



Corporate Governance Disclosures

As of 31 December 2016

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1. CORPORATE GOVERNANCE PHILOSOPHY

ALUBAF Arab International Bank B.S.C.(C) (“**Bank**”) is fully committed to meeting its strategic objectives and achieving solid growth while upholding the highest standards of corporate governance. Such commitment is deeply rooted in its dedication to enhancing its compliance with all the applicable laws, regulations and best industry practices to the ultimate benefit of its shareholders, clients, employees and other stakeholders.

In its pursuit of excellence, the Bank’s Board of Directors implements sound corporate governance via ensuring that the policies, procedures and operations of the Bank adhere to the requirements of the Corporate Governance Code as introduced by the Ministry of Industry, Commerce and Tourism (“**MOICT**”), the Commercial Companies Law and its Implementation Regulations (“**CCL**”) and the regulations of the Central Bank of Bahrain (“**CBB**”) as specified in Volume 1 of its Rulebook - High Level Controls (Module HC).

2. SHARE CAPITAL AND SHAREHOLDING STRUCTURE

The Bank’s authorized share capital is USD 500,000,000 (United States Dollars five hundred million) divided into 10,000,000 (ten million) shares of USD 50 (United States Dollars fifty) nominal value per share. The Bank’s issued and paid up capital is USD 250,000,000 (United States Dollars two hundred and fifty million) divided into 5,000,000 (five million) shares of USD 50 (United States Dollars fifty) nominal value per share.

The shareholding structure of the Bank as of 31 December 2016 is as follows:

| NAME | NATIONALITY | NO. OF SHARES | NOMINAL VALUE (USD) | % |
|--|--------------|------------------|---------------------|------------|
| Libyan Foreign Bank | Libyan | 4,975,008 | 248,750,400 | 99.50 |
| National Bank of Yemen | Yemeni | 13,768 | 688,400 | 0.28 |
| Yemen Bank for Reconstructions and Development | Yemeni | 11,224 | 561,200 | 0.22 |
| | TOTAL | 5,000,000 | 250,000,000 | 100 |

* *The abovementioned shareholding structure is based on the issued and paid up capital of the Bank.*

The Bank’s majority shareholder, Libyan Foreign Bank, is a bank registered in Libya wholly owned by the Central Bank of Libya.

As of 31 December 2016, the Bank’s Directors and the Senior Management do not own any shares in the Bank on an individual basis.

3. BOARD OF DIRECTORS

3.1 Composition of the Board

As per the Bank's Articles of Association, the Bank shall be administered by a Board of Directors comprising of at least three (3) directors and not more than nine (9) directors ("Directors"). As of 31 December 2016, the total number of Directors was four (4). The Board of Directors also elects by secret ballot from its Directors a chairman ("Chairman") and a deputy chairman ("Deputy Chairman") for its tenure.

In accordance with HC 1.5.2 of the CBB Rulebook, in conventional bank licensees with a controller, at least one third of the Board of Directors must be independent. Furthermore, the CBB Rulebook and Corporate Governance Code also require that the Chairman of the Board of Directors must be an independent Director. The Bank's Chairman, Mr. Moraja Gaith Solaiman Buhlaiga, complies with this requirement.

As of 31 December 2016, the Bank is in compliance with the aforementioned independence requirements with the following being its composition:

| STATUS/CATEGORY | NO. OF DIRECTORS | % |
|-----------------|------------------|------------|
| Executive | 0 | 0 |
| Non-Executive | 1 | 25 |
| Independent | 3 | 75 |
| TOTAL | 4 | 100 |

For the financial year ending 31 December 2016, the Bank's Board of Directors was as follows:

| NAME | POSITION | STATUS | NATIONALITY |
|------------------------------------|----------|---------------|-------------|
| Mr. Moraja Gaith Solaiman Buhlaiga | Chairman | Independent | Libyan |
| Mr. Fathi Ahmed Yahia* | Director | Non-Executive | Libyan |
| Mr. Talal Al Zain | Director | Independent | Bahraini |
| Mr. Guima Masaud Salem Kordi | Director | Non-Executive | Libyan |
| Mr. Achour Abboud** | Director | Independent | Algerian |

* Mr. Fathi Ahmed Yahia's membership was terminated by his appointer, Libyan Foreign Bank, on 21 August 2016 due to his retirement from their employment.

