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

Annual report 2016

CONTENTS

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

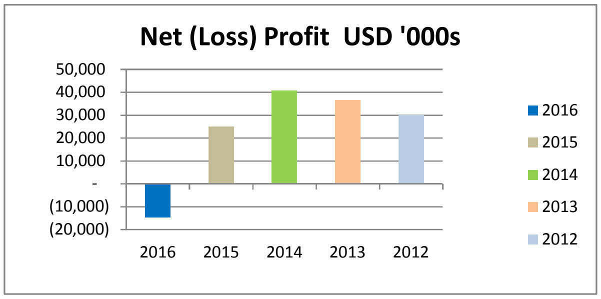
ALUBAF Arab International Bank visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients.

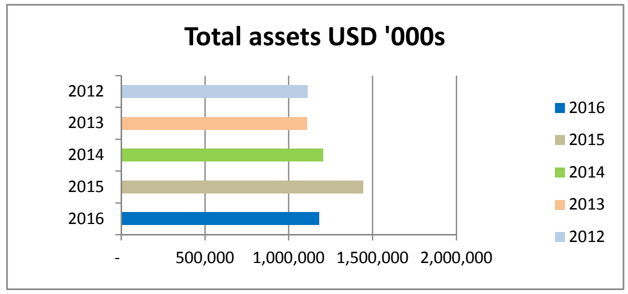
MISSION

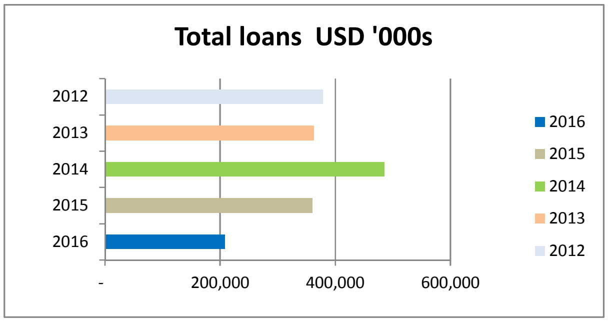
To augment shareholder value by maximizing profitability with prudent financial management and to entrench a disciplined risk and cost management culture.

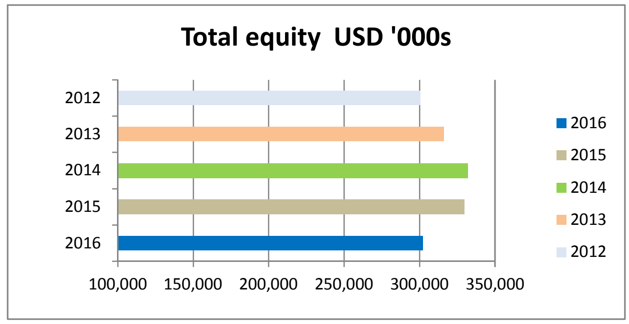
FINANCIAL HIGHLIGHTS

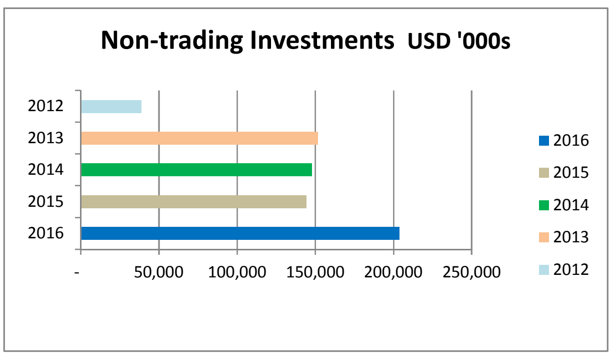
	2016	***2015***	***2014***	***2013***	***2012***
	USD '000s	***USD '000s***	***USD '000s***	***USD '000s***	***USD '000s***
Financial Position					
Net (Loss) Profit before appropriation	(14,685)	25,072	40,700	36,640	30,017
Total Assets	1,180,936	1,443,007	1,204,957	1,107,762	1,112,099
Total Non-Trading Investments	203,767	144,289	147,994	137,282	38,890
Total Loans	208,041	360,176	485,255	362,998	378,684
Total Liablities	878,659	1,113,237	873,045	791,661	811,500
Total Equity	302,277	329,770	331,912	316,101	300,599
Ratios %					
Profitability					
ROAA -Return on Average Assets %	-1%	2%	4%	3%	3%
ROAE-Return on Average Equity %	-5%	8%	13%	12%	11%
Cost to Gross Income	25%	21%	22%	21%	18%
Capital					
Capital Adequacy Ratio	40.00%	44%	42%	44%	50%
Equity Assets Ratio	26%	23%	28%	29%	27%
Asset Quality					
Loans to Total Assets	18%	25%	40%	33%	34%
Non trading investment/ Total assets	17%	10%	12%	12%	3%
NPA/Gross loans	30%	19.0%	1.5%	1.1%	0.6%
Liquidity					
Liquid assets to Total Assets	64%	64%	46%	54%	60%
Liquid assets to Liabilities	86%	83%	64%	75%	83%


