GOVERNANCE.

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## CORPORATE GOVERNANCE

### | GOVERNANCE

ALUBAF Arab International Bank is committed to uphold the highest standard of corporate governance. The Board of Directors and management are fully committed to complying with established corporate governance and compliance with best practices in the Kingdom of Bahrain. This reflects the Bank's commitment to enhancing corporate governance, financial transparency and fairness in the disclosure of financial information for all stakeholders.

ALUBAF Arab International Bank has endeavored to comply with the requirements of the Corporate Governance Code introduced by the Ministry of Industry and Commerce (MOIC) of Kingdom of Bahrain on March 2010 and the Central Bank of Bahrain's (CBB) Rulebook Module - High Level Controls (Module HC) effective from 1 January 2011.

According to ALUBAF's Bank charter and the requirements set forth by the Code of Corporate Governance of the Kingdom of Bahrain, the Board has delegated specific responsibilities to a number of Board and Management Committees. Each Committee has its own formal written charter. The main Committees are:

#### 1. Board of Directors Committees:

- Audit, Risk & Compliance Committee (ARCC); and
- Nomination & Remuneration Committee (NRC).

#### 2. Management Committees:

- Asset and liability Committee (ALCO);
- Management Risk Committee (MRC); and
- Human Resource and Compensation Committee (HRCC).

### | INDEPENDENCE AND AUTHORITY

Audit, Risk and Compliance maintains a separate position in order to ensure its independence. This ensures independent and objective monitoring and reporting of functions to Senior Management and the Board. In this respect, the Audit, Risk and Compliance exercises direct access to the Audit, Risk & Compliance Committee (ARCC).

Furthermore, the independence of functions are maintained by requiring the respected staff to perform only Audit, Risk and Compliance related responsibilities and not involving in any activities where there may be a probability of conflicts of interest. Audit and Compliance staff report directly to the Head of Department and are not involved by any means in the day-to-day business activities.

To carry out its duty both efficiently and effectively, the Audit and Compliance functions have the following privileges and authorities:

- To communicate (at any time and on its own initiative) with any staff member and obtain any records or files necessary to enable it to carry out its responsibilities;
- A direct line of communication with CBB, supervisory authorities and the Audit, Risk & Compliance Committee (ARCC); and
- Authority and resources (to include engaging outside specialists) to initiate and carry out / investigate possible breaches of laws and regulations and plan corrective actions, in case of exceptions.

The compliance function is also independent of the Internal Audit Department. To promote independency and objectivity of the functions, a separate audit programme covering the activities of the compliance function is undertaken by the Internal Audit department as part of its review.



## | SHAREHOLDERS

ALUBAF's Bank is majority owned by Libyan Foreign Bank (LFB) by 99.38%, a bank registered in Libya and 100% owned by the Central Bank of Libya.

The shareholding structure of ALUBAF Arab International Bank as at 31st December 2011:

Name of Shareholder	Shareholding Percentage	Nationality
Libyan Foreign Bank	99.38%	Libyan
National Bank of Yemen	0.34%	Yemeni
Yemen Bank for Reconstruction & Development	0.28%	Yemeni
<b>Total</b>	<b>100%</b>	

## | THE BOARD OF DIRECTORS

### Responsibilities of the Board

The Board of Directors is responsible for the overall business performance and strategy of ALUBAF Arab International Bank. The Board's role and responsibilities include but are not limited to:

- Establishing the objectives of the bank;
- Monitor management performance;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Monitoring the implementation of strategy by management; and
- Ensure financial statements are prepared which accurately disclose ALUBAF's Bank Financial position.

### Composition of the Board

As of 31st December 2011, the Bank's Board of Directors comprises of four non-executive Directors, of which two are Independent and two are Non-Independent.

