



Annual Report

2017

اليوباف
alubaf

بنك الیوباف العربی الدولي ش.م.ب. (ج.م.ع.)
Alubaf Arab International Bank B.S.C.(c)



CONTENTS	PAGE #
Vision and Mission	2
Financial Highlights	3-4
Board of Directors	5-6
Executive Management	7-8
Corporate Governance	
Financial Statements & Report of Board of Directors	
Basel II Pillar III Disclosures	

Registered Office

ALUBAF Arab International Bank BSC(C)

ALUBAF Tower, Al-Seef District

P.O.Box 11529, Manama,

Kingdom of Bahrain.

Tel : +973 17517722, Telefax : +973 17540094

- **ALUBAF Arab International Bank BSC© is a wholesale bank registered in the Kingdom of Bahrain.**
- **ALUBAF's operations include Treasury, Trade finance and Lending.**

VISION

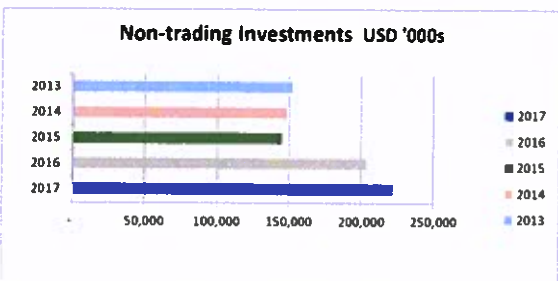
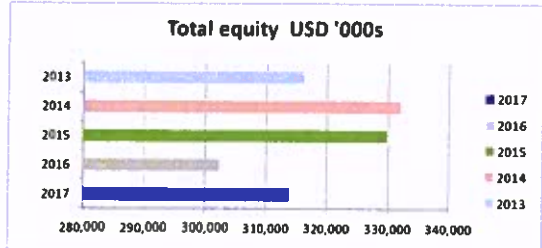
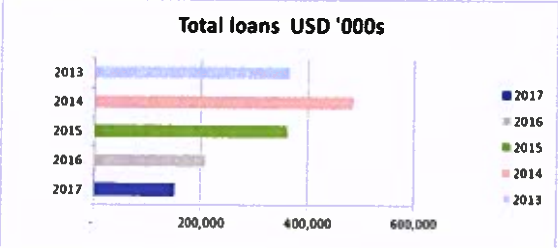
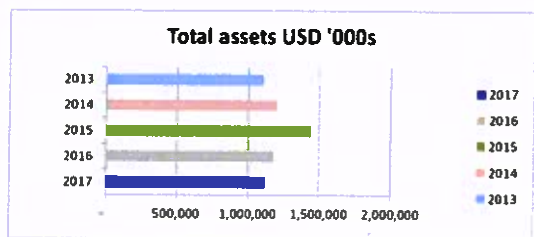
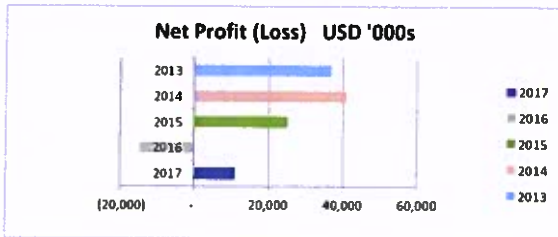
ALUBAF Arab International Bank visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients.

MISSION

To augment shareholder value by maximizing profitability with prudent financial management and to entrench a disciplined risk and cost management culture.

FINANCIAL HIGHLIGHTS

	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>	<i>2013</i>
	<i>USD '000s</i>	<i>USD '000s</i>	<i>USD '000s</i>	<i>USD '000s</i>	<i>USD '000s</i>
Financial Position					
Net Profit (Loss) before appropriation	10,830	(14,685)	25,072	40,700	36,640
Total Assets	1,118,643	1,180,936	1,443,007	1,204,957	1,107,762
Total Non-Trading Investments	221,374	203,767	144,289	147,994	137,282
Total Loans	150,256	208,041	360,176	485,255	362,998
Total Liabilities	804,792	878,659	1,113,237	873,045	791,661
Total Equity	313,851	302,277	329,770	331,912	316,101
Ratios %					
Profitability					
ROAA -Return on Average Assets %	1%	-1%	2%	4%	3%
ROAE-Return on Average Equity %	4%	-5%	8%	13%	12%
Cost to Gross Income	38%	25%	21%	22%	21%
Capital					
Capital Adequacy Ratio	37%	40%	44%	42%	44%
Equity Assets Ratio	28%	26%	23%	28%	29%
Asset Quality					
Loans to Total Assets	13%	18%	25%	40%	33%
Non trading investment/ Total assets	20%	17%	10%	12%	12%
NPA/Gross loans	34%	30%	19.0%	1.5%	1.1%
Liquidity					
Liquid assets to Total Assets	66%	64%	64%	46%	54%
Liquid assets to Liabilities	91%	86%	83%	64%	75%



Board of Directors

Mr. Moraja Gaith Solaiman

Chairman

Masters in Accounting from University of Hartford, USA. Deputy Finance Minister in Transitional government in Libya since 2011. Director of the Central Bank of Libya (since 2011). Member of the General Commission for Supervision of Insurance Companies (since 2007). Faculty member of Economics in University of Benghazi, Libya since 1982.

Mr. Tallal Al Zain

Director

Master's in Business Administration from Mercer University, Atlanta with over 22 years of experience in banking industry. Currently, a Board member of Bahrain Islamic Bank. Formerly-CEO of Pine Bridge Investment Middle East, BSC(c), CEO of Bahrain Mumtalakat Holding Co., (Investment arm for the Kingdom of Bahrain.) and Managing Director and Co-Head of Placement & relationship Management of Investcorp, Bahrain.

Mr. Guima Masaud Salem Kordi

Director

Bachelor of Computer Science, Tripoli University with over 22 years of experience in banking industry. Currently, Information Technology department Manager of Libyan Foreign Bank. Formerly, a Board member of Ares Bank, Spain.

Mr. Achour Abboud

Director

Master's degree in economics from the University of Constantine, Algeria and Higher Degree in Banking Studies from the Institute of Financing and Development of the Arab Maghreb in Tunis, Tunisia, with over than 30 years of experience in the banking industry. Currently President and CEO of the National Bank of Algeria (Banque Nationale d'Algérie), Chairman of the Board of Directors of the Algerian Foreign Trade Bank in Zurich, Switzerland, since May 2016 and formerly, Managing Director of Crédit Populaire d'Algérie.

Anthony Mallis

Director

Graduated from the American University of Beirut in 1976 and has studied at the Stanford Graduate School of Business.

He retired in 2014, after spending thirteen years as Chief Executive Officer of Securities & Investment Company (SICO) and transforming the company into a respected Bahrain-based GCC focused investment bank and asset manager.

Prior to that, Anthony worked with a number of banks in commercial, investment banking and private equity in London, Bahrain and Saudi Arabia, including Citibank, GIB, Bankers Trust, CSAM Investment Management and its predecessor, CSFB Investment Management. He served on the boards of Zawya, Pinebridge Middle East and on The Bahrain Bankers' Society.

Executive Management

Mr. Hasan K. Abulhasan Chief Executive Officer

Chief Executive Officer since October 2012. He holds a Bachelors degree in Statistics from Libya. Mr. Hasan Abulhasan is deputed from Libyan Foreign Bank, Libya to head Alubaf Arab International Bank, Bahrain. He has held several senior top management position with Libyan Foreign Bank group and the last position held was Assistant General Manager at Libyan Foreign Bank, headquarters. He brings with him strong and extensive experience in Banking sector that spans more than two decades.

Ms. K.R.Usha Head of Financial control

An Associate member of Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India, with a strong Finance and Audit experience of more than 20 years and a Post qualification on Information Systems Audit from the Institute of Chartered Accountants of India.

Mr. Tallal Ali Elmshawat Head of Information Technology

Over 17 years of extensive experience in managing projects in information technology domain for the group of the Libya foreign bank .Tallal holds a Bachelor degree in computer Engineering from Tripoli University, faculty of Engineering and holds an MBA from Hull business school and is a PMP certified project manager. Additionally, he is a Chartered alternative investment analyst of CAIA Association.

Mr. Hassan A.Rahman Al-Saffar Head of Trade Finance

Diploma in Banking, with over 27 years in Bahrain Banking Industry. He brings with him strong experience in International Trade Finance and excellent depth of knowledge on UCP and relevant compliance issues on Documentary credits.

Ms. Fatima Mohammed Bu Ali
Head of Operations

Masters in Business Administration from University College Bahrain, affiliated with McMaster University-Canada with Intermediate Diploma in Banking and Finance. Also, holds an ACI Dealing certificate. She has over 12 years of experience in Banking operations, Treasury and customer relationship management.

Mr. Abbas Abdulla Al-Shamma
Head of Internal Audit

"A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), he holds a B.Sc. in Accounting from the University of Bahrain. He is a member of the Global Institute of Internal Auditors and the Information Systems Audit and Control Association, USA. He joined Alubaf in December 2009 and has more than 12 years of experience in the banking sector in the field of Internal and External audit, Risk Assessment, and Corporate Governance. Before joining Alubaf, he previously worked with Ernst and Young and BDO - Bahrain.

Najla Mahmood Qambar
Head of Compliance and MLRO

An MBA degree from University College Bahrain, as well as a holder of Professional international certificate on Compliance – ICA, with over ten years of experience in Banking sector, in Bahrain

Kannan Iyer
Head of Risk Management

Over 30 year experience with large international banks covering Risks across a global footprint, diversified product-range, Country-risk and Risk-management. Post-Graduate from the Indian Institute of Management, Ahmedabad

Kemal El Abyad
Head of Business Development

Bachelor in Business Administration from Anatolian University, Turkey with over 20 years of experience in banking industry in Turkey specializing in Corporate Banking. He served between 2004 to 2014 as an Executive Committee Member in Turkish Libyan Business Council at Foreign Economic Relation Board in Turkey. Formerly, Manager in ALUBAF Turkey Representative Office.

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بنك اليوباف العربي الدولي ش.م.ب. (٢٠١٠)
Alubaf Arab International Bank B.S.C.(c)



CORPORATE GOVERNANCE DISCLOSURES

AS OF 31 DECEMBER 2017

CONTENTS

1.	ALUBAF'S CORPORATE GOVERNANCE PHILOSOPHY	4
2.	ORGANIZATION STRUCTURE:	5
3.	CG'S FRAMEWORK	6
4.	PROFILE AND OWNERSHIP STRUCTURE OF THE BANK	6
5.	BOARD OF DIRECTORS	7
5.1	COMPOSITION OF THE BOARD	7
5.2	APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS	8
5.3	RESPONSIBILITIES OF THE BOARD	9
5.4	MEETINGS OF THE BOARD OF DIRECTOR DURING THE YEAR 2017	10
6.	BOARD COMMITTEES	10
6.1	EXECUTIVE COMMITTEE (EXCOM)	10
6.1.1	COMPOSITION	10
6.1.2	RESPONSIBILITIES	11
6.1.3	MEETINGS	11
6.2	AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)	11
6.2.1	COMPOSITION	11
6.2.2	RESPONSIBILITIES	11
6.2.3	MEETINGS	13
6.3	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)	13
6.3.1	COMPOSITION	13
6.3.2	RESPONSIBILITIES	14
6.3.3	MEETINGS	16
7.	BOARD ASSESSMENT AND EVALUATION	16
8.	MANAGEMENT	16
8.1	SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT	16
8.2	MANAGEMENT COMMITTEES	17
8.2.1	ASSET AND LIABILITY COMMITTEE (ALCO)	18
8.2.2	MANAGEMENT RISK COMMITTEE (MRC)	18
8.2.3	HUMAN RESOURCES AND COMPENSATION COMMITTEE (HRCC)	19
8.2.4	CREDIT COMMITTEE (CC)	19

CORPORATE GOVERNANCE DISCLOSURES

8.2.5	INSURANCE COVERAGE COMMITTEE (ICC)	20
8.2.6	TARIFF AND COMMISSION COMMITTEE (TCC).....	20
9.	MATERIALITY AND AUTHORITY LEVELS	20
10.	RELATED PARTY TRANSACTIONS.....	20
11.	CODE OF CONDUCT AND CONFLICT OF INTEREST	21
12.	COMMUNICATIONS AND DISCLOSURE POLICY	21
13.	ANTI-MONEY LAUNDERING	22
14.	2017 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS	22
15.	REMUNERATION OF EXTERNAL AUDITORS	23

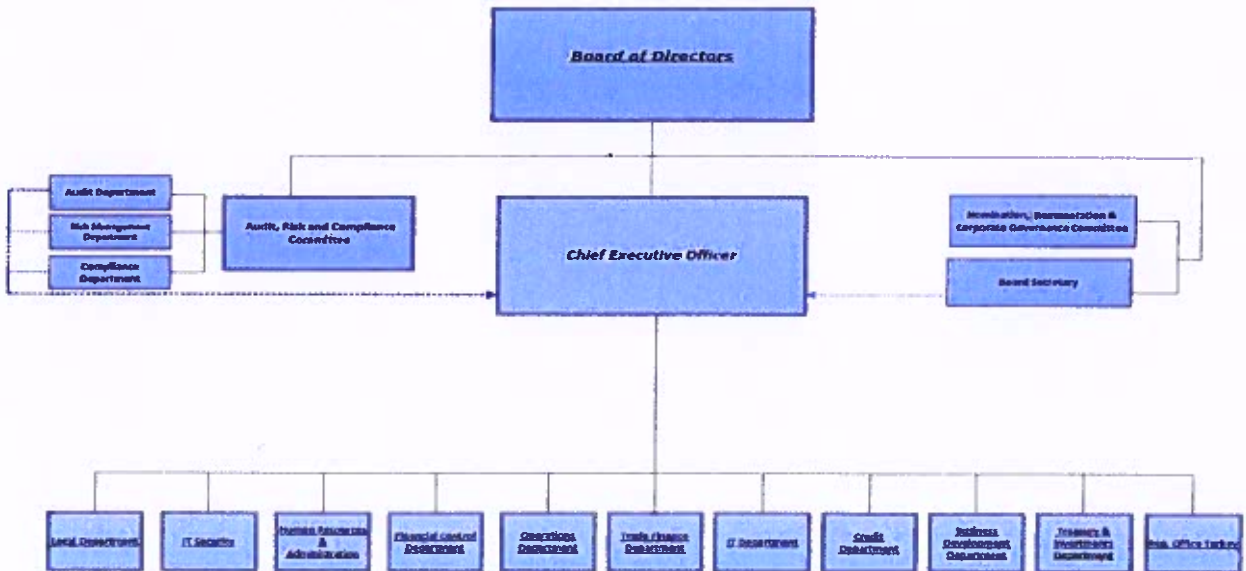
1. ALUBAF'S CORPORATE GOVERNANCE PHILOSOPHY

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB").