Net (Loss) Profit USD '000s
50,000
40,000
30,000
20,000
10,000
-
(10,000)
(20,000)
2016
2015
2014
2013
2012
2016
2015
2014
2013
2012


Total assets USD '000s
2012
2013
2014
2015
2016
-
500,000
1,000,000
1,500,000
2,000,000
2016
2015
2014
2013
2012


Total loans USD '000s
2012
2013
2014
2015
2016
-
200,000
400,000
600,000
2016
2015
2014
2013
2012


Total equity USD '000s
2012
2013
2014
2015
2016
100,000
150,000
200,000
250,000
300,000
350,000
2016
2015
2014
2013
2012


Non-trading Investments USD '000s
2012
2013
2014
2015
2016
-
50,000
100,000
150,000
200,000
250,000
2016
2015
2014
2013
2012

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 21 years of experience in banking industry. Currently, a Board member of Bahrain Islamic Bank. Current CEO of ADCorp, the first Islamic financial institution at the Abu Dhabi Global Market(ADGM).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 21 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.

- **Mr. Fathi Ahmed Yahia**
  Director (until 21st August 2016)

Retired as Deputy Manager of Participations, Libyan Foreign Bank, Libya, with over three decades of extensive experience in Banking.
Formerly, a Board member of Alubaf International Bank, Tunis.

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.

- **Mr. Ali Abdullah**

Head of Treasury & Investments

A graduate of the Gulf Executive Development Program (Darden Business School – University of Virginia) with over 20 years experience in banking and financial markets. Prior to joining ALUBAF, he held various senior positions with both regional and global banks in the GCC, with a focus on Treasury & Capital Markets, Investment Banking and Business Development.

- **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 21 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 sixteen 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 26 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 eleven years of experience in Banking operations, Treasury and customer relationship management.

- **Mr. Saeed Al Banna**

Head of Human Resources and Administration
Served in various capacities in banking industry and has over 26 years of strong experience with specialization in compensation & benefits.

- **Mr. Mohammed A.Hameed Sharif**

Head of Risk Management & Compliance
Masters in Business Administration from University of Glamorgan Business School, UK, Bachelor in Accounting and Diploma in Compliance from International Compliance Association accredited by University of Manchester Business School, UK. He has about 17 years of extensive experience in banking and financial sector in Bahrain. Prior to joining ALUBAF in 2009, he has served in Central Bank of Bahrain in Operations & Banking Supervision. He specializes in Risk management, regulatory compliance and Anti money laundering.

- **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 11 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.

Corporate Governance Disclosures

As of 31 December 2016

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1. CORPORATE GOVERNANCE PHILOSOPHY

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

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

2. SHARE CAPITAL AND SHAREHOLDING STRUCTURE

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

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

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

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

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

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

3. BOARD OF DIRECTORS

3.1 Composition of the Board

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

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

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

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

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

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

** Mr. Fathi Ahmed Yahia's membership was terminated by his appointer, Libyan Foreign Bank, on 21 August 2016 due to his retirement from their employment.*
*** Mr. Achour Abboud was approved by the CBB on 9 August 2016 and has attended all Board Meetings subsequent to his appointment.*

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

The Board of Directors is supported by its Board Secretary, who provides it with professional and administrative support. The Board Secretary also acts as secretary for the Board of Director's committees and the General Assemblies. The appointment of the Board Secretary is subject to approval of the Board of Directors. The Bank's Board Secretary is Mariam Abdulla who joined the Bank in April 2016. She holds a Bachelor of Laws (LLB), Master of Laws (LLM) from the University of Warwick and a postgraduate higher diploma in Legal Practice Course (LPC) from the College of Law in the United Kingdom, with more than ten (10) years experience in corporate law.

3.2 Appointment/Termination of the Board of Directors

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

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

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

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

3.3 Responsibilities of the Board

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

- Establishing the objectives of the Bank;
- Determining the overall business performance, plans and strategy of the Bank;
- Monitoring management performance and their implementation of strategic decisions;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;

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

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

3.4 Board Meetings

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

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

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

** Mr. Fathi Ahmed Yahia's membership was terminated by his appointer, Libyan Foreign Bank, on 21 August 2016 due to his retirement from their employment. Mr. Fathi Ahmed Yahia attended Board Meeting No. 4/2016 only as an invitee, in accordance with the invitation extended to him by the Chairman.*
*** Mr. Achour Abboud was approved by the CBB on 9 August 2016 and has attended all Board Meetings subsequent to his appointment.*