** Mr. Achour Abboud was approved by the CBB on 9 August 2016 and has attended all Board Meetings subsequent to his appointment.

The full profiles and the Bank's Directors, information on other posts that they hold and their biographies are available in the Annual Report and the website www.alubafbank.com.

The Board of Directors is supported by its Board Secretary, who provides it with professional and administrative support. The Board Secretary also acts as secretary for the Board of Director's committees and the General Assemblies. The appointment of the Board Secretary is subject to

approval of the Board of Directors. The Bank's Board Secretary is Mariam Abdulla who joined the Bank in April 2016. She holds a Bachelor of Laws (LLB), Master of Laws (LLM) from the University of Warwick and a postgraduate higher diploma in Legal Practice Course (LPC) from the College of Law in the United Kingdom, with more than ten (10) years experience in corporate law.

3.2 Appointment/Termination of the Board of Directors

The appointment of Directors is subject to obtaining the prior written approval of the CBB and comply at all times with the CCL and the CBB regulations. The Board of Directors is appointed for a term of three (3) years by the Annual General Assembly, such term being capable of renewal. Appointments of Directors are also subject to Article 175 of the CCL for shareholders holding 10% of the share capital or more having the right to appoint representatives on the Board in proportion to the number of members on the Board. The current term of the Board of Directors started in April 2016 and will end in April 2019.

The Directors are generally required to adhere to the Bank's Articles of Association, CCL, the Corporate Governance Code, CBB Rulebook, Code of Ethics and Conduct and all applicable laws and regulations. The Bank has written appointment agreements with each Director, which set out the Directors' roles, duties, responsibilities, accountabilities, in addition to other aspects relating to their appointment such as term, the time commitment required, the committee assignments (if any), their remuneration and expense reimbursement entitlement and access to independent professional advice, as and when required.

The Board ensures that each new appointed Director receives all information to strengthen and support his contribution from the commencement of his term, via meetings with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting frameworks, risk management issues, compliance programs, in addition to access to its internal and external auditors and legal counsel.

The Bank's Articles of Association, which incorporate the relevant CCL provisions, and the Board of Directors' Charter list all the grounds for termination of membership of the Board of Directors. The General Assembly, via majority vote, has the authority to terminate the membership of some or all of the Board of Directors. This is without prejudice to the rights of shareholders qualifying under Article 175 of the CCL to terminate the appointment of any Director they appointed in accordance with the aforementioned Article. Terminations without proper justification or cause may entitle the Director to seek compensation from the Bank.

3.3 Responsibilities of the Board

The Board of Directors' role and responsibilities, include but are not limited to, the following:

- Establishing the objectives of the Bank;
- Determining the overall business performance, plans and strategy of the Bank;
- Monitoring management performance and their implementation of strategic decisions;
- 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;

- Annual approval of budget and monitoring management performance in relation to the same thereof;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Causing financial statements to be prepared which accurately disclose the Bank's financial position; and
- Setting the 'tone at the top' of the Bank and overseeing compliance with various laws and regulations, including but not limited to, CBB laws and regulations, CCL, Corporate Governance Code, Labor Law and other applicable laws and regulations.

Further details of the roles and responsibilities of the Board of Directors are set out in the Board Charter and Articles of Association. These roles and responsibilities are in line with the regulatory requirements contained in the Corporate Governance Code.

3.4 Board Meetings

In accordance with HC-1.3 of Volume 1 of the CBB Rulebook, the Board must meet frequently but in no event less than four (4) times a year. The Bank's Board of Directors has exceeded this requirement by meeting six (6) times in the financial year ending 31 December 2016. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year. In addition to meetings convened during the aforementioned year, a number of resolutions were passed unanimously via circulation through e-mails to the Directors, which were always ratified at the next Board meeting convened.