Board Members	Position	Independent/ Non-Independent	Executive / Non-Executive	Nationality	Appointment Date	Re-appointment Date
Dr. Mohamed Abdulla Bait Elmal	Chairman	Independent	Non-Executive	Libyan	26 Jun 2008	6 Jun 2011
Mr. Suleiman Esa Al Azzabi	Deputy Chairman	Independent	Non-Executive	Libyan	26 Oct 2008	6 Jun 2011
Mr. Ali Makhzum Ben Hamza	Director	Non-Independent	Non-Executive	Libyan	7 Jul 2004	6 Jun 2011
Mr. Seyfullah Asaad Moosa Salim	Director	Non-Independent	Non-Executive	Libyan	16 Aug 2007	6 Jun 2011

## CORPORATE GOVERNANCE

### Activities of the Board

During the year 2011, the Board met five times, of which one member was absent. The details of the directors' attendance during 2011 are set out in the following table:

Board Members	Board Meetings (Attendance)	Audit, Risk & Compliance Committee (ARCC) *	Nomination & Remuneration Committee (NRC) *
Dr. Mohamed Abdulla Bait Elmal	5/5	-	2/2
Mr. Suleiman Esa Al Azzabi	4/5	2/2	-
Mr. Ali Makhzum Ben Hamza	5/5	2/2	-
Mr. Seyfullah Asaad Moosa Salim	5/5	2/2	2/2

\* Committees commenced meetings after June 2011 as per CBB approval.

### Evaluation of the Board

#### Appointment of Directors

The Board is appointed for a term of three years commencing on the date of the previous Board election. Board members adhere to Bank's Article of Association, the Corporate Governance Code of Conduct and all applicable laws and regulations.

A comprehensive Directors' handbook is provided to the directors on Induction subsequent to their appointment. The Chairman of the Board ensures that each new appointed Director receives a formal and tailored induction to ensure his contribution to the Board from the commencement of his term, including meeting with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and independent auditors and legal counsel.

The Bank has a written appointment agreement with each Director, which recites the Directors' roles, duties, responsibilities and accountability, in addition to other aspects relating to their appointment including their terms, the time commitment envisaged, the committee assignments (if any), their remuneration & expense reimbursement entitlement, and access to independent professional advice as required.

#### Assessment of the Board

The Bank's Board mandate requires that the Board conducts an evaluation of its performance, including:

- An assessment of the Board's operation;
- Completion of self-assessment questionnaire by each member;
- Review of the self-assessment undertaken;
- Bank's strategies and risk assessments;
- Reviewing each Director's work, his attendance at Board and committee meetings, and his constructive involvement in discussions and decision making;
- Observation of stakeholders on the bank's corporate governance performance; and
- Current and emerging trends and factors.

## THE BOARD OF DIRECTORS IS RESPONSIBLE FOR THE OVERALL BUSINESS PERFORMANCE AND STRATEGY.

### | BOARD COMMITTEES

The Board has two committees namely the Audit, Risk & Compliance Committee (ARCC) and Nomination & Remuneration Committee (NRC). The ARCC and NRC includes three members each. All members of the committees are board members. In accordance with the CBB's rulebook (Volume 1), the majority members of Board committees should be independent directors. However, the CBB has exempted the bank until 31st March 2012 to appoint more independent directors.

The Board Committee members are:

Board Committees	Member Name	Member Position	Independent/ Non-Independent
Audit, Risk & Compliance Committee (ARCC)	Mr. Suleiman Esa El Azzabi	Chairman	Independent
	Mr. Seyfullah Asaad Moosa Salim	Director	Non-Independent
	Mr. Ali Makhzum Ben Hamza	Director	Non-Independent
Nomination & Remuneration Committee (NRC)	Dr. Mohamed Abdulla Bait Elmal	Chairman	Independent
	Mr. Seyfullah Asaad Moosa Salim	Director	Non-Independent

### Audit, Risk & Compliance Committee (ARCC)

The mandate of the Audit, Risk & Compliance Committee requires it, among other things, to:

- Assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices;
- Assist the Board in its oversight of the integrity and reporting of the Bank's quarterly and annual financial statements;
- Review the performance and approve activities, staffing and organizational structure of the internal audit function;
- Oversee the independence and performance of the external auditors as well as recommending the appointment, replacement and compensation of external auditors;
- Review the adequacy and effectiveness of the Bank's system of financial, accounting and risk management controls and practices;
- Oversee the Bank's compliance with laws, regulations and supervisory and internal policies;
- Regularly report to the Board about the committee activities and related recommendations and review any reports the Bank issues that relate to the committee responsibility;
- Maintaining oversight of the Bank's internal risk and capital management framework and systems and to review on an annual basis, the effectiveness of its systems;
- Articulating the Bank's risk tolerance against which to compare the amount of capital at risk on a forward-looking basis, as determined by exposures to credit, market, liquidity, operational, concentration, settlement, reputational and business cycle risks;
- Ensuring that senior management continues to take necessary steps to monitor and control the Bank's exposures through appropriate risk assessment and compliance to risk management policies;
- Approve risk management objectives, strategies, policies and procedures that are in line with ALUBAF's business lines, risk profile and risk appetite and in compatibility with the CBB rules and regulations and review them on annual bases. The Committee's approvals shall be communicated to those who are responsible for the implementation of risk management policies;