4. BOARD COMMITTEES

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

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

4.1 Executive Committee (EXCOM)

4.1.1 Composition

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

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

4.1.2 Responsibilities

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

4.1.3 Meetings

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

4.2 Audit, Risk and Compliance Committee (ARCC)

4.2.1 Composition

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

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

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

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

4.2.2 Responsibilities

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

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

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

4.2.3 Meetings

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

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

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

4.3 Nomination and Remuneration Committee (NRC)

4.3.1 Composition

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

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

** Mr Fathi Ahmed Yahia ceased to be member of the NRC upon the termination of his membership on 21 August 2016.*
*** Mr. Achour Abboud was appointed on the NRC on 6 October 2016.*

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

4.3.2 Responsibilities

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

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

4.3.3 Meetings

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

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

** Mr Fathi Ahmed Yahia ceased to be member of the NRC upon the termination of his membership on 21 August 2016.*
*** Mr. Achour Abboud was appointed on the NRC on 6 October 2016.*

5. BOARD ASSESSMENT AND EVALUATION

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

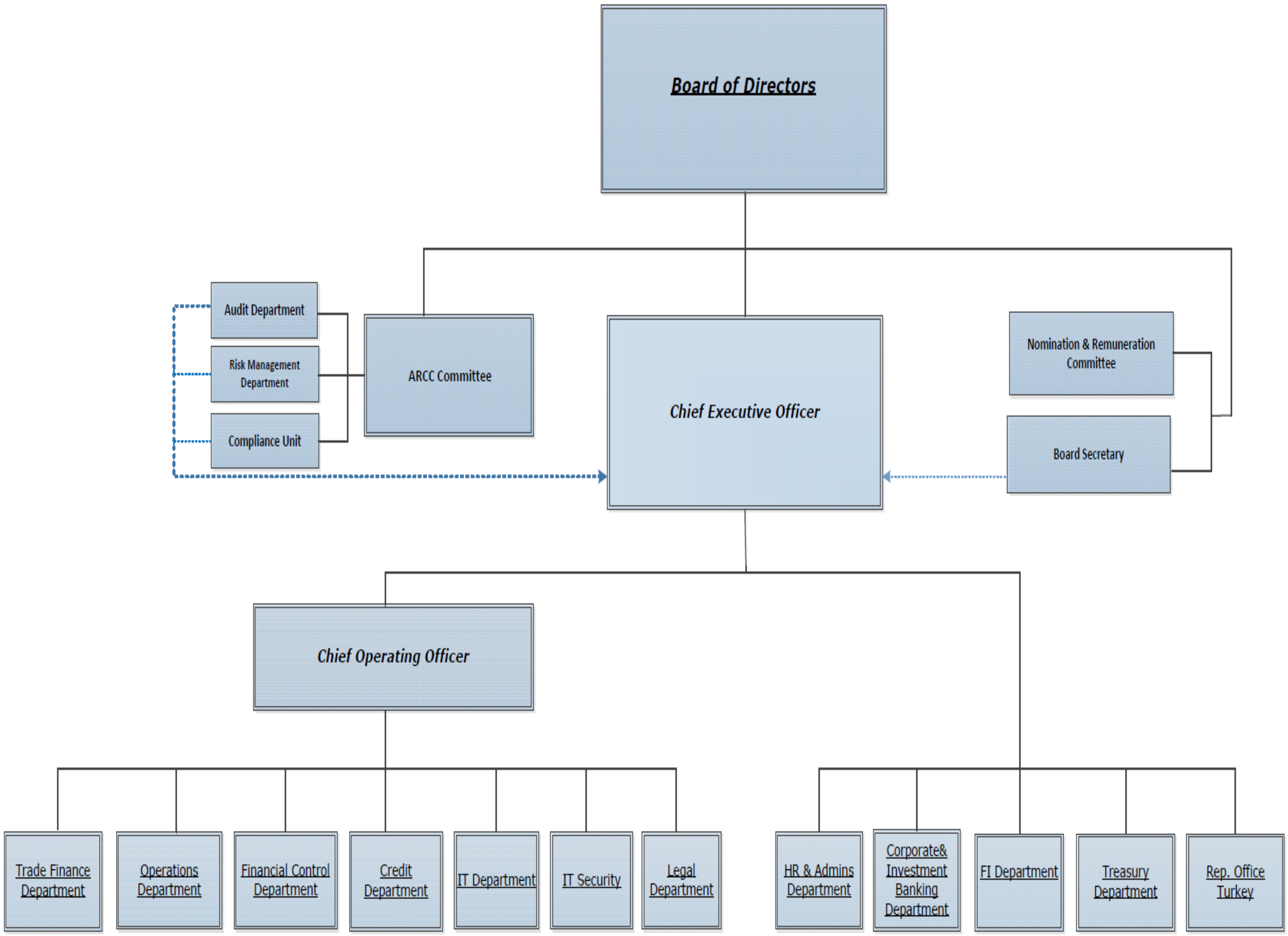
6. MANAGEMENT

6.1 Segregation of Duties between Board of Directors and Management

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

6.2 Organizational Structure and Reporting Lines

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



This new structure included the following:

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

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

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

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

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

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

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

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

6.3 Management Committees

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

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

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

6.3.1 Asset and Liability Committee (ALCO)

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

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

6.3.2 Management Risk Committee (MRC)

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

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

6.3.3 Human Resources and Compensation Committee (HRCC)

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

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

6.3.4 Credit Committee (CC)

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

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

6.3.5 Insurance Committee (IC)

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

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

6.3.6 Tariff and Commission Committee (TCC)

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

- Review the bank's tariffs and commissions;

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

7. MATERIALITY AND AUTHORITY LEVELS

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

8. RELATED PARTY TRANSACTIONS

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

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

9. CODE OF CONDUCT AND CONFLICT OF INTEREST

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

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

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

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

10. COMMUNICATIONS AND DISCLOSURE POLICY

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

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

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

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

11. ANTI-MONEY LAUNDERING

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

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

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

12. 2016 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS

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

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

13. REMUNERATION OF EXTERNAL AUDITORS

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

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

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

Sound Remuneration Disclosures

2016

Contents

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

The Bank's remuneration policy ("**Remuneration Policy**") has been approved by the Board of Directors of the Bank and 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.

3. NOMINATION AND REMUNERATION COMMITTEE (NRC)

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

- 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 NRC 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 2016, the composition of the NRC was as follows:

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

** Mr Fathi Ahmed Yahia ceased to be member of the NRC upon the termination of his membership on 21 August 2016.*
*** Mr. Achour Abboud was appointed on the NRC on 6 October 2016.*

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 administrated. 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 NRC, 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 they can function independent of the business units they support. Independence from the business for these employees is assured through the following:

- Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate conduct while remaining competitive with the market;
- Remuneration decisions are based on their respective functions and not 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.

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 NRC 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. No updates or amendments were made by the NRC to the same during 2016. A comprehensive review and update is expected within the second quarter of 2017.

5.1 Governance

The composition of the NRC as of 31 December 2016 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 NRC charter has been revised in line with the requirements of the CBB guidelines and approved by the Board on 16 February 2015. No updates or amendments have been made in 2016, but it is envisaged that an update will be made in the second quarter of 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 NRC.

In determining the variable pay pool at the performance period end, the NRC 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 NRC, 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 realised versus unrealised 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, and whose total remuneration exceeds the regulatory threshold, have a deferral element and share linked payment. Phantom or shadow shares are being offered to such staff.

The deferral arrangements 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	Malus	Clawback
Upfront cash	**40%**	**Immediate**			
Deferred cash	**10%**	**3 years**			
Deferred share awards	**50%**	**3 years**			

6.2 Control and Support Units

The unit targets as set out and agreed with the NRC in the beginning of each evaluation period will be the base for variable pay to be paid. Except in the case of the Bank making a loss, the variable pay for the staff in the Control and Support units, would be payable based on the unit targets and the individual performance.

The base bonus multiples are set by grade for all the Control and Support units. The bonus is computed as follows:

(Base Multiple x Unit Score x Individual Score)

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

Bonuses will be deferred for those employees whose total remuneration exceeds the regulatory threshold currently set at BD 100,000 per annum, in the following manner:

- All employees of Control and Support units whose variable pay is subject to deferral, the deferral will be as follows:
- 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.

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.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	**50%**	**Immediate**			
Upfront share awards	**10%**	**Immediate**	**6 months**		
Deferred share awards	**40%**	**3 years**			

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 NRC 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 Policy and Process

- The NRC 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.

8. DETAILS OF REMUNERATION PAID

Due to losses incurred by the Bank for the financial year ended 31 December 2016, no variable remuneration has been paid for the aforementioned year. The deferred element of variable remuneration relating to earlier years for certain eligible employees has, however, been paid during the year.

8.1 Board Remuneration

Elements of Remuneration	2016 USD '000	2015 USD '000
Sitting fee, accommodation and travel allowance	263	361
Remuneration*	0	600
Others	8	0

** Due to the Bank's registered losses for the financial year ending 31 December 2016, no remuneration recommendation will be put forward to the Annual General Assembly.*

8.2 Employee Remuneration

Amount in USD ‘000s

Categories	No.	Fixed Remuneration			Variable Remuneration								Total
		Salaries and Wages	Other Benefits/ Allowance	Total	Performance Bonuses (in cash)	Performance Bonuses (in	Other Performance Linked Incentive	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)	**Total**	
1. Members of the Board	**4**		**271**	**271**									**271**
2. Approved persons (Business Lines)	**3**	**724**	**260**	**984**				**56**	**72**	**13**	**16**	**157**	**1,141**
3. Approved persons (Control & Support)	**7**	**939**	**172**	**1,111**				**11**	**11**	**-**	**8**	**29**	**1,141**
4. Employees engaged in risk taking	**8**	**724**	**114**	**838**								**0**	**838**
5. Employees, other than approved persons, engaged in functions under 3.	**18**	**1,061**	**207**	**1,268**								**0**	**1,268**
6. Other employees	**13**	**467**	**170**	**637**								**0**	**637**
7. Outsourced Empl./Service providers		**-**		**-**								**0**	**-**
TOTAL	**53**	**3,915**	**1,194**	**5,109**	**0**	**0**	**0**	**66**	**82**	**13**	**24**	**186**	**5,295**