The dates and attendance details of the Board meetings are as follows:

| DIRECTOR | 1/2016 21 FEB 2016 | 2/2016 18 APR 2016 | 3/2016 26 JUL 2016 | 4/2016 6 OCT 2016 | 5/2016 17 NOV 2016 | 6/2016 25 DEC 2016 |
|--------------------------------|--------------------------|--------------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| Moraja Gaith Solaiman Buhlaiga | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Fathi Ahmed Yahia* | ✓ | ✓ | ✓ | N/A | N/A | N/A |
| Talal Al Zain | ✓ | ✓ | × | ✓ | ✓ | ✓ |
| Guima Masaud Salem Kordi | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Achour Abboud** | N/A | N/A | N/A | ✓ | ✓ | ✓ |

* Mr. Fathi Ahmed Yahia's membership was terminated by his appointer, Libyan Foreign Bank, on 21 August 2016 due to his retirement from their employment. Mr. Fathi Ahmed Yahia attended Board Meeting No. 4/2016 only as an invitee, in accordance with the invitation extended to him by the Chairman.

** Mr. Achour Abboud was approved by the CBB on 9 August 2016 and has attended all Board Meetings subsequent to his appointment.

4. BOARD COMMITTEES

In accordance with the Bank's constitutional documents, charters and the requirements set forth by the Corporate Governance Code and CBB regulations, the Board of Directors has delegated specific responsibilities to a number of Board committees (each a "Committee" and collectively, the "Committees"). Each Committee has its own formal written charter that sets out the roles and responsibilities of its members. The main Committees are as follows:

- Executive Committee ("EXCOM");
- Audit, Risk and Compliance Committee ("ARCC"); and
- Nomination and Remuneration Committee ("NRC").

4.1 Executive Committee (EXCOM)

4.1.1 Composition

As of 31 December 2016, the composition of the EXCOM is as follows:

| Member Name | Member Position | Status |
|------------------------------|-----------------|-----------------|
| Mr. Talal Al Zain | Director | Independent |
| Mr. Giuma Masaud Salem Kordi | Director | Non-Independent |
| Mr. Achour Abboud | Director | Independent |

4.1.2 Responsibilities

The EXCOM is required to exercise the powers and duties of the Board in interim periods between convening regular Board meetings either via physical meetings or circulation, as the case may be. The EXCOM may also act on behalf of the Board of Directors on matters requiring action yet falling beyond the Management's authorities. The full roles and responsibilities are contained within the EXCOM Charter.

4.1.3 Meetings

The EXCOM Charter stipulates that it shall meet at least four (4) times a year. Nonetheless, seeing as the EXCOM was established on 25 December 2016, there were no meetings convened as of 31 December 2016.

4.2 Audit, Risk and Compliance Committee (ARCC)

4.2.1 Composition

As of 31 December 2016, the composition of the ARCC is as follows:

| Member Name | Member Position | Status |
|------------------------------|-----------------|-----------------|
| Mr. Talal Al Zain | Chairman | Independent |
| Mr. Giuma Masaud Salem Kordi | Director | Non-Independent |
| Mr. Achour Abboud* | Director | Independent |

* Mr. Achour Abboud was appointed on the ARCC on 6 October 2016.

During the period from 1 January 2016 until 5 October 2016, the ARCC had only two (2) members, one (1) of whom was an independent Director and the other was non-independent. This was due to lack of independent members to fill the post, considering that the Chairman of the Board is not to be a member on the ARCC in accordance with the applicable laws and regulations. However, this was rectified with the appointment of Mr. Achour Abboud, who was named a member of the ARCC on 6 October 2016.

4.2.2 Responsibilities

The mandate of ARCC 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 the Bank'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;
- Ensure that the Bank's risk management framework includes methodologies to effectively assess and manage credit, market, liquidity, operational, legal, profit or rate of return, and reputational risks;
- Ensure the existence of clear lines of authority and accountability for managing, monitoring and reporting risks as preformed 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; and
- Review the findings of any examinations by regulatory agencies.