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- Ensure that ALUBAF's risk management framework includes methodologies to effectively assess and manage credit, market, liquidity, operational, legal, profit / rate of return, and reputational risks;
- Ensure the existence of clear lines of authority and accountability for managing, monitoring and reporting risks as performed internally and as required by CBB;
- Ensure that the risk management function has adequate resources and appropriate access to information to enable it to perform its duties effectively;
- Overseeing the compliance function of the Bank;
- The Committee will review the effectiveness of the system for monitoring financial and disclosure compliance with legal and regulatory requirements, and the compatibility with the CBB rules and regulations that will be reviewed on annual bases and the results of management's investigations and follow-up (including disciplinary action) of any fraudulent actions or non-compliance;
- The Committee will ensure that the compliance function is adequately resourced, independent of business lines and is run by individuals not involved in day-to-day running of the various business areas;
- The Committee will ensure controls are instituted to manage the Bank's financial reporting quality and integrity;
- The Committee will ensure that management develops, implements and oversees the effectiveness of comprehensive know your customer standards, as well as ongoing monitoring of accounts and transactions, in keeping with the requirements of relevant regulations and best practice;
- Review the findings of any examinations by regulatory agencies.

### Nomination & Remuneration Committee (NRC)

The mandate of the Nomination & Remuneration Committee requires it, among other things, to:

- Ensure a formal and transparent Board nomination process is in place;
- Give full consideration to succession planning for directors (in particular the Chairman and the GM) and other senior management (such as the direct reports of the GM);
- Ensure effective policies and processes are in place for ensuring that executive management have the necessary integrity, technical and managerial competence and experience;
- Periodically review the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties;
- Report annually to the Board with an assessment of the Board's performance;
- Determine and agree with the Board the framework or broad policy for the remuneration of the directors, the GM and senior management;
- Review and assess the adequacy of the Bank's policies and practices on corporate governance and recommend any proposed changes to the Board for approval; and
- Review the adequacy of the charter adopted by NRC committee of the Board, and recommend changes whenever necessary.

### | MANAGEMENT COMMITTEES

The Management comprises of three committees namely Asset and liability Committee (ALCO), Management Risk Committee (MRC), and Human Resource and Compensation Committee (HRCC).

## BANKS COMPLIANCE FUNCTION PROVIDES INDEPENDENT OVERSIGHT.

The Management Committee members are:

Management Committees	Member Position	Committee Member Position
Asset and liability Committee (ALCO)	General Manager	Head
	Assistant General Manager (Credit & Marketing, Operations, Treasury and Trade Finance)	Deputy Head
	Assistant General Manager	Member
	Head of Finance	Member
	Head of Risk Management and Compliance	Member
	Head of Credit and Marketing	Member
	Head of Treasury	Member
Management Risk Committee (MRC)	Head of Operations	Representative
	General Manager	Head
	Assistant General Manager (Finance and Information Technology)	Deputy Head
	Assistant General Manager	Member
	Head of Finance	Member
	Head of Credit and Marketing	Member
	Head of Operations	Member
Human Resource and Compensation Committee (HRCC)	Head of Treasury	Member
	Head of Risk Management and Compliance	Representative
	General Manager	Head
	Assistant General Manager (Credit & Marketing, Operations, Treasury and Trade Finance)	Member
	Assistant General Manager (Finance and Information Technology)	Member
	Head of Human Resources and Administration	Member

### Asset and Liability Committee (ALCO)

The mandate of the Asset and Liability Committee requires it, among other things, to:

- Active management of the balance sheet;
- Effectively manage the Bank's liquidity requirements to meet business needs during normal conditions and during times of crisis;
- Monitor asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates;
- Management of foreign exchange risks;
- Within Board approved parameters, develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies in general;
- Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective;
- Review and monitor all aspects of liquidity policy including contingency planning and limits to ensure management of liquidity crisis;
- Review and approve or reject breaches of ALCO limits; and
- Review of reports submitted by Risk and Compliance Department.