8.3 Employee Deferred Remuneration

Amounts in USD '000s

	2016			2015			US $ '000,s
Name	**10% deferred cash O/S**	**50% deferred Shares O/S**	**40% deferred Shares O/S**	**10% deferred cash O/S**	**50% deferred Shares O/S**	**40% deferred Shares O/S**	**Final Total**
Approved Business Lines Members	**-**	**-**	**-**	**46,950**	**234,716**		**501,045**
Approved Control & Support Lines Members	**-**	**-**	**-**			**34,822**	**66,675**
Total	**-**	**-**	**-**	**46,950**	**234,716**	**34,822**	**567,721**

* All deferred and long-term awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's share incentive scheme. Any dividend on these shares is released to the employee along with the shares (i.e., after the retention period).

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

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

31 DECEMBER 2016

alubaf

Board of Directors' Report

On behalf of myself and the Board of Directors, I am pleased to address the Annual General Assembly of the shareholders' of Alubaf Arab International Bank B.S.C.(C) in Bahrain and present Alubaf's Annual Report and Audited Financial Statements for the financial year ended 31 December 2016.

The 2016 financial year was a challenging one for the banking industry as a whole, with diminishing economic growth both in the region and worldwide, which has impacted the quality of assets in these regions. Alubaf experienced an increase in non-performing assets in 2016, which required sizable provisioning during the aforementioned year.

As a result of provisioning for credit losses at US$ 37.5 million, Alubaf recorded a net loss of US$ 14.7 million for the financial year ended 31 December 2016, as opposed to a net profit of US$ 25 million in 2015.

Interest and similar income for 2016 amounted to US$ 39.6 million, compared with US$ 47.6 million for 2015, signifying a reduction of 17%. On the other hand, interest expenses for 2016 stood at US$ 8.6 million, signifying an increase of 184% compared to 2015. Thus, net interest income decreased by 30% in 2016 compared to 2015, mainly due to the increase in interest expenses.

Fee and commission income registered a sharp decline in 2016 to US$ 5.6 million when compared to the US$ 13.7 million achieved in 2015, which is a reduction of 59%. This reduction in fee and commission came consequent to the Bank's cautious strategy to avoid exposures to the high-risk markets which have caused losses to the Bank.

Gross operating income for 2016 was US$ 38 million, as opposed to US$ 59.3 million last year, signifying a decrease of 36%. In addition to decline in operating income, the Bank had lost a legal claim and paid a judgment sum amounting to US$ 5.7 million in 2016, which is currently under appeal.

During 2016, the Bank created substantial provisioning for non-performing loans in line with the relevant regulatory requirements and standards, thus increasing the accumulated provision for loan losses to US$ 69.5 million as at 31 December 2016, and ultimately increasing provision coverage ratio to 84% of these non-performing loans. Due to provisioning, net operating loss stood at US$ 5.2 million for 2016, as compared with the previous year's net operating income of US$ 37.7 million.

Total operating expenses were US$ 9.5 million, as compared to last year's US$ 12.6 million, which is a decrease of 25% resulting from significant saving on staff and other operating costs.

Total assets as at 31 December 2016 declined by 18% from last year. The capital adequacy ratio continued to be strong at 40% and the ratio of liquid assets to total assets was sustained at the same level of 64%.

As the results for 2016 registered a net loss, the Board of Directors have accordingly not recommended the payment of any dividends for the 2016 financial year.

Looking ahead, the growth prospects for 2017 continue to be challenging given the current global and regional market uncertainties. We reaffirm our strong commitment to meet the challenges by focusing on taking preemptive measures to address potential issues in advance in order to sustain consistent growth in the years ahead.

In conclusion, I would like to sincerely thank our shareholders, the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain, all our correspondent banks and our customers for their continued support and cooperation.

I also extend my appreciation and thanks to the members of the Board, Executive Management and all the employees for their efforts and commitment to the Bank's continued growth and progress.