4.2.3 Meetings

The ARCC Charter stipulates that it shall meet at least four (4) times a year. During 2016, the ARCC has complied with this requirement. The dates and attendance details of the ARCC meetings are as follows:

| DIRECTOR | 1/2016 20 FEB 2016 | 2/2016 16 APR 2016 | 3/2016 5 OCT 2016 | 4/2016 24 DEC 2016 |
|--------------------------|--------------------------|--------------------------|-------------------------|--------------------------|
| Talal Al Zain | ✓ | ✓ | ✓ | ✓ |
| Guima Masaud Salem Kordi | ✓ | ✓ | ✓ | ✓ |
| Achour Abboud* | N/A | N/A | N/A | ✓ |

* Mr. Achour Abboud was appointed on the ARCC on 6 October 2016 and has attended all ARCC meetings subsequent to his appointment

4.3 Nomination and Remuneration Committee (NRC)

4.3.1 Composition

As of 31 December 2016, the composition of the NRC is as follows:

| Member Name | Member Position | Status |
|------------------------------------|-----------------|-----------------|
| Mr. Moraja Gaith Solaiman Buhlaiga | Chairman | Independent |
| Mr. Fathi Ahmed Yahia* | Director | Non-independent |
| Mr. Talal Al Zain | Director | Independent |
| Mr. Achour Abboud** | Director | Independent |

* Mr Fathi Ahmed Yahia ceased to be member of the NRC upon the termination of his membership on 21 August 2016.

** Mr. Achour Abboud was appointed on the NRC on 6 October 2016.

During the period from 21 August 2016 until 5 October 2016, the NRC had only two (2) members, both of whom were independent Directors. However, this was rectified with the appointment of Mr. Achour Abboud, who was named a member of the NRC on 6 October 2016.

4.3.2 Responsibilities

The mandate of ARCC 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 Chief Executive Officer) and other senior management (such as the direct reports of the Chief Executive Officer);
- 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 Chief Executive Officer 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.

4.3.3 Meetings

The NRC Charter stipulates that it shall meet at least twice (2) a year. During 2016, the NRC has complied with this requirement. The dates and attendance details of the ARCC meetings are as follows:

| DIRECTOR | 1/2016 21 FEB 2016 | 2/2016 24 DEC 2016 |
|------------------------------------|--------------------------|--------------------------|
| Mr. Moraja Gaith Solaiman Buhlaiga | ✓ | ✓ |
| Mr. Fathi Ahmed Yahia* | ✓ | N/A |
| Talal Al Zain | ✓ | ✓ |
| Achour Abboud** | N/A | ✓ |

* Mr Fathi Ahmed Yahia ceased to be member of the NRC upon the termination of his membership on 21 August 2016.

** Mr. Achour Abboud was appointed on the NRC on 6 October 2016.

5. BOARD ASSESSMENT AND EVALUATION

The Board and its Committees conduct annual assessments and evaluations on an annual basis. Each Director completes an overall Board assessment form, in addition to each Committee member completing a Committee assessment form. The NRC is responsible for reporting the results of the assessments to the Board for appropriate action, where and if required.