As a Wholesale commercial bank, Alubaf's corporate governance framework is based on the guidelines 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).

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.

2. ORGANIZATION STRUCTURE:



- The separation of the combined departments undertaking Risk Management and Compliance functions into two separate ones was effective from June 2017
- 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 CEO.

3. CG'S FRAMEWORK

ALUBAF Arab international Bank has an effective, disciplined and transparent management framework developed on strict adherence to corporate governance principles and statutes of its regulator Central Bank of Bahrain. The Board of Directors is responsible for strategic plans, policies and supervision of business performance/operations, overseeing the functions of executive management and ensures to conduct meetings at least four times annually. At the next level, is the executive management team, which is committed in the daily execution of business in compliance with approved policies, plans and regulatory requirements. The bank's external auditors Ernst & Young, conduct final audit and other statutory reviews on AML and quarterly on financials, prudential information reporting and public disclosure to ensure compliance with regulatory requirements."

4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK

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

As part of disclosure requirements indicated in HC module issued by the CBB, Alubaf presents the following facts:

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.

- *Distribution of Shareholding according to Nationality as of 31 December 2017 is as follows:*

NATIONALITY	NO. OF SHARES	NOMINAL VALUE (USD)	%
LIBYAN	4,975,008	248,750,400	99.50
YEMENI	24,992	1,249,600	0.50

- *Distribution of ownership according to the percentage of Shareholding :*

NATIONALITY	NO. OF SHARES	NOMINAL VALUE (USD)	%
LIBYAN	4,975,008	248,750,400	99.50
YEMENI	13,768	688,400	0.28
YEMENI	11,224	561,200	0.22

* The is based Bank.

abovementioned shareholding structure on the issued and paid up capital of the

As of 31st December 2017, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2017, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

5. BOARD OF DIRECTORS

5.1 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 2017, the total number of Directors is five (5). 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.

In compliance with HC 1.4.8 , the Chairman is not an executive director 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 2017, the Bank is in compliance with the aforementioned independence requirements with the following being its composition:

STATUS/CATEGORY	No. of directors	%
Non-Independent / Non-Executive	1	20
Independent / Non-Executive	4	80
TOTAL	5	100

For the financial year ending 31 December 2017, the Bank's Board of Directors was as follows:

Name	Position	Status	Nationality
Mr. Moraja Gaith Solaiman Buhlaiga	Chairman	Independent / Non-Executive	Libyan
Mr. Talal Al Zain	Director	Independent / Non-Executive	Bahraini
Mr. Guima Masaud Salem Kordi	Director	Non-Independent / Non-Executive	Libyan
Mr. Achour Abboud	Director	Independent / Non-Executive	Algerian
Mr. Anthony Constantine Mallis *	Director	Independent / Non-Executive	Australian

* Mr. Anthony Constantine Mallis membership was appointed by Libyan Foreign Bank, and his First Board Meeting: No. 130 (3/2017) – 9 July 2017. He was approved by the Central Bank of Bahrain on 11 June 2017.

The majority of the Board's members are independent. To ensure the independency of the members, as per HC-1.4, Every director must bring independent judgment to bear in decision-making. No individual or group of directors must dominate the board's decision-making and no one individual should have unfettered powers of decision. The members should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests. Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgement.

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.

5.2 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.

5.3 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.

5.4 MEETINGS OF THE BOARD OF DIRECTOR DURING THE YEAR 2017

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 2017. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year.

Dates of Board meetings held during the fiscal year 2017, as follows:

DIRECTOR	DATE OF FISRT APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	DATE OF RESIGNATION	1/2017 26 FEB 2017	2/2017 23 APR 2017	3/2017 9 JUL 2017	4/2017 22 SEP 2017	5/2017 19 NOV 2017	6/2017 21 DEC 2017
Moraja Gaith Solaiman Buhlaiga	21 Apr 2013	29 Jan 2013	N/A	✓	✓	✓	✓	✓	✓
Talal Al Zain	12 April 2015	14 April 2015	N/A	✓*	×	✓	✓	✓	✓*
Giuma Masaud Salem Kordi	19 April 2016	21 August 2015	N/A	✓	✓	✓	✓	✓	✓
Achour Abboud	18 June 2017	6 October 2016	N/A	✓	✓	✓	✓	✓	✓
Anthony Mallis	18 June 2017	9 July 2017	N/A	✓	✓	✓	✓	✓	✓

* participated by phone / video link

6. 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, Remuneration and Corporate Governance Committee ("NRCGC").

6.1 EXECUTIVE COMMITTEE (EXCOM)

6.1.1 COMPOSITION

As of 31 December 2017, the composition of the EXCOM is as follows:

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

6.1.2 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.

6.1.3 MEETINGS

The EXCOM Charter stipulates that it shall meet at least four (4) times a year. There were no meetings convened as of 31 December 2017 as the committee has been dissolved by Board Resolution (10/2017) on 23rd April 2017.

6.2 AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)

6.2.1 COMPOSITION

As of 31 December 2017, the composition of the ARCC is as follows:

Member Name	Member Position	Status
Mr. Talal Al Zain	Chairman	Independent / Non-Executive
Mr. Giuma Masaud Salem Kordi	Director	Non-Independent / Non-Executive
Mr. Anthony Mallis *	Director	Independent / Non-Executive

* Mr. Anthony Mallis was appointed on ARCC on 9th July 2017.

6.2.2 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.

6.2.3 MEETINGS

The ARCC Charter stipulates that it shall meet at least five (5) times a year. During 2017, the ARCC has complied with this requirement. The dates and attendance details of the ARCC meetings are as follows:

DIRECTOR	1/2017 24 Feb 2017	2/2017 22 Apr 2017	3/2017 8 Jul 2017	4/2017 29 Oct 2017	5/2017 18 Nov 2017
Talal Al Zain	✓	✓ *	✓	✓	✓
Guima Masaud Salem Kordi	✓	✓	✓	✓	✓
Achour Abboud**	✓	✓	✓	N/A	N/A
Mr. Anthony Mallis ***	N/A	N/A	N/A	✓	✓

* participated by phone / video link

** Mr. Achour Abboud was appointed on the ARCC on 6 October 2016 and has attended all ARCC meeting during 2017 until the re-constitution of the ARCC Committee in which he was ceased to be member and replaced by Mr. Anthony Mallis

*** Mr. Anthony Mallis was appointed on ARCC on 9th July 2017 and attended first meeting of ARCC on 29th October 2017.

6.3 NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

6.3.1 COMPOSITION

As of 31 December 2017, the composition of the NRCGC is as follows:

Member Name	Member Position	Status
Mr. Moraja Gaith Solaiman Buhlaiga	Chairman	Independent / Non-Executive
Mr. Talal Al Zain	Director	Independent / Non-Executive
Mr. Achour Abboud	Director	Independent / Non-Executive

-The Committee was renamed to Nomination, Remuneration and Corporate Governance Committee on 26 February 2017

6.3.2 RESPONSIBILITIES

The mandate of NRCGC requires it, among other things, to:

- Nomination, appointment and board composition

- Ensure a formal and transparent board nomination process is in place.
- Before appointment is made by the board, evaluate the balance of skills, knowledge and experience on the board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the committee shall consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position. The committee shall also consider candidates from a wide range of backgrounds.
- Be responsible for identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise.
- Ensure that on appointment to the board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.
- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the board compared to its current position and make recommendations to the board with regard to any changes.

- succession planning and evaluation

- Give full consideration to succession planning for directors (in particular the chairman and the CEO) and other senior management (such as the direct reports of the CEO). In the course of its work, take into account the challenges and opportunities facing the bank and identify the skills and expertise needed on the board in the future.
- Ensure effective policies and processes are in place for ensuring that executive management have the necessary integrity, technical and managerial competence and experience.
- Recommend to the board the number, identity and responsibilities of board committees and the chair and members of each committee. This shall include advising the board on committee appointments, removal from committees or from the board, rotation of committee members and chairs and committee structure and operations.

- performance review and assessment

- Ensure effective policies and processes are in place to keep under review the leadership needs of the bank, both executive and non-executive, with a view to ensuring the continued ability of the bank to compete effectively in the marketplace.
- 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.
- Ensure effective policies and processes are in place for effective monitoring and making annual formal evaluations of senior management's performance in implementing agreed strategy and business plans.

- Monitor the orientation and continuing education programs for directors and based on it recommend to the board relevant training for the directors.
- **Remuneration**
The nomination and remuneration committee shall be responsible for the design, implementation and supervision of the remuneration policy. In particular, the NRCGC shall:
 - Design all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the bank. in designing the remuneration policy, the NRCGC shall consider the core remuneration policy of the bank, the business strategy of the bank, the regulatory pronouncements of the central bank of Bahrain and the labour laws of the kingdom of bahrain;
 - obtain approval of the board of directors and subsequently the shareholders on the remuneration policy adopted by the bank;
 - ensure that the remuneration for 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;
 - Ensure that the remuneration for officers is structured and that the employee's interest is aligned with the interests of the shareholders. These rewards include grants of shares, share options and other deferred stock related incentive schemes, bonuses and pension benefits which are not based on salary. if an officer is also a director, his remuneration as an officer should take into account, compensation received in his capacity as a director
 - approve the remuneration policy and remuneration for each approved person and material risk-taker;
 - approve targets and associated risk parameters, and variable pay for achieving the set target for each performance period;
 - approve total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
 - monitor and review the remuneration system on a regular basis to ensure the system operates as intended;
 - undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the bank's solvency and risk profile, and its long term objectives and business goals;
 - undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or malus;
 - recommend board member remuneration based on their attendance and performance and in compliance with article 188 of the company law;
 - determine the policy for, and scope of, pension arrangements for each executive director;
 - determine the policy for the disclosure of directors' remuneration; and
 - Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.

- policies and corporate governance
 - 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.
 - Review the adequacy of the charters adopted by each committee of the board, and recommend changes as necessary.
 - The board shall periodically assess and document, whether the corporate governance processes that it has implemented have successfully achieved their objectives and consequently confirm whether the board itself is fulfilling its own responsibilities.
 - The board shall also identify any material deficiencies and problems in the corporate governance processes and draw up action plans and timetables for their correction.
 - Develop appropriate criteria and make recommendations to the board regarding the independence of directors.

6.3.3 MEETINGS

The NRCGC charter stipulates that it shall meet at least twice (2) a year. During 2017, the NRCGC has complied with this requirement. The dates and attendance details of the NRCGC meetings are as follows:

DIRECTOR	1/2017 24 FEB 2017	2/2017 18 NOV 2017
Moraja Gaith Solaiman Buhlaiga	✓	✓
Talal Al Zain	✓	✓
Achour Abboud	✓	✓

7. 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 NRCGC is responsible for reporting the results of the assessments to the Board for appropriate action, where and if required.

8. MANAGEMENT

8.1 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.

8.2 MANAGEMENT COMMITTEES

The Bank as of 31 December 2017 has five (5) 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 2017 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	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	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	Member

Management Committees	Member Position	Committee Member Position
	Head of Financial Control	Member
	Head of Treasury & Investments	Member
Insurance Coverage Committee (ICC)	Head of Risk Management	Head
	Head of Financial Control	Member
	Head of Human Resources & Administration**	Member
Tariff and Commission Committee (TCC)	Chief Executive Officer	Head
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Finance	Member
	Head of Operations	Member

*HRCC has been dissolved as per management resolution (02/2017) dated 16th January 2017

** Head of Human resources and Administration left the Bank on May 2017.

8.2.1 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.

8.2.2 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.

8.2.3 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.

8.2.4 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.

8.2.5 INSURANCE COVERAGE COMMITTEE (ICC)

The mandate of the IC 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.

8.2.6 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.

9. 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.

10. 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.

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.

13. 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.

14. 2017 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:

- The Board and senior management has completed the training required under TC-1.2.1 except for one senior management. 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 is currently One (1) member on the ARCC that hold position in the NRCCG as well. The Bank is looking at taking the necessary actions to address this non-compliance at the earliest.

Central Bank of Bahrain (CBB) Penalty Disclosure: As per rule PD-1.3.37, the bank is in compliance with CBB rules and regulation and did not pay any penalties during 2017.

15. REMUNERATION OF EXTERNAL AUDITORS

In 2017, the Bank has paid its external auditors, Messers Ernst & Young, a total of USD 351,000 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 8 April 2018.

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

TYPE OF SERVICE	2017	2016
	USD'000	USD'000
Audit and other audit related service fees	136	113
Non-audit service fees	215	34
Total	351	147

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Alubaf Arab International Bank B.S.C(م)



Sound Remuneration Disclosures

2017

Contents

1.	INTRODUCTION.....	3
2.	BANK'S REMUNERATION PHILOSOPHY	3
3.	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)..	3
3.1	Composition	4
4.	CORE REMUNERATION POLICY	4
4.1	Overall Approach to Remuneration.....	4
4.2	Variable Pay Scheme.....	5
4.3	Salary and Benefit Review	5
4.4	Severance Pay	6
4.5	Prohibition of Approved Person Benefits	6
5.	REGULATORY ALIGNMENT	6
5.1	Governance	6
5.2	CBB Remuneration Guidelines.....	6
6.	VARIABLE PAY	7
6.1	CEO, Senior Management and Business Units.....	7
6.2	Control and Support Units.....	8
6.3	Malus and Claw Back Framework	9
6.4	Summary of Variable Pay.....	9
7.	BOARD REMUNERATION	9

1. INTRODUCTION

This document has been prepared in accordance with Central Bank of Bahrain (“CBB”) remuneration disclosure requirements for Wholesale Banks under CBB Rulebook (Volume 1 – Conventional Banks).

2. BANK’S REMUNERATION PHILOSOPHY

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain and a “**Remuneration Policy**” was drafted for the Bank’s variable remuneration framework which was approved by shareholders at the Annual General Meeting held on 12 April 2015.

The Bank’s approach to “Pay and Benefits” incorporates a number of important objectives designed to support the Bank’s policy to attract, motivate and retain qualified employees needed to meet its overall long-term business plans. These include rewarding each employee based on individual overall contribution and performance, ensuring the Base Salary, discretionary Bonus and benefits are competitive within the market place, but with costs that are sustainable by the Bank and ensuring that internal equity is always maintained.