Moraja G. Solaiman
Chairman

Alubaf Tower, Al-Seef District,
P.O. Box: 11529, Kingdom of Bahrain
Swift: ALUBBHBM, C.R. 12819
T. +973 17 517722, F. +973 17 540094
Email:info@alubafbank.com, www.alubafbank.com
Authorised capital: US$ 500 million, Paid up capital: US$ 250 Million
Licensed as a Conventional Wholesale Bank by the CBB

برج اليوباف، ضاحية السيف
ص.ب: ١١٥٢٩ مملكة البحرين
Swift: ALUBBHBM س.ت: ١٢٨١٩
تليفون: ٩٧٣١٧٥١٧٧٢٢+
فاكس: ٩٧٣١٧٥٤٠٠٩٤+

EY
Building a better
working world

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 2016, 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 2016, 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)**

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.

Building a better working world

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

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 2016 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.

Ernst + Young

Partner's registration number. 115
26 February 2017
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	*2016 US$ '000*	*2015 US$ '000*
ASSETS			
Cash and balances with central bank and other banks	4	**289,802**	488,526
Deposits with banks and other financial institutions	5	**437,992**	408,117
Investments held for trading	6	**22,413**	21,477
Non-trading investments	7	**203,767**	144,289
Loans and advances	8	**208,041**	360,176
Property, equipment and software	9	**11,149**	11,893
Interest receivable		**6,134**	6,581
Other assets		**1,638**	1,948
TOTAL ASSETS		**1,180,936**	1,443,007
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	10.1	**586,824**	870,401
Due to banks and other financial institutions	10.2	**156,315**	202,359
Due to customers	11	**129,755**	31,572
Interest payable		**981**	1,302
Other liabilities	12	**4,784**	7,603
Total liabilities		**878,659**	1,113,237
Equity			
Share capital	13	**250,000**	250,000
Statutory reserve	13	**20,174**	20,174
Retained earnings		**35,652**	62,837
Fair value reserve		**(3,549)**	(3,241)
Total equity		**302,277**	329,770
TOTAL LIABILITIES AND EQUITY		**1,180,936**	1,443,007

Hasan Khalifa Abulhasan
Chief Executive Officer

Talal Al Zain
Director

Moraja G. Solaiman
Chairman

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

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	*2016* *US$ '000*	*2015* *US$ '000*
Interest and similar income	15	**39,605**	47,558
Interest expense	16	**(8,577)**	(3,021)
Net interest and similar income		**31,028**	44,537
Fee and commission income	17	**5,598**	13,694
Trading loss	18	**(30)**	(420)
Loss on non-trading investments - net		**-**	(436)
Foreign exchange gain - net		**1,365**	1,558
Dividend income		**7**	25
Other income		**75**	303
OPERATING INCOME		**38,043**	59,261
Provision for impairment of loans and advances	8	**(37,467)**	(21,278)
Settlement of legal claim	20	**(5,737)**	-
Provision for impairment of investments		**-**	(263)
NET OPERATING (LOSS) INCOME		**(5,161)**	37,720
Staff costs		**5,504**	8,020
Depreciation	9	**1,022**	1,155
Other operating expenses	19	**2,998**	3,473
OPERATING EXPENSES		**9,524**	12,648
NET (LOSS) PROFIT FOR THE YEAR		**(14,685)**	25,072

Hasan Khalifa Abulhasan
Chief Executive Officer

Talal Al Zain
Director

Moraja G. Solaiman
Chairman

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 *US$ '000*	*2015* *US$ '000*
NET (LOSS) PROFIT FOR THE YEAR	**(14,685)**	25,072
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised fair value loss on available-for-sale investments - net	**(308)**	(2,074)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods and other comprehensive (loss) income for the year	**(308)**	(2,074)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(14,993)**	22,998

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 US$ '000	2015 US$ '000
OPERATING ACTIVITIES			
Net (loss) profit for the year		(14,685)	25,072
Adjustments for:			
Provision for impairment of loans and advances	8	37,467	21,278
Provision for impairment of investments		-	263
Depreciation	9	1,022	1,155
Changes in fair value of investments held for trading	18	68	(5)
Net loss on non-trading investments		-	436
Amortisation of non-trading investments		545	710
Amortisation of assets reclassified as "loans and advances" from trading investments		(715)	(657)
Operating profit before changes in operating assets and liabilities		23,702	48,252
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		120,849	(39,656)
Loans and advances		115,383	104,458
Investments held for trading		(1,004)	(18,435)
Interest receivable		447	2,341
Other assets		310	(671)
Deposits from banks and other financial institutions		(283,577)	254,082
Due to banks and other financial institutions		(46,044)	(17,277)
Due to customers		98,183	6,421
Interest payable		(321)	1,113
Other liabilities		(2,819)	(4,147)
Net cash from operating activities		25,109	336,481
INVESTING ACTIVITIES			
Purchase of non-trading investments		(199,741)	(21,055)
Proceeds from disposal of non-trading investments		139,410	21,277
Purchase of property, equipment and software	9	(278)	(728)
Net cash used in investing activities		(60,609)	(506)
FINANCING ACTIVITIES			
Advance towards capital increase repaid		-	(140)
Dividends paid	14	(12,500)	(25,000)
Net cash used in financing activities		(12,500)	(25,140)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(48,000)	310,835
Cash and cash equivalents at 1 January		699,092	388,257
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	651,092	699,092