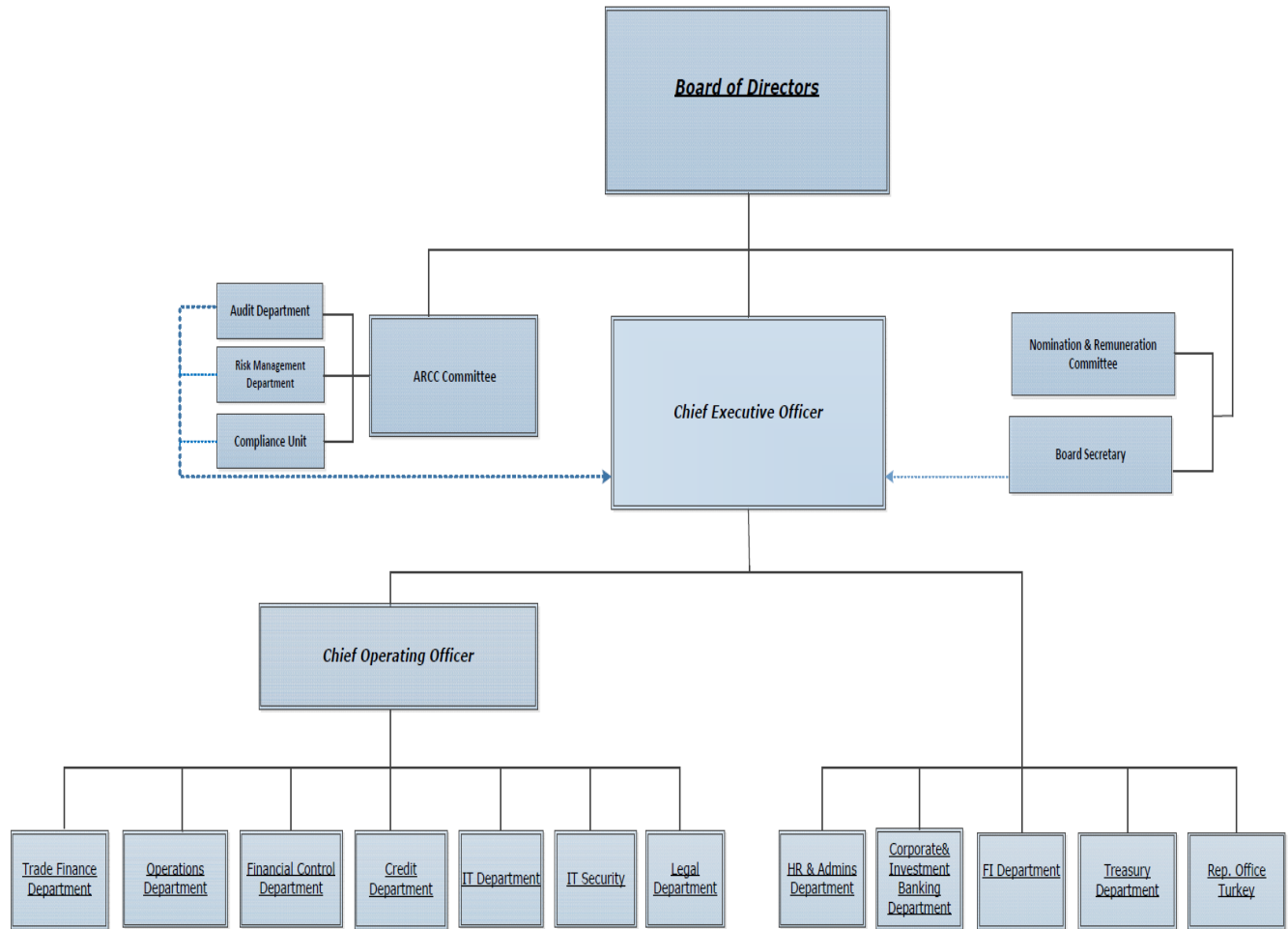
6. MANAGEMENT

6.1 Segregation of Duties between Board of Directors and Management

In accordance with CBB regulations, the positions of the Chairman and Deputy Chairman are segregated from those of the Chief Executive Officer (“CEO”). Furthermore, there is a clear delineation of responsibilities between the aforementioned positions as defined in the Bank’s Articles of Association and Board Charters.

6.2 Organizational Structure and Reporting Lines

The Board has approved the following Organizational Chart on 21 February 2016:



This new structure included the following:

- The creation of a Chief Operating Officer (“**COO**”) post instead of the vacant Deputy CEO posts;
- The separation of the combined department undertaking Risk Management and Compliance functions into two separate ones thereof;
- The newly created department of Risk Management and Compliance to have a direct reporting line to the ARCC, with administrative reporting duties to the CEO;
- The establishment of a new Corporate and Investment Banking Department, which will assume the corporate banking functions from the existing Business Development Department and investment functions from the current Treasury Department;
- The current Business Development Department being renamed to Financial Institutions Department, dealing only with Financial Institution financing and transactions; and
- The current Treasury and Investment Department being renamed to just Treasury Department.

Nonetheless, due to various internal factors and in accordance with the CBB's directions in this regard, the Bank has not implemented the approved Organizational Chart.. The Bank is waiting for the CBB's final guidance to complete or revise the implementation as necessary.