The Bank maintains a salary structure which reflects the relationship of job positions to each other and their place in the appropriate financial and business market place. It is the Bank’s intention to reward employees in a manner reflecting merit. Merit is defined as how well an individual employee performs in relation to the objectives and requirement of the job. It is a policy of better pay for better performance.

During the year 2017, a consultant was appointed to review and enhance the variable remuneration policies and align them with market and best practices. This revised and updated “Remuneration Policy” was reviewed by the Bank’s Nomination, remuneration and Corporate governance committee (NRCGC), which is subject to the approval of Central Bank of Bahrain and shareholders in Annual general meeting to be held on 8th April, 2018.

3. NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

In addition to its other duties as specified in its mandate, the NRCGC is responsible for the design, implementation and supervision of the Remuneration Policy. In particular, the NRCGC:

- Designs all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the Bank. In designing the Remuneration Policy, the NRCGC shall consider the Remuneration Policy document of the Bank, its business strategy, the regulatory pronouncements of the CBB and the labor laws of the Kingdom of Bahrain;
- Obtains approval of the Board of Directors and subsequently the Shareholders on the Remuneration Policy adopted by the Bank;
- Approves the Remuneration Policy and remuneration for each Approved Person and Material Risk-Taker;

- Approves targets and associated risk parameters, and variable pay for achieving the set target for each performance period;

- Approves total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
- Monitors and review the remuneration system on a regular basis to ensure the system operates as intended;
- Undertakes stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long term objectives and business goals;
- Undertakes back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or malus; and
- Recommends Board Member remuneration based on their attendance and performance and in compliance with Article 188 of the Commercial Companies Law No. 21/2001 and its amendments ("CCL").

3.1 Composition

During 2017, the composition of the NRCCG was as follows:

Member Name	Member Position	Status
Mr. Moraja Gaith Solaiman Buhlaiga	Chairman	Independent and Non-Executive
Mr. Talal Al Zain	Director	Independent and Non-Executive
Mr. Achour Abboud	Director	Independent and Non-Executive

4. CORE REMUNERATION POLICY

4.1 Overall Approach to Remuneration

The major components of this overall approach are:

- *Base compensation for the individual employee's overall contribution and performance*

This merit-based approach is particularly applied to the base salary and discretionary bonus elements of total compensation. The level of overall contribution and performance is assessed through setting objectives, performance appraisals and performance ranking processes. Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position.

- *Market environment*

The financial service sector in which the Bank operates in is reviewed periodically to ensure that the Bank's salaries and benefits remain competitive.

➤ *Operating Costs*

Market competitiveness must always be balanced by the cost that the Bank can support to ensure that it meets its short and long-term business objectives.

➤ *Internal Equity*

Internal equity is maintained through consistent job matching. The objective is to ensure that jobs with similar dimensions, knowledge, complexity and accountability are graded at consistent levels across the Bank.

➤ *Salary Ranges*

The Bank uses a structure of salary ranges against which salaries are administered. Each grade is assigned a salary range within which salaries should be administered. These ranges allow room for different salaries to be paid to employees in the same grade based on experience in the job, and on overall contribution and performance and they also provide a basis for managing within costs limits.

4.2 Variable Pay Scheme

The Bank has a well-defined variable pay scheme in place, to support the NRCGC, should it decide to pay variable pay or bonus in any performance period. Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level. The variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal, performance metrics for applicable business units are risk-adjusted where appropriate and individual award determinations include consideration of adherence to compliance-related goals.

The remuneration package of employees in Control and Support functions are designed in such a way that their function is independent of the business units they support. Remuneration decisions are based on their respective functions and not on the business units they support; Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function; Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.

The variable remuneration of the Business units is primarily determined by key performance objectives set through performance management system of the Bank, which contain both financial and non-financial targets.

Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.

4.3 Salary and Benefit Review

The Bank will review the salaries and benefits once every two (2) years, with an objective of maintaining competitive advantage in the market, based on salary surveys and market information gathered through secondary sources.

4.4 Severance Pay

The Bank does not provide for any form of severance pay, other than as required by the Labor Law for the Private Sector Law No. 36/2012 of the Kingdom of Bahrain, to its employees. Under exceptional circumstances and subject to NRCGC approval, the Bank might offer sign-on bonus or minimum variable pay for any new recruit limited to first year of employment only.

4.5 Prohibition of Approved Person Benefits

The Bank does not allow any of its employees, who are identified as Approved Persons as per CBB regulations, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers. This excludes Board related remuneration linked to the fiduciary duties owed to the investors of the project/investment, which includes those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments.

5. REGULATORY ALIGNMENT

The Bank has reviewed and revised the Bank's Remuneration Policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants, the last version being approved by the Board on 16 February 2015. Since the original approval in 2015, the Bank has reviewed the policy in 2017 with external consultants, which was reviewed by NRCGC in meeting held on 17th February 2018, which is expected to take effect for the year 2017, subject to Central Bank of Bahrain and shareholders' approval.

5.1 Governance

The composition of the NRCGC as of 31 December 2017 is as required by the CBB remuneration guidelines, whereby it is comprised of three (3) independent directors, including the chairman of the committee itself. The NRCGC charter was revised in line with the requirements of the CBB guidelines and approved by the Board on 26th February 2017.

5.2 CBB Remuneration Guidelines

The Bank's variable pay policy includes the following CBB guidelines:

- The pay mix for the CEO, Senior Management in business units and the Material Risk Takers has been revised in such a way that their variable pay component is higher than the fixed pay component, subject to achieving the risk adjusted targets both at the business unit and the Bank level.
- For staff in Control and Support functions, the pay mix is structured to consist of a higher fixed pay component than the variable pay. Furthermore, the variable pay for staff in Control and Support functions, is based on their units target and individual performance and not linked directly to the Bank's overall performance.

6. VARIABLE PAY

6.1 CEO, Senior Management and Business Units

The variable pay of the CEO, members of the Senior Management team and the employees in business units is directly linked to the Bank, business unit and individual's performance. The performance measures include both financial and qualitative targets aligned to short term and long-term business strategy of the bank and is set at both the bank and the individual level.

The variable pay pool is determined primarily based on a hybrid approach (i.e. both top down and bottom up approach). The total bonus pool is set at a maximum percentage of the risk-adjusted net profit for the financial year. This is supplemented by bottom up computation i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the Bank level. Additionally, the target setting process considers the variable pay pool as self-funding (i.e. targets are set net of variable pay pool for achieving that target).

An ex ante risk assessment framework has been introduced as part of the target setting process. The risk assessment framework considers all types of risks, including impact on capital adequacy, liquidity and qualitative risk elements such as reputation, compliance, quality of earnings, etc. with each element assigned appropriate weights as deemed necessary by the NRCGC.

In determining the variable pay pool at the performance period end, the NRCGC would consider post risk assessment outcomes and has a well-defined mechanism to re-adjust the target achieved and thereby the total variable pay pool. The design of the variable pay pool computation aligns the interest of the employees to that of the shareholders and it increases or decreases as per the target achieved (i.e. the variable pay pool will be nil or considerably less if the Bank makes a loss or achieves less than the expected target).

The NRCGC, in order to mitigate the risk involved in rewarding for potential revenues, considers the following in the variable pay distribution:

- Target setting process considers the realized versus unrealized profit mix;
- Deferral of variable pay over three (3) years;
- The bonuses for the CEO, his deputies and Material Risk Takers and Approved persons as per CBB, relating to business units and whose total remuneration exceeds the regulatory threshold of BD 100,000 per annum, have a deferral element and share linked payment, i.e., Phantom or shadow shares are being offered to such staff.

The deferral arrangements for CEO, his deputies and approved persons of business units and other material risk takers are as follows:

- 40% of the variable pay will be paid in cash at the end of the performance period; and
- the balance 60% will be deferred over a period of three (3) years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a three (3) year period and the phantom or shadow shares can be encashed after six (6) months from the vesting date.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention
Upfront cash	40%	Immediate	Not applicable
Deferred cash	10%	3 years	Up to each Vesting
Deferred share awards	50%	3 years	6 months from each Vesting

The variable pay is subject to claw back and the unvested portion of deferred pay is subject to malus as explained in 6.3 below.

6.2 Control and Support Units

The variable pay for Control and support functions are designed in such a way that it is independent of the performance of the business units. The unit targets as set out and agreed with the NRCGC in the beginning of each evaluation period will be the base, with their individual performance score for variable pay to be paid, except in the case of the Bank making a loss.

In years when the Bank achieves exceptional profits, at the discretion of NRCGC, the base multiples for Control and Support units may be increased as deemed fit by the NRCGC.

Bonuses will be deferred for employees of Control and support units, whose total remuneration exceeds the regulatory threshold currently set at BD 100,000 per annum, are subject to deferral, in the following manner:

- 50% of the variable pay will be paid in cash at the end of the performance period; and
- 10% will be paid in the form of phantom or shadow shares at the end of the performance period, which can be encashed by the employee after six (6) months.
- The balance 40% will be deferred over a period of three (3) years and paid in the form of phantom or shadow shares and vests equally over the three (3) year period.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention
Upfront cash	50%	Immediate	Not applicable
Upfront share awards	10%	Immediate	6 months from performance period.
Deferred share awards	40%	3 years	6 months from each Vesting

The variable pay is subject to claw back and the unvested portion of deferred pay is subject to malus as explained in 6.3 below.

6.3 Malus and Claw Back Framework

The Bank's claw back and malus clauses can be invoked by the NRC under certain pre-defined circumstances, wherein the Bank can claw back the vested as well as the unvested bonus paid or payable to an employee. The main pre-defined circumstances are:

- Where there is reasonable evidence of material error or culpability for a breach of Bank policy by the employee(s);
- The Bank or the business unit suffers material losses or significant loss of business which could be attributed to the actions of the employee(s);
- Where the employee(s) could be held responsible for material failure of risk management; and
- Where there is evidence of fraud or collusion amongst employees or by employee(s) with third parties and which is prosecutable in a court of law.

Based on ex-post risk assessment, if the Bank and/or a relevant line of business or an employee is found to have been paid a bonus for a result which was much higher than actually realized, the NRCGC may invoke the malus clause by which any unvested portion payable during that year will be reduced in proportion to the reduction in the actual results versus expected results.

6.4 Summary of Variable Pay

- The NRCGC has the overall responsibility for computation and approval of the variable pay across the Bank;
- Links reward to Bank, business unit and individual performance;
- Target setting process considers risk parameters which are both quantitative and qualitative;
- Aligned to time horizon of risk, the bonus has a deferral element and a share linkage to align the employees interest with that of the shareholders;
- Bonus can be reduced or nil if the Bank or business units do not achieve the risk adjusted targets or make losses; and
- Post risk assessment is carried out to ensure that, in case of material losses or realisation of less than expected income which can be attributed to employees actions, the claw back or malus as appropriate is invoked.

7. BOARD REMUNERATION

The Bank determines the Board of Directors' remuneration in line with the provisions of Article 188 of the Commercial Companies Law No. 21/2001 and its amendments. The Board of Directors' remuneration will be capped so that it does not exceed 10% of the Bank's net profit after all required deductions in any given financial year and is subject to the approval of the shareholders in the Annual General Assembly. The aforementioned remuneration does not include the sitting fees and allowances paid to the Directors for attending Board meetings.

Elements of Remuneration	2017 USD '000	2016 USD '000
Sitting fee, accommodation and travel allowance*	308	263
Remuneration (Provision subject to approval)	450	-
Total	758	263

DETAILS OF REMUNERATION PAID FOR THE FINANCIAL YEAR ENDED 31.12.2017

(USD in '000)

Categories	No.	Fixed Remuneration				Variable Remuneration								Sub-Total	Total
		Salaries and Wages	Other Benefits/ Allowance	Sub-Total	Provisional Performance Bonuses (in cash)[Refer Note 3]	Provisional Performance Bonuses (in shares)[Refer Note 3]	Vested and release of Deferred 2014 and 2015 (Cash and shares)	Deferred shares Compensation paid (Release 2nd Portion 2014)	Deferred shares Compensation paid (Release 1st Portion 2015)	Deferred cash compensation paid (Release 2nd Portion 2014)	Deferred cash compensation paid (Release 1st Portion 2015)				
Approved persons (Business Lines)	4	793	334	1,127	345	265	159	(56)	(74)	(13)	(36)	610	1,737		
Approved persons (Control & Support) in risk management, internal audit, operations, financial controls, AML and Compliance Functions	9	920	318	1,239	408	114	21	(11)	(11)	-	-	523	1,761		
Employees engaged in risk taking activities and not included above. (Business Lines)	6	454	151	605	141	-	-	-	-	-	-	141	745		
Employees, other Than approved persons, in Control & Support functions.	21	968	414	1,382	398	-	-	-	-	-	-	398	1,780		
Other employees	11	403	149	552	90	-	-	-	-	-	-	90	642		
TOTAL	51	3,538	1,366	4,905	1,382	379	180	(66)	(85)	(13)	(16)	1,751	6,666		

Details of Remuneration Paid :

Note 1: Provisional Bonus, which is subject to CBB and Shareholder approval.

Note 2: Provisional deferred remuneration for 2017, amounts to BD 143 thousand , fully unvested as of 31.12.2017 , which is for three approved persons.

ALUBAF Arab International Bank B.S.C. (c)

**REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

31 DECEMBER 2017

Board of Directors' Report

It is a great pleasure and privilege for me to address the Annual General meeting of the shareholders' of Alubaf Arab International Bank , Bahrain. On behalf of the Board of Directors', I am delighted to present Alubaf's Annual report and audited financial statements for the year ended 31 December 2017.

The year 2017 has been another challenging year for the Banking industry, due to global geopolitical risks and uncertainty, in particular, in the region we operate. Amid such challenging environment, Alubaf stood resilient and adapted to the dynamics and complexity of challenges that impact the Banking sector.

The Bank delivered improved financial performance for the year ended 31 December 2017 and resulted in a Net profit of US\$ 10.8 million, as compared to a net loss of US\$ 14.7 million last year 2016, which is an increase of 174%, year on year.

Net profit for the quarter ended 31 December 2017 was US\$ 4.7 million, as compared to US\$ 2.3 million for the same period, last year 2016.

This increase in profit for 2017, was achieved, mainly due to improved asset quality and reduction on high risk weighted exposures. With gradual reduction on stressed assets and improved asset quality parameters, the income streams stabilized from performing assets.