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Note	*Share capital US$ '000*	*Advance towards capital increase US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Fair value reserve US$'000*	*Total US$ '000*
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**
Balance as of 1 January 2015		250,000	140	17,667	65,272	(1,167)	331,912
Advance towards capital increase	13	-	(140)	-	-	-	(140)
Net profit for the year		-	-	-	25,072	-	25,072
Other comprehensive income		-	-	-	-	(2,074)	(2,074)
Total comprehensive income for the year		-	-	-	25,072	(2,074)	22,998
Dividends paid for 2014	14	-	-	-	(25,000)	-	(25,000)
Transfer to statutory reserve	13	-	-	2,507	(2,507)	-	-
Balance as of 31 December 2015		250,000	-	20,174	62,837	(3,241)	329,770

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

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 note 13 for more details).

The financial statements of the Bank for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 26 February 2017.

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)

i) 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

i) 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)

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.

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:

Assets	*Estimated useful life in years*
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.

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.

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
The below new standards and amendments apply for the first time for annual periods beginning on or after 1 January 2016. However, they did not impact the annual financial statements of the Bank.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
The amendments clarify the principle in *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Bank, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Bank's consolidated financial statements.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

i) New and amended standards and interpretations (continued)

Annual Improvements 2012-2014 Cycle
These improvements include:

IFRS 7 Financial Instruments: Disclosures
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 Employee Benefits
The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

Amendments to IAS 1 Disclosure Initiative
The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income "OCI" and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

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
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

IFRS 9 Financial Instruments (continued)
The Bank plans to adopt the new standard on the required effective date. During 2016, the Bank performed a high-level impact assessment of all three aspects of IFRS 9 as required by the Central Bank of Bahrain.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Bank plans to adopt the new standard on the required effective date using the full retrospective method.

IFRS 16 Leases
The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their statement of financial position as lease liabilities, with the corresponding right-of- use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 7: Statement of Cash Flows
In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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

	2016 *US$ '000*	*2015* *US$ '000*
Cash	**9**	8
Treasury bills - balances with Central Bank	**234,444**	239,642
Money at call and short notice	**55,349**	248,876
Cash and balances with central bank and other banks	**289,802**	488,526
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 5)	**361,290**	210,566
Cash and cash equivalents	**651,092**	699,092

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:

	2016 *US$ '000*	*2015* *US$ '000*
Deposits with original maturities of 90 days or less (note 4)	**361,290**	210,566
Deposits with original maturities of over 90 days	**76,702**	197,551
	437,992	408,117

6 INVESTMENTS HELD FOR TRADING

	2016 *US$ '000*	*2015* *US$ '000*
Quoted:		
- Debt securities	**22,203**	21,455
- Equity securities	**210**	22
	22,413	21,477

7 NON-TRADING INVESTMENTS

	2016 *US$ '000*	*2015* *US$ '000*
Held-to-maturity:		
Debt securities:		
- Sovereign	**45,677**	45,958
- Banks and corporates	**62,902**	66,156
Wakala units	**3,000**	3,000
Total held-to-maturity	**111,579**	115,114
Available-for-sale:		
Debt securities:		
- Sovereign	**82,061**	20,582
- Banks and corporates	**10,127**	8,593
Total available-for-sale	**92,188**	29,175
Total non-trading investments	**203,767**	144,289

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$ 7,721 thousand as of 31 December 2016 (2015: US$ 190 thousand).

	2016 *US$ 000*	*2015* *US$ 000*
Sovereign loans	**91,427**	123,199
Commercial loans	**50,575**	55,263
Letters of credit - financing	**117,411**	185,795
Factoring	**18,080**	28,127
	277,493	392,384
Provision for impairment	**(69,452)**	(32,208)
	208,041	360,176

8 LOANS AND ADVANCES (continued)

Movements in provision for impairment were as follows:

	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**

	2015		
	Specific provision US$ '000	*Collective provision US$ '000*	*Total US$ '000*
At 1 January	7,236	11,646	18,882
Provided during the year	20,704	1,915	22,619
Recoveries during the year	(1,341)	-	(1,341)
Net charge for the year	19,363	1,915	21,278
Transfer to specific provision	7,846	(7,846)	-
Write off during the year	(5,815)	(1,950)	(7,765)
Exchange difference	(187)	-	(187)
At 31 December	28,443	3,765	32,208

The total value of colleteral held by the Bank against its loans and advances exposure amounts to US$ 25,927 thousand as at 31 December 2016 (31 December 2015: US$ 58,970 thousand) out of which US$ 23,427 thousand is held as cash colleteral (2015: US$ 58,970 thousand).