In accordance with the aforementioned, currently the Risk Management and Compliance functions remain combined under the Risk Management and Compliance Department. Nonetheless, the Bank has taken steps to ensure that these functions remain independent to the extent possible by designating specific employees to undertake only Risk Management duties and others to exclusively deal with Compliance matters to avoid any probability of a conflict of interest arising. The Head of Risk Management and Compliance Department remains the approved Risk Manager and Compliance Officer as per the issued CBB approval. Risk Management matters are currently being reported to the Management Risk Committee and then the ARCC, with Compliance matters being reported directly to the ARCC.

The Bank's Internal Audit function is independent from the aforementioned functions and reports directly to the ARCC. This department sets out to examine the adequacy and effectiveness of the internal control systems, procedures and to identify areas of deficiency and/or recommend enhancements or corrective measures. The said department reports its findings to the ARCC in accordance with the Board approved Audit Plan.

To carry out their duties both efficiently and effectively, the Internal Audit and Compliance functions have the following privileges and authorities:

- To communicate (at any time and on their own initiative) with any staff member and obtain any records or files necessary to enable them to carry out their responsibilities;
- A direct line of communication with the CBB, regulatory authorities and the ARCC; and
- Authority and resources (including engaging external specialists) to initiate and carry out or investigate possible breaches of laws and regulations and plan corrective actions, where necessary.

The Bank also has a Money Laundering Reporting Officer (“MLRO”) in accordance with the regulatory requirements. The MLRO reports directly to the ARCC.

All departments and functions indicated on the approved Organizational Chart reporting to the COO continue to report to the CEO, as the former post is currently vacant.

6.3 Management Committees

The Bank as of 31 December 2016 has six (6) main Management Committees to assist Management in the discharge of its duties and obligations. These Committees each have their own charters to which they adhere to. These Committees are established via Management Resolutions in accordance with the authorities delegated by the Board of Directors. The Board of Directors may recommend the establishment of certain types of Management Committees, as the case may be from time to time. The Board of Directors and/or Management may also establish temporary Committees to deal with specific objectives and dissolve these upon the full discharge of their respective tasks.

Details of the main Management Committees and their memberships as of 31 December 2016 are as follows:

| Management Committees | Member Position | Committee Member Position |
|---|--|---------------------------|
| Asset and Liability Committee (ALCO) | Chief Executive Officer | Head |
| | Head of Financial Control | Member |
| | Head of Business Development | Member |
| | Head of Treasury & Investments | Member |
| | Head of Risk Management and Compliance | Member |
| | Head of Operations | Representative |
| Management Risk Committee (MRC) | Chief Executive Officer | Head |
| | Head of Financial Control | Member |
| | Head of Business Development | Member |
| | Head of Operations | Member |
| | Head of Treasury & Investments | Member |
| | Head of Risk Management and Compliance | Representative |
| Human Resource and Compensation Committee (HRCC) | Chief Executive Officer | Head |
| | Head of Human Resources and Administration | Member |
| Credit Committee (CC) | Chief Executive Officer | Head |
| | Head of Business Development | Member |
| | Head of Risk Management and Compliance | Member |
| | Head of Financial Control | Member |
| | Head of Treasury & Investments | Member |
| Insurance Coverage Committee (ICC) | Head of Risk Management and Compliance | Head |
| | Head of Financial Control | Member |
| | Head of Human Resources & Administration | Member |
| Tariff and Commission Committee | Chief Executive Officer | Head |
| | Head of Business Development | Member |
| | Head of Treasury | Member |
| | Head of Trade Finance | Member |
| | Head of Finance | Member |
| | Head of Operations | Member |

6.3.1 Asset and Liability Committee (ALCO)

The mandate of the ALCO requires it, among other things, to:

- Actively manage 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;
- Manage 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.

6.3.2 Management Risk Committee (MRC)

The mandate of the MRC 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.

6.3.3 Human Resources and Compensation Committee (HRCC)

The mandate of the HRCC 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.