Interest income for 2017 was US\$ 40 million, almost in line with last year 2016, however, interest expenses increased by 19%, from US\$ 8.6 million to US\$ 10.2 million , due to hike in libor rates for the year 2017. This resulted in reduction of Net interest income to US\$ 29.3 million in 2017, compared to US\$ 31 million in 2016.

Non- interest income from fee, commission and other income, had decreased by 30% for the year ended 31 December 2017, as compared to last year ended 2016, mainly due to decline in fee and commission. This decline is attributed to strategic moves to exit from high risk weighted exposures and to reduce delinquencies from such exposures.

On the expenses front, the staff costs grew by 37% for 2017, as compared to 2016, in order to align rewards for performance in 2017. As for other operating expenses, the increase evidenced is 42% year on year, primarily expensed to strengthen control and processes that comply with regulatory requirements and obligations, thus, Cost to gross income ratio stood at 38% at yearend 31 December 2017.

The underlying main driver for profit for the year 2017 was significant reduction on impairment provision on loans, which reduced by 72%, as compared to last year 2016, which reflects the improved asset risk profile. Further, the Bank improved its provision (specific and general) coverage ratio to 102% in 2017 from 84% in 2016.

The Bank achieved a Return on average equity of 4% for the year ended 2017, from a negative return for last year 2016. The Bank's liquid assets to total assets stood at 66% and Capital adequacy ratio stood at 37% at 31 December 2017, signifying the Bank's strengthened capital and liquidity position.

In continuing with Alubaf's commitment to its valued shareholders, the Board of directors are pleased to propose a dividend of US\$ 1 per share, at 2% of paid up share capital, i.e., US\$5 million for the year 2017, after due appropriation of US\$ 1million from Net profit for the year 2017, towards transfer to Statutory reserve. This Proposed dividend for the year 2017, is subject to regulatory and shareholders' approval in Annual general meeting.

Looking ahead, despite the continued global geopolitical risks, the results for the year 2017 are encouraging that reinforces confidence in growth prospects, given our strong capital and persistent commitment to dynamically adapt to complex economic scenario and position better to sustain a consistent growth to our shareholders in the years ahead.

Finally, I would like to thank all the members of the Board, the Shareholders, the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain, Central Bank of Bahrain and all Correspondent Banks and our Customers for their continued support, cooperation and guidance.

I also extend my appreciation and thanks to all the employees for their professionalism and commitment for the Bank's continued growth and progress.



Moraja G. Solalman
Chairman



Ernst & Young
P.O. Box 140
10th Floor, East Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700 / 29977

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists the Board of Directors' report, set out on pages 1 to 2 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Financial Statements (continued)

Responsibilities of the Board of Directors for the Financial Statements (continued)

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)**

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and (Volume 1) of the Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Bank or on its financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.



Partner's registration number. 115
18 February 2018
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)

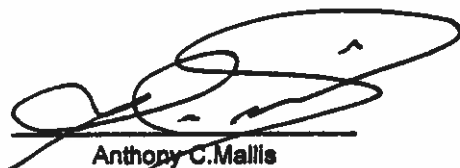
STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
ASSETS			
Cash and balances with central bank and other banks	4	298,349	289,802
Deposits with banks and other financial institutions	5	409,496	437,992
Investments held for trading	6	20,462	22,413
Non-trading investments	7	221,374	203,767
Loans and advances	8	150,256	208,041
Property, equipment and software	9	10,371	11,149
Interest receivable		6,744	6,134
Other assets		1,591	1,638
TOTAL ASSETS		1,118,643	1,180,936
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	10.1	569,557	586,824
Due to banks and other financial institutions	10.2	133,417	156,315
Due to customers	11	93,805	129,755
Interest payable		1,086	981
Other liabilities	12	6,927	4,784
Total liabilities		804,792	878,659
Equity			
Share capital	13	250,000	250,000
Statutory reserve	13	21,257	20,174
Retained earnings		40,399	35,652
Fair value reserve		(2,805)	(3,549)
Proposed dividend	14	5,000	-
Total equity		313,851	302,277
TOTAL LIABILITIES AND EQUITY		1,118,643	1,180,936



Hasan Khalifa Abulhasan
Chief Executive Officer



Anthony C. Mallis
Director



Moraja G. Solaiman
Chairman

ALUBAF Arab International Bank B.S.C. c)

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
Interest and similar income	15	39,541	39,605
Interest expense	16	(10,212)	(8,577)
Net interest and similar income		29,329	31,028
Fee and commission income	17	4,254	5,598
Trading gain/(loss)	18	18	(30)
Loss on non-trading investments - net		(153)	-
Foreign exchange gain - net		683	1,365
Dividend income		9	7
Other income		90	75
OPERATING INCOME		34,230	38,043
Provision for impairment of loans and advances	8	(10,537)	(37,467)
Settlement of legal claim	20	-	(5,737)
NET OPERATING INCOME (LOSS)		23,693	(5,161)
Staff costs		7,533	5,504
Depreciation		1,082	1,022
Other operating expenses		4,248	2,998
OPERATING EXPENSES		12,863	9,524
NET PROFIT (LOSS) FOR THE YEAR		10,830	(14,685)



Hasan Khalifa Abulhasan
Chief Executive Officer



Anthony C. Mallis
Director



Moraja G. Solaiman
Chairman

ALUBAF Arab International Bank B.S.C. c
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017	2016
	US\$ '000	US\$ '000
NET PROFIT (LOSS) FOR THE YEAR	10,830	(14,685)
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Unrealised fair value gain (loss) on available-for-sale investments - net	<u>744</u>	<u>(308)</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods and other comprehensive income (loss) for the year	744	(308)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>11,574</u>	<u>(14,993)</u>

ALUBAF Arab International Bank B.S.C. c)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 US\$ '000	2016 US\$ '000
OPERATING ACTIVITIES			
Net profit (loss) for the year		10,830	(14,685)
Adjustments for:			
Provision for impairment of loans and advances	8	10,537	37,467
Depreciation	9	1,082	1,022
Changes in fair value of investments held for trading	18	26	68
Amortisation of non-trading investments		515	545
Amortisation of assets reclassified as "loans and advances" from trading investments		(779)	(715)
Operating profit before changes in operating assets and liabilities		22,211	23,702
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		46,702	120,849
Loans and advances		48,027	115,383
Investments held for trading		1,925	(1,004)
Interest receivable		(610)	447
Other assets		47	310
Deposits from banks and other financial institutions		(17,267)	(283,577)
Due to banks and other financial institutions		(22,898)	(46,044)
Due to customers		(35,950)	98,183
Interest payable		105	(321)
Other liabilities		2,143	(2,819)
Net cash flows from operating activities		44,435	25,109
INVESTING ACTIVITIES			
Purchase of non-trading investments		(25,378)	(199,741)
Proceeds from disposal of non-trading investments		8,000	139,410
Purchase of property, equipment and software	9	(304)	(278)
Net cash flows used in investing activities		(17,682)	(60,609)
FINANCING ACTIVITY			
Dividends paid	14	-	(12,500)
Net cash flows used in financing activities		-	(12,500)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS			
		26,753	(48,000)
Cash and cash equivalents at 1 January		651,092	699,092
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	677,845	651,092

The attached notes 1 to 26 form part of these financial statements.

ALUBAF Arab International Bank B.S.C. (c)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	Share capital US\$ '000	Statutory reserve US\$ '000	Retained earnings US\$ '000	Fair value reserve US\$'000	Proposed dividend US\$'000	Total US\$ '000
Balance as of 1 January 2017		250,000	20,174	35,652	(3,549)	-	302,277
Net profit for the year		-	-	10,830	-	-	10,830
Other comprehensive income		-	-	-	744	-	744
Total comprehensive income for the year		-	-	10,830	744	-	11,574
Dividends proposed for 2017	14	-	-	(5,000)	-	5,000	-
Transfer to Statutory reserve		-	1,083	(1,083)	-	-	-
Balance as of 31 December 2017		250,000	21,257	40,399	(2,805)	5,000	313,851
Balance as of 1 January 2016		250,000	20,174	62,837	(3,241)	-	329,770
Net loss for the year		-	-	(14,685)	-	-	(14,685)
Other comprehensive income		-	-	-	(308)	-	(308)
Total comprehensive income for the year		-	-	(14,685)	(308)	-	(14,993)
Dividends paid for 2015	14	-	-	(12,500)	-	-	(12,500)
Balance as of 31 December 2016		250,000	20,174	35,652	(3,549)	-	302,277

The attached notes 1 to 26 form part of these financial statements.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

1 ACTIVITIES

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer to note 13 for more details).

The financial statements of the Bank for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 18 February 2018.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in conformity with the Bahrain Commercial Companies Law ("BCCL") the Central Bank of Bahrain ("CBB") and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant CBB directives.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, trading investments and available-for-sale (AFS) financial assets that have been remeasured at fair value.

Functional and presentation currency

The financial statements are presented in United States Dollars (US\$), being the Bank's functional currency. All values are rounded to the nearest thousand (US\$ '000), except when otherwise indicated.

2.2 Significant accounting policies

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities

Financial assets of the Bank comprise cash and balances with banks, deposits with banks and other financial institutions, investments held for trading, non-trading investments, loans and advances, interest receivable and other assets. Financial liabilities of the Bank comprise deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities.

The specific accounting policies relating to various financial assets and liabilities are set out below:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

1) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale financial assets, or as derivative instruments, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- At fair value through profit or loss
- Loans and receivables
- Held-to-maturity
- Available-for-sale

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. These are subsequently measured at fair value with any realised and unrealised gains and losses arising from changes in fair values being included in the statement of profit or loss in the period in which they arise. Interest earned and dividends received in respect of financial assets at fair value through profit or loss are included in 'interest and similar income' and 'dividend income' respectively.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in 'interest and similar income' in the statement of profit or loss. The losses arising from impairment of loans and receivables are recognised in the statement of profit or loss.

c) Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity financial assets are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as 'interest and similar income' in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

i) Financial assets (continued)

d) Available-for-sale

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the fair value reserve to the statement of profit or loss.

The Bank evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

1) Financial assets (continued)

Impairment of financial assets

The Bank assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment loss exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The impairment assessment of different categories of financial assets are discussed below:

a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Financial assets carried at amortised cost, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in the statement of profit or loss.

b) Available-for-sale

For available-for-sale financial assets, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

i) Financial assets (continued)

Impairment of financial assets (continued)

b) Available-for-sale (continued)

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

ii) Financial liabilities

All financial liabilities are recognised initially at fair value.

Subsequent measurement

After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

The Bank makes use of derivative instruments, such as forward foreign exchange contracts.

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks, treasury bills and deposits with banks and other financial institutions with original maturities of 90 days or less.

Property, equipment and software

Property, equipment and software are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Expenditure incurred to replace a component of an item of property, equipment and software that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. When significant parts of property, equipment and software are required to be replaced at intervals, the Bank depreciates them separately based on their specific useful lives. Land and capital work in progress are not depreciated. Repairs and maintenance costs are recognised in the statement of profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

<i>Assets</i>	<i>Estimated useful life in years</i>
Building	15
Furniture, equipment and vehicles	3 to 5
Software	3 to 5

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, equipment and software are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with the difference being recognised as an impairment in the statement of profit or loss.

Renegotiated loans

In the ordinary course of its business, the Bank seeks to restructure loans. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees.

Financial guarantees are initially recognised in the financial statements at fair value, being the commission received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the un-amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised in the statement of profit or loss.

Employees' end of service benefits

The Bank provides end of service benefits to its non - Bahraini employees. The entitlement to these benefits is based upon the employee's final salary and length of service. The expected costs of these benefits are accrued over the period of employment. The Bank also makes contributions to the Social Insurance Organisation (SIO) Scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Contingent liabilities

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Share capital, statutory reserve and dividend

Share capital

Ordinary shares issued by the Bank are classified as equity. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Statutory reserve

The Bahrain Commercial Companies Law requires that 10% of the annual profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50% of the paid up share capital.

Dividend

The Bank recognises a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Bank. As per the Bahrain Commercial Companies Law, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Fair value measurement

The Bank measures financial instruments, such as investments and derivatives at fair value at the date of statement of financial position. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are disclosed in note 22.5.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Fair value measurement (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The recognition of interest income is suspended when the loans become impaired, such as when overdue by more than 90 days.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Revenue recognition (continued)

Fee and commission income

Fee and commission income are recognised when earned.

Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established, which is generally when shareholders approve the dividend.

Share based payments

Cash-settled share based payments

The cost of cash-settled share based payment transactions is measured initially at fair value at the grant date using an appropriate valuation model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in the statement of income.

Foreign currencies

The Bank's financial statements are presented in United States Dollars (US\$), which is the Bank's functional currency.

Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI) or profit or loss are recognised in OCI or profit or loss, respectively).

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2017

The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2017. The adoption of these standards and interpretations did not have any effect on the Bank's financial position, financial performance or disclosures.

IAS 7 *Statement of Cash Flows (Amendments): The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; and*

IAS 12 *Income Taxes (Amendments): The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value.*

Annual Improvements 2014-2016 Cycle

IFRS 12 *Disclosure of Interests in Other Entities: Clarification of the scope of the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale.*

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. This listing is of standards and interpretations issued, which the Bank reasonably expect to be applicable at a future date. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

Introduction

In July 2014, the IASB issued IFRS 9 Financial Instruments (IFRS 9), the standard that will replace IAS 39 Financial instruments: recognition and measurement for annual periods on or after 1 January 2018, with early adoption permitted. The Bank set up a multidisciplinary working team ('the Working Team') with members from its Risk, Finance and Credit Unit teams to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Head of Risk and Financial Control, who regularly report to the Bank's Board Risk Committee and is managed within the Bank's transformation framework. The Project has clear individual work streams. The Bank is currently in final testing stage of IFRS 9 implementation project with initial assessment, design and build stage already completed.

Based on 31 December 2017 data and the current implementation status of IFRS 9 as described in further detail below, the Bank estimates the adoption of IFRS 9 to lead to an overall reduction in the Bank's total shareholders' equity of approximately US\$ 10.3 million. This reduction is predominately driven by the impairment requirements of IFRS 9.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or FVOCI instruments as FVTPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of profit or loss.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements will be presented in OCI with no subsequent reclassification to the statement of profit or loss, unless an accounting mismatch in profit or loss would arise.