## CORPORATE GOVERNANCE

### Management Risk Committee (MRC)

The mandate of the Management Risk Committee requires it, among other things, to:

- Determine key risk areas and adopt risk management practices that contribute to the Bank's objectives;
- Ensure actions required are given appropriate level of sponsorship and supported by adequate resources;
- Increase the awareness level of management and staff on business risks in the Bank;
- Review and recommend to the Board the risk tolerance of the Bank;
- Review the Bank's mitigation strategy for key risks;
- Review and recommend for approval the Bank's risk management framework;
- Review the capital adequacy of the Bank's capital from regulator's perspective;
- Review and assess the adequacy of the risk measurement methodologies;
- Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc;
- Review other major risk concentration as deemed appropriate; and
- Approve Operational Risk framework and monitor the risk on ongoing basis.

### Human Resources & Compensation Committee (HRCC)

The mandate of the Human Resources & Compensation Committee requires it, among other things, to:

- Review regularly and recommend Bank's executive/staff development for senior management positions, including performance and skills evaluation, training and succession planning;
- Develop, review and recommend the Bank's executive/staff compensation;
- Determine the bonus and other incentive;
- Review matters relating to executive management succession and executive organization development;
- Manage the administration function of the Bank's; and
- Prepare periodic reports for the Board regarding the above items.

### | CODE OF CONDUCT AND CONFLICT OF INTEREST

ALUBAF Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices to fulfill their responsibilities and obligations towards the Bank's stakeholders in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Code of Conduct is documented, published and communicated throughout the bank. The Bank has an annual declaration of Conflict of Interest statement for Board members and approved persons. The Bank's website also contains the Board approved Code of Conduct.

### | REMUNERATION DISCLOSURES

#### Board of Directors and Staff Remuneration

There has been extensive public debate and regulatory focus during 2010 & 2011 on staff remuneration within banking sector. In January 2011, the Central Bank of Bahrain issued its corporate governance principles "Principle of remunerate approved persons fairly and responsibly" which set out the CBB's principle regarding remuneration of senior management and Board of Directors.

## REWARDS IS CLOSELY LINKED TO THE BANKS STRATEGIC ACHIEVEMENTS AND LONG TERM RETURN ON SHAREHOLDERS FUNDS.

The Board Nomination and Remuneration Committee is responsible to enforced remunerations principle. The required disclosure by this principle is as follows.

The Bank employed 35 members of staff at 31st December 2011 (2010: 33 staff). The remuneration to Board of Directors and staff, including staff salaries are as follows:

	2011 US\$'000s	2010 US\$'000s
Staff Salaries	1,865	1,556
Remuneration Board of Directors - Rewards	255	750
Remuneration Executive Management - Rewards	453	342
Remuneration Staff - Rewards	415	343

Based on mentioned principle, it is required to disclose certain qualitative and quantitative remuneration items.

Governance of all matters related to remuneration within the Bank is held with Board committee for Nomination and Remuneration committee, comprising of two non-executive directors.

The committee is composed of the independent chairman, and one director is regarded as being non independent of the Bank. The committee members also possess the necessary skills to exercise the appropriate judgment.

The Nomination and Remuneration committee has acted as per Bank approved Nomination and Remuneration committee charter by the Board of Directors and assisted by a management committee of Human Resource & Compensation Committee, which chaired by the General Manager with membership of two Assistant General Managers as well as it has a membership of the Head of Human Resource & Administration to provide recommendations to reward the Bank staff.

The Bank has in place performance award schemes for the benefit of its staff. The scheme with rewards is closely linked to the Bank strategic achievements and long term return on shareholders funds, with also certain non-financial performance metrics (such as risk management & internal audit are assessed based on individual performance) being taken into account.

Performance awards under the policy qualify as remuneration. Individual Performance awards are payable in January following the year to which the reward relates.

At 31 December 2011, the total remuneration amount payable was US\$ 1,123 thousand, in light of the return on equity achieved by the Bank during 2011. The remuneration paid for the financial year of 2010 was US\$ 1,435 thousand.

The calculation of Performance awards for Individual is undertaken annually and is linked to five factors:

1. Individual Role level;
2. The Bank return on equity;
3. Assessed individual performance;
4. Assessed compliance with the Bank's documented core standards of conduct; and
5. The Bank's performance against the business plan prepared before the commencement of the year to which it relates.