6.3.4 Credit Committee (CC)

The mandate of the CC requires it, among other things, to:

- Evaluate all new loan proposals;
- Appraise any new offered Treasury products;
- Assess all guarantee facilities;
- Report all approved LC refinance/ discount in appropriate format to management;
- Ensure that the credit portfolio does not exceed acceptable level of risk;
- Report all rejected deals of any type of facility with its valid justifications; and
- Review problematic credit exposure with expeditiously to minimize credit loss and maximize recoveries.

6.3.5 Insurance Committee (IC)

The mandate of the CC requires it, among other things, to:

- Provide guidance and counsel on insurance related matters to the Bank’s management;
- Review, assess and recommend a full “Bankers Blanket Bond Insurance” that covers all types of insurances;
- Review and evaluate the adequacy and suitability of the Bank’s Insurance;
- Review and recommend proposals for staff’s health insurance and life insurance with abroad coverage; and
- Review and evaluate insurance-related products and services that may be offered to the Bank, and make recommendations to the Bank’s management as appropriate.

6.3.6 Tariff and Commission Committee (TCC)

The mandate of the TCC requires it, among other things, to:

- Review the bank’s tariffs and commissions;

- Set country pricing limit for LC refinance and discount;
- Review other applied charges by the bank; and
- Ensure the bank maintain completed terms and conditions.

7. MATERIALITY AND AUTHORITY LEVELS

The materiality level for transactions that require Board approval varies for different activities and is governed by pre-approved exposure levels delegated by the Board which are contained in various policy and procedure documents. Transactions exceeding the approval authorities granted to the CEO or CC must be approved by the Board.

8. RELATED PARTY TRANSACTIONS

In general, the Bank has proper credit due diligence procedure for all type of facilities or exposures. Related party transactions relating to Directors must be approved by the Board. Details of related party transactions are set out in Note 24 of the Financial Statements.

The Bank's major related party transactions are generally with its majority shareholder/controller and/or its affiliate companies. The Board of Directors ensures that all related party transactions are entered into on an arm's length basis and are to further the interests of the Bank.

9. CODE OF CONDUCT AND CONFLICT OF INTEREST

The Bank has adopted a Code of Conduct and Ethics ("**Code of Ethics and Conduct**"), in addition to other internal policies and guidelines, which are applicable to Directors, Management and other staff. These documents are designed to establish best practices and incorporate all regulatory and legal requirements governing the Bank's operations for the aforementioned parties to follow in the fulfillment of their responsibilities and obligations towards the Bank's stakeholders.

The Code of Conduct and Ethics contains rules on conduct, ethics and on avoiding conflicts of interest, and is applicable to all employees and Directors of the Bank. The Board approved Code of Conduct and Ethics is published on the Bank's website.

The Bank requires its Directors and Approved Persons to issue an Annual Declaration of Conflict of Interest statement. Additionally, as per the Board Appointment Agreements, each Director has the responsibility to disclose any material interests relating to business transactions and agreements and the privilege of accessing to independent professional advise in this regard if required. During 2016, there were no materially significant transactions entered into that may have potential conflict of interest with the interest of the Bank and no disclosures in this regard were accordingly made.

The Bank has also set up a whistle-blowing framework to enhance good governance and transparency within the Bank. The Bank is committed in maintaining the highest possible standards of ethical and legal conduct while conducting its operations.

10. COMMUNICATIONS AND DISCLOSURE POLICY

In compliance with CBB regulations under PD Module of Volume 1 of CBB Rulebook, the Bank has a Board approved Public Disclosure Policy (“**Disclosure Policy**”) that governs the disclosure of material information relating to its activities to various stakeholders of the Bank.

The Disclosure Policy applies to all modes of communication to the public including written, oral and electronic communication. These disclosures are made on a timely basis and subject always to the requirements stipulated in the applicable laws and regulations. Disclosures include, but are not limited to, the following:

- Annual and quarterly results;
- Annual Report publication and filing;
- Basel II (Pillar 3) related disclosures;
- Chairman and/or Board of Director reports;
- Corporate governance disclosures;
- Shareholder communication, including invitations to General Assembly Meetings, proxy forms, agendas and supporting materials;
- Communication with regulatory authorities;
- Press releases, announcements and presentations; and
- Matters included on the Bank’s website.