Having completed its assessment, the Bank has concluded that:

- The majority of placement with banks and other financial institutions, loans and advances to customers and securities bought under repurchase agreements that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9;
- Financial assets and liabilities held for trading and financial assets designated at FVTPL are expected to continue to be measured at FVTPL;
- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at FVOCI. Some securities, however, will be classified as FVTPL, either because of their contractual cash flow characteristics or the business model within which they are held; and
- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments(continued)

Hedge accounting

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained. There is an option in IFRS 9 for an accounting policy choice to continue with the IAS 39 hedge accounting framework; the Bank currently anticipates not applying this option. The Bank is not expecting significant changes due to new hedge requirements.

Impairment of financial assets

Overview

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt type financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Bank will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective interest rate of the loan.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The Bank groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognised, the Bank recognises an allowance based on 12-month ECL.
- Stage 2 – Underperforming loans: when a loan shows a significant increase in credit risk, the Bank records an allowance for the lifetime ECL.
- Stage 3 – Impaired loans: the Bank recognises the lifetime ECL for these loans.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the ECL will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments(continued)

Impairment of financial assets (continued)

Overview (continued)

For 'low risk' FVOCI debt securities and loans and advances, the Bank intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 below. Such instruments will generally include investment grade securities / loans where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank will not consider instruments / loans to have low credit risk simply because of the value of collateral.

Stage 1

Under IAS 39 the Bank has been recording collective provision based on regulatory guidelines. These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under IFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to IAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under IAS 39.

The Bank considers whether there has been a significant increase in credit risk of an asset by comparing the probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, or if the Bank expects to grant the borrower forbearance or facility has been restructured owing to credit related reasons, or the facility is placed on the Bank's watch list. Further, any facility having an internal credit risk rating of 8 will also be subject to stage 2 ECL calculation.

It is the Bank's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

When estimating lifetime ECLs for undrawn loan commitments, the Bank will:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment; and
- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down.

For financial guarantee contracts, the Bank will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For revolving facilities such as overdrafts, the Bank measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments(continued)

Impairment of financial assets (continued)

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology. Accordingly, the Bank expects the population to be generally the same under both standards.

Loans in Stage 3, where the Bank calculated the IAS 39 impairment on an individual basis will continue to be calculated on the same basis.

Other than originated credit-impaired loans, loans will be transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of 12 months.

Forward looking information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs.

The Bank considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices, fiscal deficit, government spending, unemployment, and interest rates) and economic forecasts. To evaluate a range of possible outcomes, the Bank intends to formulate three scenarios: a base case, a unlikely and a likely case. The base case scenario represents the more likely outcome resulting from the Bank's normal financial planning and budgeting process, while the likely and unlikely case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance.

The Bank will use internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although the Bank will use data that is as current as possible, models used to calculate ECLs will be based on data that is one month in arrears and adjustments will be made for significant events occurring prior to the reporting date to. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided in next quarter financial statements.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2017

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 15 *IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Bank has currently assessed that there is no material impact of IFRS 15 on the Bank as all its income is derived either from interest which is calculated by using effective interest rate system or from fee and commission income from letter of credit contracts which are short term in nature and mature within 90 to 180 days;*

IFRS 2 *Share-based Payment Transactions: Classification and Measurement of Share-based Payment (Amendments) (effective for annual periods beginning on or after 1 January 2018). Early application is permitted;*

IFRS 16 *Leases - Revised guidance on single model accounting for leases (effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied; and*

IFRIC 22 *Foreign Currency: Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).*

Annual Improvements 2014-2016 Cycle

IFRS 1 *First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters (effective from 1 January 2018); and*

IAS 28 *Investments in Associates and Joint Ventures. Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (the amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted).*

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Going concern

The Bank's Board of Directors has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Impairment and uncollectability of financial assets

Financial assets not carried at fair value are reviewed at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of profit or loss. For assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as "fair value through profit or loss", "available-for-sale" or "held to maturity". The classification of each investment reflects management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2017 US\$ '000	2016 US\$ '000
Treasury bills - balances with Central Bank	248,492	234,444
Money at call and short notice	49,852	55,349
Cash	5	9
Cash and balances with central bank and other banks	298,349	289,802
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 5)	379,496	361,290
Cash and cash equivalents	677,845	651,092

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

5 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits with banks and other financial institutions represent interest bearing money market deposits held with banks and other financial institutions as at the statement of financial position date as follows:

	2017 US\$ '000	2016 US\$ '000
Deposits with original maturities of 90 days or less (note 4)	379,498	361,290
Deposits with original maturities of over 90 days	30,000	76,702
	<u>409,498</u>	<u>437,992</u>

6 INVESTMENTS HELD FOR TRADING

	2017 US\$ '000	2016 US\$ '000
<i>Quoted:</i>		
- Debt securities	20,335	22,203
- Equity securities	127	210
	<u>20,462</u>	<u>22,413</u>

7 NON-TRADING INVESTMENTS

	2017 US\$ '000	2016 US\$ '000
Held-to-maturity:		
Debt securities:		
- Sovereign	42,420	45,677
- Banks and corporates	62,644	62,902
Wakala units	-	3,000
Total held-to-maturity	<u>105,064</u>	<u>111,579</u>
Available-for-sale:		
Debt securities:		
- Sovereign	95,501	82,061
- Banks and corporates	20,809	10,127
Total available-for-sale	<u>116,310</u>	<u>92,188</u>
Total non-trading investments	<u>221,374</u>	<u>203,767</u>

8 LOANS AND ADVANCES

Loans and advances are stated net of provision for impairment. The table below discloses the gross loans and provisions for impairment excluding interest in suspense amounting to US\$ 14,190 thousand as of 31 December 2017 (2016: US\$ 7,721 thousand).

	2017 US\$ 000	2016 US\$ 000
Sovereign loans	84,693	91,427
Commercial loans	69,652	50,575
Letters of credit - financing	57,168	117,411
Factoring	19,370	18,080
	<u>230,883</u>	<u>277,493</u>
Provision for impairment	(80,627)	(69,452)
	<u>150,256</u>	<u>208,041</u>

ALUBAF Arab International Bank B.S.C. c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

8 LOANS AND ADVANCES (continued)

Movements in provision for impairment were as follows:

	2017		
	Specific provision US\$ '000	Collective provision US\$ '000	Total US\$ '000
At 1 January	65,952	3,500	69,452
Provided during the year	10,239	2,500	12,739
Write back during the year	(2,202)	-	(2,202)
Recoveries during the year	-	-	-
Net charge for the year	8,037	2,500	10,537
Transfer to specific provision	2,263	(2,263)	-
Write off during the year	(92)	-	(92)
Exchange difference	730	-	730
At 31 December	76,890	3,737	80,627
	2016		
	Specific provision US\$ '000	Collective provision US\$ '000	Total US\$ '000
At 1 January	28,443	3,765	32,208
Provided during the year	37,467	-	37,467
Recoveries during the year	-	-	-
Net charge for the year	37,467	-	37,467
Transfer to specific provision	265	(265)	-
Write off during the year	-	-	-
Exchange difference	(223)	-	(223)
At 31 December	65,952	3,500	69,452

The total value of collateral held by the Bank against its loans and advances exposure amounts to US\$ 4,977 thousand as at 31 December 2017 (31 December 2016: US\$ 25,927 thousand) out of which US\$ 3,177 thousand is held as cash collateral (2016: US\$ 23,427 thousand).

Impaired loans during the year

	2017 US\$ '000	2016 US\$ '000
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	78,	82,388

Facilities renegotiated during the year

	2017 US\$ '000	2016 US\$ '000
Sovereign and commercial loans (gross)	-	46,651

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

8 LOANS AND ADVANCES (continued)

Reclassification of financial assets

In October 2008, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" titled "Reclassification of Financial Assets". The amendments to IAS 39 permit reclassification of financial assets from the "trading investment" category to "loans and advances" category in certain circumstances.

The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the IAS 39 amendments. The amendments are effective retrospectively from 1 July 2008.

In accordance with the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets" the Bank reclassified investments in Iraq Notes with a carrying value of US \$ 40.2 million, effective 1 July 2008 from 'trading investment' to 'loans and advances' pursuant to the amendment to IAS 39 and IFRS 7 issued by IASB in October 2008 and considering the global financial crisis as a rare circumstance in the financial sector.

The carrying values and fair values of the assets reclassified are as follows:

	2017 US\$ '000	2016 US\$ '000
Carrying value	45,394	44,615
Fair value	53,143	45,642

Additional fair value gain that would have been recognised in the statement of profit or loss for the year ended 31 December 2017 had the trading investment not been reclassified amounts to US\$ 7,749 thousand (2016: gain of US\$ 1,027 thousand).

The Bank earns an effective interest rate of 8.89% (2016: 8.89%) and expects to recover US \$ 45,394 thousand (2016: US \$ 44,615 thousand) on this reclassified financial asset.

9 PROPERTY, EQUIPMENT AND SOFTWARE

	Land US\$ '000	Building US\$ '000	Furniture, equipment and motor vehicles US\$ '000	Software US\$ '000	Capital work in progress US\$ '000	Total US\$ '000
Cost:						
At 1 January 2017	4,233	7,652	3,691	1,069	30	16,675
Additions/transfers during the year	-	-	171	145	(12)	304
Disposal during the year	-	-	-	-	-	-
At 31 December 2017	4,233	7,652	3,862	1,214	18	16,979
Depreciation:						
At 1 January 2017	-	2,014	2,691	821	-	5,526
Charge for the year	-	514	492	76	-	1,082
Relating to disposal	-	-	-	-	-	-
At 31 December 2017	-	2,528	3,183	897	-	6,608
Net book value:						
At 31 December 2017	4,233	5,124	679	317	18	10,371
At 31 December 2016	4,233	5,638	1,000	248	30	11,149

The land relates to the building on which the Banks' premises is constructed.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2017

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

10.1 Deposits from banks and other financial institutions

Deposits from banks and other financial institutions represent interest bearing money market deposits held with the Bank as at the statement of financial position date.

10.2 Due to banks and other financial institutions

Due to banks and other financial institutions comprise the following current account balances and cash collateral held with the Bank in relation to the letters of credit and letters of guarantee issued as at the statement of financial position date:

	2017	2016
	US\$ '000	US\$ '000
Current account balances	58,645	72,940
Cash collateral held	74,772	83,375
	<u><u>1</u></u>	

11 DUE TO CUSTOMERS

Due to customers represent current account balances and cash collateral of corporate customers held with the Bank in relation to the letters of credit and letters of guarantee as at the statement of financial position date.

	2017	2016
	US\$ '000	US\$ '000
Current account balances	73,668	76,974
Cash collateral held	20,137	52,781
	<u><u>93,805</u></u>	<u><u>129,755</u></u>

12 OTHER LIABILITIES

	2017	2016
	US\$ '000	US\$ '000
Accrued expenses	5,509	1,950
Due to former directors and employees	316	1,394
Agency fee payable	647	539
Unearned fee income	50	378
Others	405	523
	<u><u>6,927</u></u>	<u><u>4,784</u></u>

Accrued expenses include US\$ 239 thousand (2016: US\$ 388 thousand) of liability relating to cash settled share based payments.

The Bank has established an Employee Phantom Share Scheme (EPSS) in compliance with the sound remuneration rules issued by the Central Bank of Bahrain. Under the scheme, certain eligible employees of the Bank become entitled to share based compensation. Under the EPSS, each eligible employee is issued with a phantom share award which entitles the holder to receive one phantom share at the delivery date. The share awards will vest over 3 years with one third award vesting at the end of the subsequent 3 years. The eligible employee has to retain the shares for a period of 6 months post the award date prior to encashing the vested awards. Phantom units are ultimately cash settled based on the audited net book value of the Bank at the vesting dates.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2017

12 OTHER LIABILITIES (continued)

The cost of the phantom units are initially measured at net-book-value per share of the Bank at the grant date and expensed in the statement of income with a corresponding liability being recognised. The liability is remeasured to its net-book-value per share of the Bank at each reporting date up to the date of settlement with changes in fair value recognised in the statement of profit or loss.

13 SHARE CAPITAL

	2017 US\$ '000	2016 US\$ '000
Authorised:		
10,000,000 (2016: 10,000,000) ordinary shares of US\$ 50 each	<u>500,000</u>	<u>500,000</u>
	2017 US\$ '000	2016 US\$ '000
Issued and fully paid up :		
5,000,000 (2016: 5,000,000) ordinary shares of US\$ 50 each	<u>250,000</u>	<u>250,000</u>

Shareholders

	2017		2016	
	Percentage holding (%)	US\$ '000	Percentage holding (%)	US\$ '000
Libyan Foreign Bank	99.50	248,750	99.50	248,750
National Bank of Yemen	0.28	689	0.28	689
Yemen Bank for Reconstruction and Development	0.22	561	0.22	561
	<u>100.00</u>	<u>250,000</u>	<u>100.00</u>	<u>250,000</u>

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, a statutory reserve has been created by transfer of 10% of its annual profit. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL and following approval of the Central Bank of Bahrain.

14 PROPOSED DIVIDEND

During the year, the dividend for the year ended 31 December 2017 amounting to US\$ 5 million (US\$ 1 per share) is proposed subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting (no dividend was proposed for the year ended 31 December 2016).

15 INTEREST AND SIMILAR INCOME

	2017 US\$ '000	2016 US\$ '000
Loans and advances	15,872	21,796
Non-trading investments	11,163	8,517
Deposits with banks, other financial institutions and balance with central bank	11,455	8,218
Investments held for trading	1,051	1,074
	<u>39,541</u>	<u>39,605</u>

ALUBAF Arab International Bank B.S.C. (c)**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2017

16 INTEREST EXPENSE

	2017 US\$ '000	2016 US\$ '000
Deposits from and due to banks and other financial institutions	10,051	8,497
Due to customers	161	80
	<u>10,212</u>	<u>8,577</u>

17 FEE AND COMMISSION INCOME

	2017 US\$ '000	2016 US\$ '000
Commission income on letters of credit	2,736	4,310
Loan and agency fees	1,383	989
Commission income on letters of guarantee	136	299
	<u>4,254</u>	<u>5,598</u>

18 TRADING INCOME

	2017 US\$ '000	2016 US\$ '000
Changes in fair value of investments held for trading	(26)	(68)
Trading gains (losses) - net	44	38
	<u>18</u>	<u>(30)</u>

19 OTHER OPERATING EXPENSES

	2017 US\$ '000	2016 US\$ '000
Administration and marketing expenses	1,500	1,540
Professional services	1,686	1,247
Fees and other charges	215	159
Board of Directors' remuneration and expenses (note 24)	847	52
	<u>4,248</u>	<u>2,998</u>

20 LEGAL CONTINGENCY

During 2016, the Bank was defendant in legal proceedings where the counterparty was pursuing a claim based on a document, which management believed, did not commit the Bank. On 30 June 2016, a judgement was issued by the relevant Court that required the Bank to pay compensation of US\$ 5,737 thousand to the claimant. In August 2016, the Bank paid the compensation into a separate escrow account to be paid to the claimant, which has been expensed in the statement of profit or loss for the year ended 31 December 2016. The matter was fully settled in October 2017.