## CORPORATE GOVERNANCE

The policy requires to identify relevant senior executives and designate them as "Approved Persons". The remuneration applies to eight senior executives of the Bank as per the Bank policy including all members who have served on the management committees.

The Bank had 35 employees as of 31st December 2011 who were eligible for Performance awards in respect of their service during 2011. The cost of performance awards payable to staff in respect of 2011 was US\$ 868 thousand of which US\$ 453 thousand allocated to the eight approved persons and US\$ 415 thousand was in respect of other staff.

The Bank policy for annual salary comprise of 13 months basic salaries and the Bank did not offer any shares incentive plan or any other rewards.

### Remuneration to External Auditors

In 2011, ALUBAF Bank has paid its external auditors, Messrs Ernst & Young, US\$ 57 Thousand for audit and other audit related service fees (includes prudential information reports reviews, quarterly reviews, anti money laundering review, public disclosures reviews). Messrs Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the financial year ending 31st December 2012. The non audit services and other advisory services provided by the external auditors amounts to US\$ 13 Thousand.

The Audit Risk Compliance Committee (ARCC) has recommended the appointment of Messrs Ernst & Young and a resolution proposing their re-appointment will be presented at the annual general assembly meeting which will be held on April 2012.

Break down of audit fee and other non-audit related services fee paid to external Auditors is given below:

	2011 US\$'000s
Audit fee	57
Non Audit services fee	13
<b>Total</b>	<b>70</b>

### FINANCIAL YEAR 2011 COMPLIANCE ENHANCEMENT UNDERTAKEN

In an effort to comply with CBB's HC module and corporate governance requirements the Bank has undertaken the following during the year to ensure its compliance with corporate governance code:

The Board of Directors have formulated two Board committees (Audit Risk Compliance Committee (ARCC) and Nomination and Remuneration Committee (NRC)) and three Management Committees (Assets & Liabilities Committee (ALCO), Management Risk Committee (MRC) and Human Resources and Compensation Committee). Furthermore, the Board of Directors has approved all charters of Board and Management Committees.

## ALUBAF BANK HAS ADOPTED CODE OF CONDUCT AND OTHER INTERNAL POLICIES AND GUIDELINES, DESIGNED TO GUIDE ALL EMPLOYEES AND DIRECTORS.

These Board and senior management level committees are fully active and meet on a regular basis, maintaining proper minutes of all meetings.

During this year, the Board Nomination and Remuneration Committee (NRC) has undertaken an assessment evaluating each member of the Board member and provided its recommendations to shareholders at the Annual General Meeting (AGM).

A detailed evaluation has been conducted by year end of 2011 for each committee and each individual director; the findings have been addressed with the shareholders at annual shareholder meeting.

The Bank has recently put in place contracts which recite the directors' powers, duties, responsibilities and accountabilities for its Board of Directors.

Confidential communication channels have been afforded to employees enabling them to have access to the ARCC to raise concerns about possible improprieties in financial or legal matters.

The Bank has amended the Article of Association to include telephonic and video conference. Moreover, a section detailing comprehensive guidelines on Corporate Governance has been disclosed and extract of such information were published in Bank's website.

The Bank has recently conducted an assessment of its compliance status with CBB module HC. The results of which were presented at the annual general meeting (AGM) of this financial year. Items which remain outstanding to date have been provided in the following section below.

### **Ongoing Requirements and Enhancements Initiatives**

On 5th June 2011, CBB temporarily exempted the Bank from complying with the requirement of having majority independent membership of its Board Audit Risk Compliance Committee and Board Nomination and Remuneration Committee till 31st December 2011.

Given the current political situation in Libya, the CBB has provided the Bank a further exemption till the 31st March 2012 with respect to the appointment of independent directors. Once the situation has stabilised, initiatives will be taken to address the same keeping the CBB informed at all times.

An induction will be provided for all newly appointed independent and non-independent members of the Board and will be overseen by the NRC.

We are committed to adopt the best banking practice of governance, in our endeavors to be compliant with the HC Module of the Central Bank of Bahrain in the near future

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CORPORATE GOVERNANCE CHART

WE ARE COMMITTED TO  
ADOPT THE BEST BANKING  
PRACTICE OF GOVERNANCE.

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