The Bank maintains a website at www.alubafbank.com, which includes information of interest to various stakeholders, such as the Annual Reports and reviewed quarterly financials of the Bank, covering the minimum periods prescribed by the applicable regulations.

11. ANTI-MONEY LAUNDERING

The Bank’s Anti-Money Laundering Policy (“**AML Policy**”) intends to ensure that the Bank has a comprehensive framework of policies and procedures including best practice standards for combating money laundering and terrorist financing. The policies and procedures are established to prevent the Bank’s operational activities from being utilized by others for unlawful purposes.

The Bank’s AML Policy prohibits and actively prevents money laundering, in addition to any activities that facilitate money laundering or funding of terrorist or criminal activities. This is accomplished by ensuring compliance with the AML laws and regulations of the jurisdiction in which it undertakes business activities and in accordance with its internal Compliance framework.

The Bank is committed to providing periodic training and information to ensure that all employees are aware of their responsibilities under the CBB and AML laws and regulations in the Kingdom of Bahrain. The Bank provides annual up to date AML training for its staff designed to cater to the Bank’s activities and its differing types of customers and jurisdictions.

12. 2016 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module in Volume 1 of CBB Rulebook with reference to the disclosure of the non-compliance events “Comply or Explain Principle”, which stipulates the need to set out the instances of non-compliance and provide clarification on the same, the Bank wishes to clarify the following:

- As of 31 December 2016, the Bank did not have a separate Corporate Governance Committee. Nonetheless, the NRC in its Charter is tasked with corporate governance responsibilities (NRC renamed to Nomination, Remuneration and Corporate Governance Committee on 26 February 2017);
- During the period from 1 January 2016 until 5 October 2016, the ARCC had only two (2) members, one (1) of whom was an independent Director and the other was non-independent. This was due to lack of independent members to fill the vacant post, considering that the Chairman of the Board is not to be a member on the ARCC in accordance with the applicable laws and regulations. Accordingly, the Bank was not in compliance with HC-3.2.1, HC 4.2.1 and HC 5.2.1. However, this was rectified with the appointment of Mr. Achour Abboud, who was named a member of the ARCC on 6 October 2016;
- During the period from 21 August 2016 until 5 October 2016, the NRC had only two (2) members, both of whom were independent Directors. Accordingly, the Bank was not in compliance with HC-3.2.1, HC 4.2.1 and HC 5.2.1. However, this was rectified with the appointment of Mr. Achour Abboud, who was named a member of the NRC on 6 October 2016;
- The Board has not completed the training required for its Directors under TC-1.2.1 and accordingly is not in compliance with the CBB Rulebook in this regard. Nonetheless, the Bank is taking necessary measures to comply with this requirement for the upcoming financial year;
- Due to the limited number of Directors on the Board, the Bank is not in compliance with HC-5.3.1A which requires that members of the Remuneration Committee must have independence of any risk taking function or committees. There are currently two (2) members on the ARCC that hold positions in the NRC as well. The Bank is looking at taking the necessary actions to address this non-compliance at the earliest.

13. REMUNERATION OF EXTERNAL AUDITORS

In 2016, the Bank has paid its external auditors, Messers Ernst & Young, a total of USD 147,215 (United States Dollars one hundred forty seven thousand two hundred and fifteen) for audit and other audit related services fees. These services include year-end audit, prudential information return reviews, quarterly reviews, anti-money laundering review, sound remuneration reviews, public disclosures reviews and IFRS 9 impact assessments. Messers Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the financial year ending 31 December 2017. The ARCC has recommended the appointment of Ernst & Young and a resolution proposing their re-appointment will be presented at the Annual General Assembly meeting, which will be held in April 2017.

The breakdown of audit and other non-audit related services fee paid to the external auditor is as follows:

| TYPE OF SERVICE | 2016 | 2015 |
|--|----------------|----------------|
| | USD | USD |
| Audit and other audit related service fees | 112,732 | 108,488 |
| Non-audit service fees | 34,483 | 0 |
| Total | 147,215 | 108,488 |