21 COMMITMENTS AND CONTINGENT LIABILITIES

	2017 US\$ '000	2016 US\$ '000
Credit related contingencies		
Letters of credit	29,462	57,947
Letters of guarantee	81	13,199
Undrawn loan commitments	-	10,605
	<u>2</u>	<u>8</u>
Other		
Forward foreign exchange contracts (note 23)	11,749	1,875
	<u>41,272</u>	<u>83,626</u>

22 RISK MANAGEMENT**22.1 Introduction**

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The main risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

a) Risk management structure**Board of Directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee (ARCC) of the Board is responsible for assessing the quality and integrity of financial reporting, effectiveness of systems monitoring financial and disclosure compliance with legal and regulatory requirements, supervision of compliance function and soundness of internal controls. The ARCC also obtains regular updates from management and the Bank's compliance officer regarding compliance matters, which may have a material impact on the Bank's financial statements and reviews the findings of any examinations by regulatory agencies.

Management Risk Committee

The Management Risk Committee has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Asset Liability Management Committee

The Asset Liability Management Committee's (ALCO) objective is to prudently direct and manage asset and liability allocation to achieve the Bank's strategic goals. The ALCO monitors the Bank's liquidity risks by ensuring that the Bank's activities are in line with the risk/reward guidelines approved by the Board.

Internal Audit

Internal control processes throughout the Bank are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the ARCC. Internal audit staff examine both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the ARCC.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.1 Introduction (continued)

b) Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. The Bank also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Credit concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to manage credit concentration risk, the Bank's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

22.2 Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, and procedures. The Bank manages its credit risk by monitoring concentration of exposures by geographic location and adhering to approved limits. The Bank limits its risk on off balance sheet items with adequate collateral.

a. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements. The net exposure represents gross exposure net of cash collateral against letters of credit.

	<i>Gross maximum exposure 2017 US\$ '000</i>	<i>Net maximum exposure 2017 US\$ '000</i>	<i>Gross maximum exposure 2016 US\$ '000</i>	<i>Net maximum exposure 2016 US\$ '000</i>
Balances with banks	298,344	298,344	289,793	289,793
Deposits with banks and other financial institutions	409,496	409,496	437,992	437,992
Investments held for trading	20,335	20,335	22,203	22,203
Non-trading investments	221,374	221,374	203,767	203,767
Loans and advances	150,256	147,079	208,041	184,614
Interest receivable	6,744	6,744	6,134	6,134
Other assets	1,243	1,243	1,281	1,281
Total funded credit risk exposure	1,107,792	1,104,615	1,169,211	1,145,784
Unfunded exposure on credit related contingencies	29,523	7,529	81,751	59,874
Total funded and unfunded credit risk exposures	1,137,315	1,112,144	1,250,962	1,205,658

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include cash collateral, residential and commercial real estate and securities.

b. Credit quality per class of financial assets

The table below presents an analysis of the financial assets exposed to credit risk and external rating designation at 31 December 2017 and 31 December 2016. The credit quality is graded based on external credit rating agencies - Standard & Poor, Fitch and Moody's and internal ratings are categorised as follows:

- (i) High standard - Where external credit rating agency ratings are A and above
- (ii) Standard - Where external credit rating agency ratings are below A and unrated.
- (iii) Watch list - Where the facility is not past due but recoverability is being monitored.
- (iv) Past due and impaired - Where interest or principal sum of loan is due for more than 90 days.

	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Provision for loan losses</i>	<i>Total</i>
	<i>High standard grade</i>	<i>Standard grade</i>				
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
A 31 December 2017						
Balances with banks	8,450	289,894	-	-	-	298,344
Deposits with banks and other financial institutions	63,000	346,496	-	-	-	409,496
Investments held for trading	3,068	17,267	-	-	-	20,335
Non-trading investments	8,495	212,679	-	-	-	221,374
Loans and advances	-	148,398	-	78,748	(76,890)	150,256
Interest receivable	117	6,627	-	-	-	6,744
Other assets	-	1,243	-	-	-	1,243
Funded exposures	83,130	1,022,804	-	78,748	(76,890)	1,107,792
Credit related contingencies	-	29,523	-	-	-	29,523
Gross unfunded exposures	-	29,523	-	-	-	29,523
Net funded and unfunded exposures	83,130	1,052,327	-	78,748	(76,890)	1,137,315

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

b. Credit quality per class of financial assets (continued)

	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Provision for loan losses</i>	<i>Total</i>
	<i>High standard grade</i>	<i>Standard grade</i>				
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>At 31 December 2016</i>						
Balances with banks	25,023	264,770	-	-	-	289,793
Deposits with banks and other financial institutions	50,000	387,992	-	-	-	437,992
Investments held for trading	5,341	16,862	-	-	-	22,203
Non-trading investments	18,534	185,233	-	-	-	203,767
Loans and advances	-	191,697	3,408	82,388	(69,452)	208,041
Interest receivable	212	5,922	-	-	-	6,134
Other assets	-	1,281	-	-	-	1,281
Funded exposure	99,110	1,053,757	3,408	82,388	(69,452)	1,169,211
Credit related contingencies	608	81,145	-	-	-	81,751
Gross unfunded exposures	608	81,145	-	-	-	81,751
Net funded and unfunded exposures	99,716	1,134,902	3,408	82,388	(69,452)	1,250,962

Aging analysis of past due but not impaired financial assets

	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 90 days</i>	<i>Total</i>
	<i>2017</i>	<i>2017</i>	<i>2017</i>	<i>2017</i>	<i>2017</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Loans and advances	-	-	-	-	-
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>More than 90 days</i>	<i>Total</i>
	<i>2016</i>	<i>2016</i>	<i>2016</i>	<i>2016</i>	<i>2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Loans and advances	383	-	-	3,045	3,408

ALUBAF Arab International Bank B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)
22.2 Credit risk (continued)
c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures (net of provision for impairment) is presented below:

At 31 December 2017

	Bahrain US\$ '000	Other GCC countries US\$ '000	Other Middle- East and African countries US\$ '000	Europe US\$ '000	Rest of the world US\$ '000	Total US\$ '000
Balances with banks	252,385	1,754	2,004	42,154	47	298,344
Deposits with banks and other financial institutions	232,975	71,000	-	85,521	20,000	409,496
Investments held for trading	13,263	4,072	-	3,000	-	20,335
Non-trading investments	91,901	51,274	20,498	47,796	9,905	221,374
Loans and advances	-	3,129	102,958	44,169	-	150,256
Interest receivable	2,414	499	2,082	1,568	181	6,744
Other assets	930	-	193	120	-	1,243
Gross funded exposures	593,868	131,728	127,735	224,328	30,133	1,107,792
Credit related contingencies	-	11	29,512	-	-	29,523
Gross unfunded exposures	-	11	29,512	-	-	29,523
Gross funded and unfunded exposures	593,868	131,739	157,247	224,328	30,133	1,137,315

At 31 December 2016

	Bahrain US\$ '000	Other GCC countries US\$ '000	Other Middle- East and African countries US\$ '000	Europe US\$ '000	Rest of the world US\$ '000	Total US\$ '000
Balances with banks	238,832	18,287	2,204	30,377	93	289,793
Deposits with banks and other financial institutions	172,771	103,000	-	142,221	20,000	437,992
Investments held for trading	13,462	5,741	-	3,000	-	22,203
Non-trading investments	90,350	51,408	10,045	41,985	9,979	203,767
Loans and advances	-	3,352	138,788	59,087	6,814	208,041
Interest receivable	2,333	456	1,982	1,024	339	6,134
Other assets	1,131	-	64	86	-	1,281
Gross funded exposures	518,879	182,244	153,083	277,780	37,225	1,169,211
Credit related contingencies	-	13,749	61,506	4,204	2,292	81,751
Gross unfunded exposures	-	13,749	61,506	4,204	2,292	81,751
Gross funded and unfunded exposures	518,879	195,993	214,589	281,984	39,517	1,250,962

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk (continued)

Sectoral classification of gross credit exposures is presented below:

	Sovereign US\$ '000	Banks and financial institutions US\$ '000	Commercial, business and others US\$ '000	Total US\$ '000
At 31 December 2017				
Balances with banks	248,492	49,852	-	298,344
Deposits with banks and other financial institutions	-	409,496	-	409,496
Investments held for trading	13,262	6,371	702	20,335
Non-trading investments	137,921	42,524	40,929	221,374
Loans and advances	84,692	16,410	49,154	150,256
Interest receivable	4,375	1,026	1,343	6,744
Other assets	-	-	1,243	1,243
Gross funded exposures	488,742	525,679	93,371	1,107,792
Credit related contingencies	3,911	25,601	11	29,523
Gross unfunded exposures	3,911	25,601	11	29,523
Gross funded and unfunded exposures	492,653	551,280	93,382	1,137,315
At 31 December 2016				
Balances with banks	234,444	55,349	-	289,793
Deposits with banks and other financial institutions	-	437,982	-	437,982
Investments held for trading	13,463	8,341	399	22,203
Non-trading investments	127,736	35,945	40,084	203,767
Loans and advances	108,911	41,128	58,002	208,041
Interest receivable	4,152	1,181	801	6,134
Other assets	-	168	1,115	1,281
Gross funded exposures	488,708	580,102	100,401	1,169,211
Credit related contingencies	6,502	47,304	27,945	81,751
Gross unfunded exposures	6,502	47,304	27,945	81,751
Gross of funded and unfunded exposures	495,210	627,406	128,346	1,250,962

22.3 Market risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates.

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS
As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.3 Market risk (continued)

22.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through a number of means. The Bank's interest rate sensitivity position as of 31 December, is as follows:

Sensitivity analysis - Interest rate risk

	<i>Impact on statement of profit or loss</i>	
	<u>2017</u>	<u>2016</u>
	<i>US\$ '000</i>	<i>US\$ '000</i>
<i>25 bps increase/decrease</i>		
US Dollar	± 228	± 1,307
Euro	± 1	± 37
AED	± 76	-

22.3.2 Currency risk

Currency risk arise from the movement of the rate of exchange over a period of time. The Bank's currency risk is limited to assets and liabilities denominated in GBP and Euro. The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, on the Bank's statement of profit or loss:

	<i>Change in rate</i>	<i>Effect on statement of profit or loss for the year</i>	
		<u>2017</u>	<u>2016</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
Euro	± 5%	± 39	± 216
GBP	± 5%	± 367	± 3

As other currency exposures are insignificant and GCC currencies to which the Bank is exposed are pegged to the US Dollar, their balances are not considered to represent significant currency risk.

22.3.3 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. The effect on profit and equity, as a result of a change in fair value of trading equity instruments, due to a reasonably possible change in equity prices, with all other variables held constant, is as follows:

	<i>Change in equity prices</i>	<i>Effect on net income and equity for the year</i>	
		<u>2017</u>	<u>2016</u>
		<i>US\$ '000</i>	<i>US\$ '000</i>
Investments held for trading	± 10%	13	21

22.4 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. This incorporates an assessment of expected cash flow and the availability of high grade collateral which would be used to secure additional funding if required.

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2017 given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period at the date of the statement of financial position.

At 31 December 2017	Up to 1 year				Total US\$ '000	More than 1 year US\$ '000	No specific maturity US\$ '000	Total US\$ '000
	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 12 months US\$ '000	US\$ '000				
ASSETS								
Cash, balances with banks and Central Bank	136,575	149,283	12,491	298,349	-	-	298,349	
Deposits with banks and other financial institutions	354,496	55,000	-	409,496	-	-	409,496	
Investments held for trading	20,462	-	-	20,462	-	-	20,462	
Non-trading investments	-	-	1,000	1,000	220,374	-	221,374	
Loans and advances	5,518	31,725	15,013	52,256	98,000	-	150,256	
Property, equipment and software	-	-	-	-	-	10,371	10,371	
Interest receivable	4,067	1,863	774	6,744	-	-	6,744	
Other assets	69	654	63	786	805	-	1,591	
Total assets	521,207	238,545	29,341	789,093	319,179	10,371	1,118,643	
LIABILITIES								
Deposits from banks and other financial institutions	185,094	180,463	4,000	369,557	200,000	-	569,557	
Due to banks and other financial institutions	133,417	-	-	133,417	-	-	133,417	
Due to customers	73,805	20,000	-	93,805	-	-	93,805	
Interest payable	55	240	791	1,086	-	-	1,086	
Other liabilities	803	4,969	-	5,772	1,155	-	6,927	
Total liabilities	393,174	205,672	4,791	603,637	201,155	-	804,792	
Net liquidity gap	128,033	32,873	24,550	185,456	118,024	10,371	313,851	
Cumulative liquidity gap	128,033	160,906	185,456	-	303,480	313,851	-	

ALUBAF Arab International Bank B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2016

	Up to 1 year					Total US\$ '000
	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 12 months US\$ '000	More than 1 year US\$ '000	No specific maturity US\$ '000	
ASSETS						
Cash, balances with banks and Central Bank	171,615	100,614	17,573	-	-	289,802
Deposits with banks and other financial institutions	341,035	74,957	22,000	-	-	437,992
Investments held for trading	22,413	-	-	-	-	22,413
Non-trading investments	-	-	5,016	198,751	-	203,767
Loans and advances	33,973	28,222	45,188	100,658	-	208,041
Property, equipment and software	-	-	-	-	11,149	11,149
Interest receivable	3,733	1,387	1,014	-	-	6,134
Other assets	51	504	24	1,059	-	1,638
Total assets	572,820	205,684	90,815	300,468	11,149	1,180,936
LIABILITIES						
Deposits from banks and other financial institutions	255,528	98,598	232,698	-	-	586,824
Due to banks and other financial institutions	100,732	27,791	27,792	-	-	156,315
Due to customers	105,932	23,823	-	-	-	129,755
Interest payable	181	110	690	-	-	981
Other liabilities	1,709	1,999	-	1,076	-	4,784
Total liabilities	464,082	152,321	261,180	1,076	-	878,659
Net liquidity gap	108,738	53,363	(170,365)	299,392	11,149	302,277
Cumulative liquidity gap	108,738	162,101	(8,264)	291,128	302,277	-

ALUBAF Arab International Bank B.S.C. (c)
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at 31 December 2017 based on contractual undiscounted repayment amounts is as follows:

At 31 December 2017	Up to 1 year				Total US\$ '000	More than 1 year US\$ '000	No specific maturity US\$ '000	Total US\$ '000
	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 12 months US\$ '000					
Liabilities								
Deposits from banks and financial institutions	185,239	180,887	4,028	370,154	206,860	-	577,014	
Due to banks and other financial institutions	133,421	-	-	133,421	-	-	133,421	
Due to customers	73,807	20,002	-	93,809	-	-	93,809	
Interest payable	55	240	791	1,086	-	-	1,086	
Other liabilities	803	4,969	-	5,772	1,155	-	6,927	
Total undiscounted liabilities	393,325	206,098	4,819	604,242	208,015	-	812,257	
Derivatives:								
Forward foreign exchange contracts (note 23)	11,749	-	-	11,749	-	-	11,749	
Commitments and contingent liabilities								
Letters of credit	2,611	21,926	4,925	29,462	-	-	29,462	
Letters of guarantee	-	-	61	61	-	-	61	
Undrawn loan commitments	-	-	-	-	-	-	-	
	2,611	21,926	4,986	29,523	-	-	29,523	

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2016

Liabilities	Up to 1 year					Total US\$ '000	More than 1 year US\$ '000	No specific maturity US\$ '000	Total US\$ '000
	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 12 months US\$ '000	Total US\$ '000					
Deposits from banks and financial institutions	255,628	98,714	233,518	587,860		-	-	587,860	
Due to banks and other financial institutions	100,738	27,796	27,807	156,341		-	-	156,341	
Due to customers	105,938	23,827	-	129,765		-	-	129,765	
Interest payable	181	110	690	981		-	-	981	
Other liabilities	1,709	1,999	-	3,708		1,076	-	4,784	
Total undiscounted liabilities	464,194	152,446	262,015	878,655		1,076	-	879,731	
Derivatives:									
Forward foreign exchange contracts (note 23)	1,875	-	-	1,875		-	-	1,875	
Commitments and contingent liabilities									
Letters of credit	3,414	32,265	22,268	57,947		-	-	57,947	
Letters of guarantee	28	6,162	7,009	13,199		-	-	13,199	
Undrawn loan commitments	-	4,103	4,816	8,919		1,686	-	10,605	
	3,442	42,530	34,093	80,065		1,686	-	81,751	

ALUBAF Arab International Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.5 Fair value of financial instruments

Fair value hierarchy - financial instruments measured at fair value

The following table provides the fair value measurement hierarchy of the Bank's financial instruments measured at fair value:

At 31 December 2017

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	20,462	-	20,462
Available-for-sale investments	116,310	-	116,310
Derivative financial instruments	-	(42)	(42)
	<u>136,772</u>	<u>(42)</u>	<u>136,730</u>

At 31 December 2016

	Level 1 US\$ '000	Level 2 US\$ '000	Total US\$ '000
Investments held for trading	22,413	-	22,413
Available-for-sale investments	92,188	-	92,188
Derivative financial instruments	-	16	16
	<u>114,601</u>	<u>16</u>	<u>114,617</u>

The Bank had no investments measured at fair value qualifying for level 3 of fair value hierarchy as at 31 December 2017 and as at 31 December 2016.

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2017, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurement (2016: nil).

Fair value hierarchy - financial instruments not measured at fair value

The following table provides the fair value measurement hierarchy of the Bank's financial instruments not measured at fair value:

At 31 December 2017

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair value US\$ '000	Carrying value US\$ '000
Held-to-maturity investments	106,859	-	-	106,859	105,064
Loans and advances	53,143	-	-	53,143	45,394
	<u>160,002</u>	<u>-</u>	<u>-</u>	<u>160,002</u>	<u>150,458</u>

At 31 December 2016

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total fair value US\$ '000	Carrying value US\$ '000
Held-to-maturity investments	108,478	-	3,000	111,478	111,579
Loans and advances	45,642	-	-	45,642	44,615
	<u>154,120</u>	<u>-</u>	<u>3,000</u>	<u>157,120</u>	<u>156,194</u>

- Except for Level 3 classified held-to-maturity investments, fair values of held-to-maturity investments and loans are determined based on quoted prices in active markets.

ALUBAF Arab International Bank B.S.C. c

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

22 RISK MANAGEMENT (continued)

22.5 Fair value of financial instruments (continued)

Balances with banks, deposits with banks and other financial institutions, loans and advances (other than those disclosed in the table above), interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 December 2017 and 31 December 2016.

23 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include forward exchange contracts which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favourable or unfavourable.

The table below shows the net fair values of derivative financial instruments together with the notional amount. These contracts are settled on a net basis. Depending on currency movements, the contracts may result in either a net asset or a net liability. The following table shows the material outstanding contracts as at 31 December:

	2017		2016	
	<i>Notional amount</i> <i>US\$ '000</i>	<i>Gain / (loss)</i> <i>US\$ '000</i>	<i>Notional amount</i> <i>US\$ '000</i>	<i>Gain / (loss)</i> <i>US\$ '000</i>
Forward foreign exchange contracts	11,749	(42)	1,875	16

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

24 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

Transactions with related parties included in the statement of profit or loss and statement of financial position are as follows. The related party balances included in the consolidated financial statements are as follows:

	31 December 2017			31 December 2016			
	Shareholders US\$ '000	management/ personnel/ Board members US\$ '000	Other related parties US\$ '000	Total Shareholders US\$ '000	management/ personnel/ Board members US\$ '000	Other related parties US\$ '000	Total US\$ '000
Statement of profit or loss							
Interest income	-	-	74	74	-	127	127
Interest expense	9,249	-	306	9,635	-	181	7,692
Fee and commission income	948	-	20	968	-	9	334
Statement of financial position							
Assets							
Cash and balances with banks	116	-	28,021	28,137	417	12,904	13,321
Deposit with banks and financial institutions	-	-	-	-	-	21,230	21,230
Loans and advances	-	-	4,799	4,799	-	110	-
Interest receivable	-	-	40	40	-	1	1
Other assets	-	58	-	58	25	-	235
Liabilities							
Deposits from banks and other financial institutions	402,821	-	27,367	430,187	397,230	39,801	437,131
Due to banks and other financial institutions	3,686	-	7,088	10,783	2,089	7,229	9,318
Interest payable	956	-	15	971	897	16	913
Other liabilities	71	398	-	469	61	-	375
Assets under management (note 25)	23,061	-	-	23,061	20,104	-	20,104
Contingent liabilities							
Letters of credit and letters of guarantee (fully secured by deposits)	46	-	5,975	6,021	1,148	-	1,148
Forward foreign exchange contracts	-	-	5,445	5,445	-	-	-

ALUBAF Arab International Bank B.S.C. c
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

24 TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation paid to the Board of Directors and key management personnel:

	2017	2016
	US\$ 000	US\$ 000
Short term benefits	4,041	2,204
End of term benefits	251	158
Total compensation	4,292	2,362

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US\$ 680 thousand (2016: US\$ 144 thousand) and reimbursement of travel, accommodation and other expenses amounting to US\$ 128 thousand (2016: US\$ 127 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

Short term benefits also include compensation paid to key management personnel as salary, allowances and provision for bonus accrual.

25 ASSETS UNDER MANAGEMENT

The Bank provides trade finance services to certain customers, which involve the Bank acting as the custodian of the assets in a fiduciary capacity. Assets that are held in financing capacity are not included in these financial statements. At 31 December 2017, the Bank had fiduciary assets under management of US\$ 35,059 thousand (2016: US\$ 30,564 thousand).

26 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines, under Basel III, approved by the Central Bank of Bahrain is as follows:

	2017	2016
	US\$ 000	US\$ 000
Capital base:		
Tier 1 capital	313,123	301,849
Tier 2 capital	3,737	3,500
Total capital base (a)	316,860	305,349
Risk weighted assets (b)	853,781	768,464
Capital adequacy (a/b * 100)	37.11%	39.84%
Minimum requirement	12.50%	12.00%

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BASEL III PILLAR III DISCLOSURES

31 DECEMBER 2017

ALUBAF Arab International Bank B.S.C (c)
Basel III -Pillar III disclosures
As at 31 December 2017

Table of Contents

1	Introduction	3
2	Corporate Structure	3
3	Capital Structure	4
4	Capital Adequacy Ratio (CAR)	4
5	Profile of risk weighted assets and capital charge	5
5.1	Credit risk	5-6
5.2	Market risk	6
5.3	Operational risk	7
6	Risk Management	7
6.1	Credit risk concentration and thresholds	7-8
6.2	Geographical distribution of exposures	8-9
6.3	Industrial sector analysis of exposures	10
6.4	Exposure by external credit rating	11
6.5	Maturity analysis of funded exposures	11
6.6	Maturity analysis of unfunded exposures	12
6.7	Impairment of assets	12
6.8	Market risk	12-13
6.9	Operational risk	13
6.10	Capital management	14
7	Other disclosures	14
7.1	Related party transactions	14
7.2	Impaired loans and provisions	15
7.3	Restructured facilities	16
7.4	Assets sold under recourse agreements	16
7.5	Equity position	16

1. Introduction

Central Bank of Bahrain("CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain, provides a common framework for the implementation of Basel III accord.

The Basel II framework is based on three pillars:

- Pillar I defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by own regulatory funds.
- Pillar II addresses the Bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- Pillar III complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

This document gathers together all the elements of the disclosure required under Pillar III and complies with the public disclosure module of CBB, in order to enhance corporate governance and financial transparency. This disclosure report is in addition to the financial statements presented in accordance with International Financial Reporting Standards (IFRS).

2. Corporate Structure

ALUBAF Arab International Bank B.S.C. (c) ("the Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain under the new integrated licensing framework. The Bank's registered office is at Alubaf Tower , Al Seef District, P O Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank (Shareholding 99.50%), a bank registered in Libya.

3. Capital Structure

The Bank's Capital base comprise of Tier I capital, which includes share capital, statutory reserve and retained earnings and Tier II capital, which includes collective impairment loss provision.

The Bank's issued and paid up capital was US\$ 250 million as at 31 December 2017, comprising of 5 million equity shares of US\$ 50 each.

Break down of Capital Base	US\$ '000s	
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	21,257	-
Retained earnings*	45,399	-
Unrealized loss on Available for sale financial instruments	(2,805)	-
Less: Regulatory adjustment for Intangibles	(728)	-
Collective impairment loss provision	-	3,737
Total	313,851	3,737
Total Available Capital		316,860

ALUBAF recorded a net profit of US\$ 10,830 thousand for the year ended 31 December 2017 and transferred 10% of net profit (US\$ 1,083 thousand) to Statutory reserve.

The Bank proposed a dividend of US\$ 5,000 thousand, i.e., US\$ 1 per Ordinary share for the year 2017.

4. Capital Adequacy Ratio (CAR)

The purpose of capital management at the Bank is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns and expectations.

The Bank manages its capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of its activities.

Capital adequacy ratio calculation:

The Bank's capital adequacy ratio of 37.11% is well above the minimum regulatory requirement of 12.5%.

	US\$ '000
Total Eligible Capital Base	316,860
Risk weighted assets (RWA)	
Credit risk	754,306
Market risk	150
Operational risk	99,325
	853,781
CET I ratio	36.67%
Capital adequacy ratio	37.11%

5. Profile of risk-weighted assets and capital charge

The Bank has adopted the standardized approach for credit risk, market risk and the Basic indicator approach for operational risk for regulatory reporting purposes. The Bank's risk weighted capital requirement for credit, market and operational risks are given below:

5.1 Credit risk

Definition of exposure classes per Standard Portfolio

The Bank has funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel II capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

(a) Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain are risk weighted at 0%, while claims on other sovereigns, denominated in a non-relevant currency and unrated are assigned a risk weight of 100%.

(b) Claims on banks

Claims on Banks are risk weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks and claims maturing within three months and denominated in Bahrain Dinars or US Dollars are risk weighted at 20%. Other claims on banks, which are in foreign currency, are risk weighted using standard risk weights ranging from 20% to 100%. Unrated claims on banks are assigned a risk weight of 20% & 50% respectively.

(c) Claims on corporate portfolio

Claims on corporate portfolio are risk weighted based on external credit ratings and are assigned a risk weight of 100% for unrated corporate portfolio.

(d) Past due exposure

Past due exposures include Loans and advances of which interest or repayment of principal are due for more than 90 days; Past due exposures, net of specific provisions are risk weighted as follows:

- (a) 150% risk weight, when specific provisions are less than 20% of the outstanding amount.
- (b) 100% risk weight, when specific provisions are greater than 20% of the outstanding amount of the loan.

(e) Equity portfolios

Investments in listed equities are risk weighted at 100%.

(f) Any exposure exceeding 15% of Total capital

Claims on Banks or Corporate and other sovereigns or equity exposure that exceed 15% of total capital are risk weighted at 800%.

(g) Other exposures

These are risk weighted at 100%.

5. Profile of risk-weighted assets and capital charge (continued)

5.1 Credit risk (continued)

Credit exposure and risk weighted assets *US\$ '000*

	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	488,742	3,911	492,653	3,178	104,895	13,112
Claims on banks	529,415	25,601	555,016	5,356	542,988	67,874
Claims on corporate	90,272	11	90,283	2	92,476	11,560
Past due exposures	1,858	-	1,858	-	1,858	232
Equity portfolio	127	-	127	-	127	16
Other exposures	11,962	-	11,962	-	11,962	1,495
Total	1,122,376	29,523	1,151,899	8,536	754,306	94,289

Gross credit exposure before credit risk mitigation

US\$ '000

	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	488,742	510,751
Claims from Banks	529,415	561,997
Claims on Corporate	90,272	90,267
Past due exposures	1,858	11,933
Equity Portfolio	127	387
Other exposures	11,962	13,678
Total funded exposure	1,122,376	1,189,014
Unfunded exposures	29,523	63,115
Gross credit exposures	1,151,899	1,252,129

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2017..

5.2 Market risk

The Bank's capital requirement for market risk in accordance with the standardised methodology is as follows:

US\$ '000

	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign exchange risk	150	19	1,188	75

5. Profile of risk-weighted assets and capital charge (continued)

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US\$ 12,416 thousand on operational risk weighted exposure of US\$ 99,325 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous of three years' annual gross income, is multiplied by 12.5 operational capital charge; years with positive gross income are counted for computation of capital charge. This computation is as per CBB rulebook.

6. Risk Management

Risk is inherent in the Bank's business activities and is managed through a process of on going identification, measurement, controlling and monitoring. The Bank is exposed to credit risk , market and operational risk. Risk strategies of the Bank to mitigate the various risks were effective throughout the year.

Following is the Risk and Capital Management Structure:

Board of Directors

Board Audit, Risk & Compliance Committee
Management Risk Committee
Asset Liability Management Committee

The Board of Directors is responsible for the best practice management and risk oversight. Board of Directors defines the risk appetite and risk tolerance standards and oversees that risk process standards are in place. At the second level, Executive management is responsible for the identification and evaluation on a continuous basis of all significant risks to the business and implementation of appropriate internal controls to minimize them. Senior management is responsible for monitoring credit lending portfolio, country limits and interbank limits and general credit policy matters, which are reviewed and approved by the Board of Directors.

Independent internal audit of risk management process is conducted and its findings are to the Audit , Risk and Compliance Committee, which is appointed by the Board of Directors.

6.1 Credit risk concentrations and thresholds

The first level of protection against undue credit risk is through country and industry threshold limits, together with individual borrower threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty or group of connected counterparties exceeding 15% of the regulatory capital base.

6. Risk Management (continued)

6.1 Credit risk concentrations and thresholds (continued)

As at 31 December 2017, the Bank's exposure in excess of 15% of the obligor limits to individual counterparties is shown below:

US \$ '000	Funded exposure	Unfunded exposure	Total
Counterparty A *	304,338	Nil	304,338

* Comprise of exempted Sovereign exposure to Bahrain and includes CBB Treasury Bills.

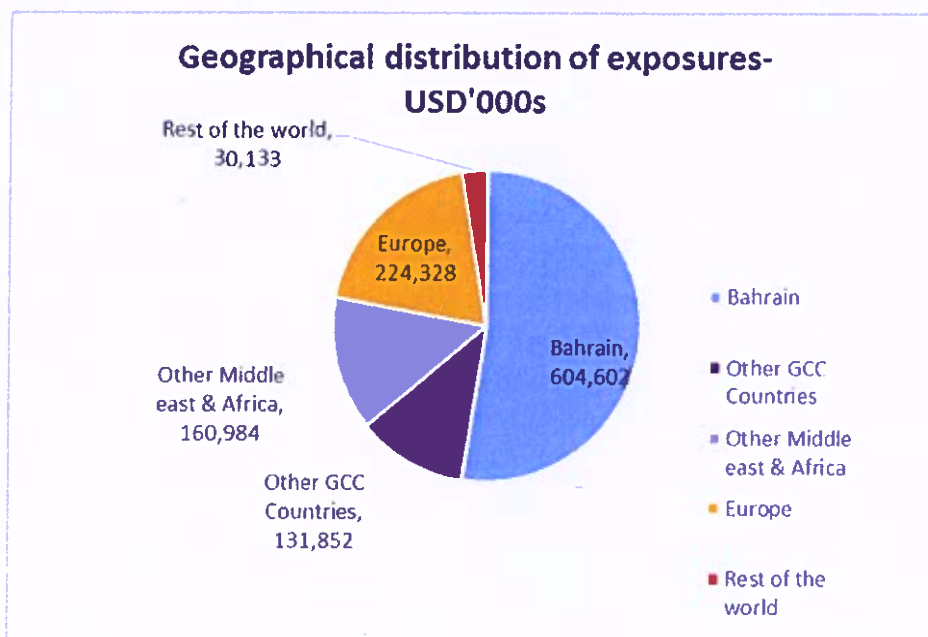
Risk mitigation –collateral

The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. However, the impact on cash collateral will be nil with credit downgrade.

Majority of the collateral taken by the Bank is in cash; therefore, concentration risk is not significant. For further details on refer note 22.1 of the annual audited financial statements for the year ended 31 December 2017.

6.2 Geographical distribution of exposures based on residence is summarized below:

	US\$'000		
	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	604,602	604,602	-
Other GCC Countries	131,852	131,841	11
Other Middle east & Africa	160,984	131,472	29,512
Europe	224,328	224,328	-
Rest of the world	30,133	30,133	-
Total	1,151,899	1,122,376	29,523



6.2 Geographical distribution of exposures

The geographical distribution of gross credit exposures by major type of credit exposures can be analyzed as follows:

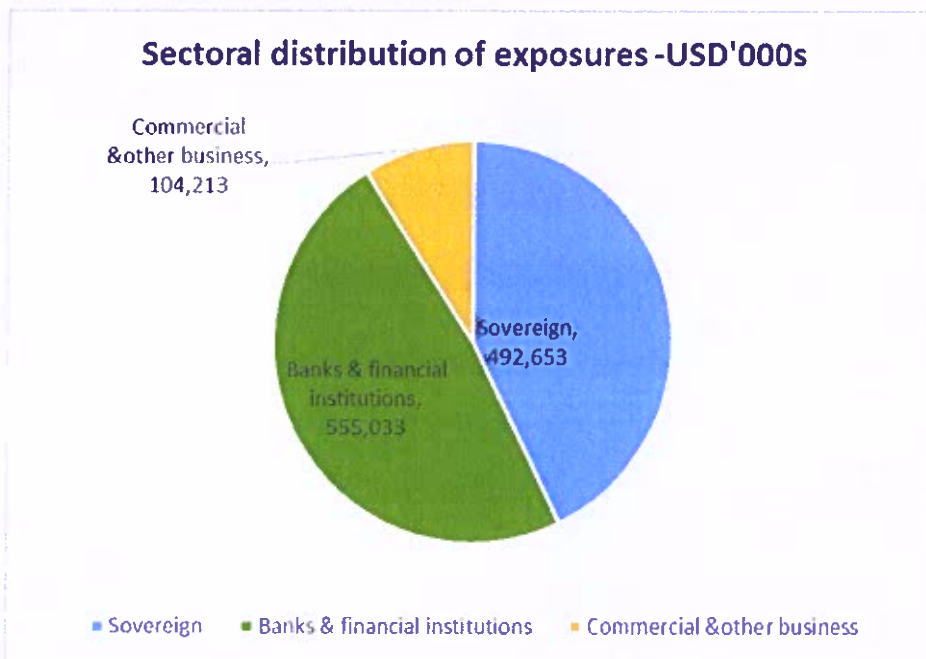
US\$ '000

	Bahrain	Other GCC Countries	Other Middle East and Africa	Europe	Rest Of the world	Total
Claims from Sovereigns	346,112	35,443	107,187	-	-	488,742
Claims from Banks	241,778	81,275	22,234	158,910	25,218	529,415
Claims on Corporate	5,048	15,011	-	65,298	4,915	90,272
Past due exposures	-	-	1,858	-	-	1,858
Equity Portfolio	15	112	-	-	-	127
Other exposures	11,649	-	193	120	-	11,962
Total funded exposure	604,602	131,841	131,472	224,328	30,133	1,122,376
Unfunded exposures	-	11	29,512	-	-	29,523
Gross credit exposures	604,602	131,852	160,984	224,328	30,133	1,151,899

6. Risk Management (continued)

6.3 Industry sector analysis of exposures is summarized below:

	US\$ '000		
	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	492,653	488,742	3,911
Banks & financial institutions	555,033	529,432	25,601
Commercial & other business	104,213	104,202	11
Total	1,151,899	1,122,376	29,523



The industry sector analysis of gross credit exposures by major types of credit exposures can be analyzed as follows:

	USD '000s			
	Banks & financial institutions	Sovereign	Commercial & other businesses	Total
Claims from Sovereigns	-	488,742	-	488,742
Claims from Banks	529,415	-	-	529,415
Claims on Corporate	-	-	90,272	90,272
Past due exposures	2	-	1,856	1,858
Equity Portfolio	15	-	112	127
Other exposures	-	-	11,962	11,962
Total funded exposure	529,432	488,742	104,202	1,122,376
Unfunded exposures	25,601	3,911	11	29,523
Gross credit exposures	555,033	492,653	104,213	1,151,899

1.Risk Management (continued)

6.4 Exposure by external credit rating

The Bank uses external credit ratings from Standard & Poors, Moodys and Fitch, which are accredited External Credit Assessment Institutions (ECAI). The Bank assigns risk weights through the mapping process provided by CBB to the rating grades. The Bank uses the highest risk weight associated, in case of two or more eligible ECAI are chosen. The breakdown of the Bank's exposure into rated and unrated categories is as follows:

	US\$ '000				
	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	488,742	3,911	2,514	419,615	70,524
Claims on banks	529,415	25,601	74,545	352,992	127,479
Claims on corporate	90,272	11	6,070	35,961	48,252
Past due exposures	1,858	-	-	-	1,858
Equity portfolio	127	-	63	15	49
Other exposures	11,962	-	-	-	11,962
Total	1,122,376	29,523	83,192	808,583	260,124

6.5 Maturity analysis of funded exposures

Residual contractual maturities of the Bank's funded exposures are as follows:

	US\$ '000							
	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 years	Over 10 Years	Undated	Total
Claims on Sovereigns	103,051	167,815	13,748	284,614	158,734	45,394	-	488,742
Claims on Banks	412,340	57,915	11,894	482,149	42,237	5,029	-	529,415
Claims on Corporate	5,618	12,161	3,636	21,415	53,532	15,325	-	90,272
Past due exposures	-	-	-	-	1,858	-	-	1,858
Equity Portfolio	127	-	-	127	-	-	-	127
Other exposures	69	654	63	786	805	-	10,371	11,962
Total	521,205	238,545	29,341	789,091	257,166	65,748	10,371	1,122,376

6. Risk Management (continued)

6.5 Maturity analysis of unfunded exposures

US\$ '000

	<i>Notional principal</i>	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>Total within 1 year</i>	<i>Over one year</i>	<i>Total</i>
Claims on Sovereigns	3,911	-	3,911	-	3,911	-	3,911
Claims from Banks	25,601	2,611	18,015	4,975	25,601	-	25,601
Claims from Corporate	11	-	-	11	11	-	11
Total	29,523	2,611	21,926	4,986	29,523	-	29,523

Credit-related contingent items:

Credit related contingent items comprise letters of credit confirmations, acceptance and guarantees. For credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF applied is at 20% to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

6.7 Impairment of assets

The Bank makes an assessment at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognized in the statement of comprehensive income.

Evidence of impairment may include indications that a borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial re-organisation and where, observable data indicates, that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

The Bank provides sufficiently by specific provision for any impairment and additionally, makes a collective provision of the net loans portfolio higher than 1% as required by the regulator.

Refer Disclosures made under 8 for details of impaired loans and relative specific provision made during 2017.

6.8 Market Risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates. Given the Bank's low risk strategy, aggregate market risk levels are considered very low.

6. Risk Management (continued)

Interest rate risk on the Banking book arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates. The Bank's interest rate sensitivity position as of 31 December 2017 for a change in 200 basis points will result in an increase or decrease on statement of income by +/- US\$ 1,825 thousand for US\$ denominated and US\$ 12 on Euro denominated financial instruments.

Currency risk arises from the movement of the rate of exchange over a period of time. The Banks currency risk is limited to Euro denominated assets and liabilities, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Bank limits this risk by monitoring positions on a regular basis. Thus, the Banks' exposure to currency risk is minimal and insignificant.

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. During 2017, the Bank depended mainly on its own capital and assets were managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and deposits with banks.

6.9 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely, however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Bank intends to make operational risk transparent throughout the enterprise, to which end processes are being developed to provide for regular reporting of relevant operational risk management information to senior management and the Board of Directors.

Operational functions of booking, recording and monitoring of transactions are performed by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Compliance and Financial Control – is further responsible for employing the aforementioned framework processes and control programmes to manage its operational risk within the guidelines established by the Bank policy, and to develop internal procedures that comply with these policies.

6. Risk Management (continued)

6.10 Capital management:

Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's capital management aims to maintain an optimum level of capital to enable it to pursue the Bank's corporate strategies whilst meeting regulatory ratio requirements.

Comprehensive assessment of economic capital, i.e., credit, market and operational risks and processes relating to other risks such as liquidity, is made, reviewed and monitored regularly. The Bank's capital adequacy ratio of 37.11% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process (SREP):

Central Bank of Bahrain (CBB) is the regulator for the Bank and sets the minimum capital requirement. CBB requires the Bank to maintain a 12.5% minimum ratio of total capital to risk weighted assets, taking into account both on balance sheet and off balance sheet exposures. The Bank maintains a strong and healthy capital adequacy ratio.

7 Other Disclosures

7.1 Related Party transactions

Related party represents major shareholders, directors, key management personnel and entities significantly influenced by such parties. Pricing policies are at arm's length and approved by executive management and Board of Directors.

31 December 2017
US\$ '000

Exposures to related parties:	33,034
Liabilities to related parties:	
Connected deposits	442,410

For further detail refer note 24 of the annual audited financial statements for the year ended 31 December 2017.

7 Other Disclosures (continued)

7.2 Impaired loans and related provision:

31 December 2017

US\$ '000

Gross impaired loans	78,748
Less: Specific provision	(76,890)
Net impaired loans	1,858

Movement in impairment provision:

US\$ '000	Specific Provision	Collective Provision	Total
Opening balance -1 January 2017	65,952	3,500	69,452
Charge /movement during the year-net	12,502	237	12,739
Write back during the year	(2,202)	-	(2,202)
Write off during the year	(92)	-	(92)
Exchange difference	730	-	730
Closing balance -31 December 2017	76,890	3,737	80,627

The impaired loans and provisions against these loans (both collective and specific) relate to commercial and business loans in Middle East & North Africa region.

Ageing analysis of past due and impaired loans by sector and geographical area:

US\$'000s	Middle East & North Africa	Total
	More than 180 days	
Claims on corporate	36,981	36,981
Claims on Banks	41,767	41,767
Total	78,748	78,748
Less: Specific Provision	(76,890)	(76,890)
Net Impaired loans	1,858	1,858

7 Other Disclosures (continued)

7.3 Restructured facilities:

	31 December 2017
	US\$ '000
Balance of any restructured credit facilities as at year end	44,041
Loans restructured during the year	-
Impact of restructured credit facilities on present and future earning	-
Interest concession, reduced installment amount and long tenure concession was made on restructured loan.	

7.4 Assets sold under recourse agreements: The Bank did not enter into any recourse agreements during the year ended 31 December 2017.

7.5 Equity positions in the banking book :

	31 December 2017
	US\$ '000
Equity	127

The Bank's exposure to equity price risk is not significant. Please refer note 22.3.3 of the annual audited financial statements for the year ended 31 December 2017.