Impaired loans during the year

	2016 US$ '000	*2015 US$ '000*
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**82,388**	74,463

Facilities renegotiated during the year

	2016 US$ '000	*2015 US$ '000*
Sovereign and commercial loans (gross)	**46,651**	72,565

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:

	2016	*2015*
	US$ '000	*US$ '000*
Carrying value	**44,615**	43,899
Fair value	**45,642**	37,215

Additional fair value gain that would have been recognised in the statement of profit or loss for the year ended 31 December 2016 had the trading investment not been reclassified amounts to US$ 1,027 thousand (2015: loss of US$ 6,684 thousand).

The Bank earns an effective interest rate of 8.89% (2015: 8.89%) and expects to recover US $ 44,615 thousand (2015: US $ 43,899 thousand) on this reclassified financial asset.

9 PROPERTY, EQUIPMENT AND SOFTWARE

	Land	*Building*	*Furniture, equipment and motor vehicles*	*Software*	*Capital work in progress*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:						
At 1 January 2016	4,233	7,652	3,123	797	610	16,415
Additions/transfers during the year	-	-	586	272	(580)	278
Disposal during the year	-	-	(18)	-	-	(18)
At 31 December 2016	**4,233**	**7,652**	**3,691**	**1,069**	**30**	**16,675**
Depreciation:						
At 1 January 2016	-	1,496	2,237	789	-	4,522
Charge for the year	-	518	472	32	-	1,022
Relating to disposal	-	-	(18)	-	-	(18)
At 31 December 2016	**-**	**2,014**	**2,691**	**821**	**-**	**5,526**
Net book value:						
At 31 December 2016	**4,233**	**5,638**	**1,000**	**248**	**30**	**11,149**
At 31 December 2015	4,233	6,156	886	8	610	11,893

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

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:

	2016 *US$ '000*	*2015* *US$ '000*
Current account balances	**72,940**	104,116
Cash collateral held	**83,375**	98,243
	156,315	202,359

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.

	2016 *US$ '000*	*2015* *US$ '000*
Current account balances	**76,974**	23,406
Cash collateral held	**52,781**	8,166
	129,755	31,572

12 OTHER LIABILITIES

	2016 *US$ '000*	*2015* *US$ '000*
Accrued expenses	**1,950**	4,152
Due to former directors and employees	**1,394**	1,222
Agency fee payable	**539**	968
Unearned fee income	**378**	517
Negative fair value of derivatives - net (note 23)	**-**	563
Others	**523**	181
	4,784	7,603

Accrued expenses include US$ 545 thousand (2015: US$ 484 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.

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

	2016 *US$ '000*	*2015* *US$ '000*
Authorised:		
10,000,000 (2015: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

	2016 *US$ '000*	*2015* *US$ '000*
Issued and fully paid up :		
5,000,000 (2015: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

Shareholders

	2016		*2015*	
	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
	100.00	**250,000**	100.00	250,000

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. No transfer has been made during the year as the Bank incurred loss for the year ended 31 December 2016. During the year ended 31 December 2015 US$ 2,507 thousand was transferred.

14 DIVIDENDS PAID AND PROPOSED

No dividend for the year ended 31 December 2016 is proposed (2015: US$ 12.5 million; US$ 2.50 per share).

During the year, the dividend for the year ended 31 December 2015 amounting to US$ 12.5 million (US$ 2.50 per share) was paid following regulatory approvals and the approval of the shareholders in the Annual General Meeting held on 19 April 2016 (the dividend for the year ended 31 December 2014 amounting to US$ 25 million i.e. US$ 5 per share was paid during 2015).

15 INTEREST AND SIMILAR INCOME

	2016 *US$ '000*	*2015* *US$ '000*
Loans and advances	**21,796**	36,345
Non-trading investments	**8,517**	7,378
Deposits with banks, other financial institutions and balance with central bank	**8,218**	3,131
Investments held for trading	**1,074**	704
	39,605	47,558

16 INTEREST EXPENSE

	2016 US$ '000	2015 US$ '000
Deposits from and due to banks and other financial institutions	**8,497**	3,011
Due to customers	**80**	10
	8,577	3,021

17 FEE AND COMMISSION INCOME

	2016 US$ '000	2015 US$ '000
Commission income on letters of credit	**4,310**	11,854
Commission income on letters of guarantee	**299**	464
Other	**989**	1,376
	5,598	13,694

18 TRADING INCOME

	2016 US$ '000	2015 US$ '000
Changes in fair value of investments held for trading	**(68)**	5
Trading gains (losses) - net	**38**	(425)
	(30)	(420)

19 OTHER OPERATING EXPNESES

	2016 US$ '000	2015 US$ '000
Administration and marketing expenses	**1,540**	1,837
Professional services	**1,247**	562
Fees and other charges	**159**	113
Board of Directors' remuneration and expenses (note 24)	**52**	961
	2,998	3,473

20 SETTLEMENT OF LEGAL CLAIM

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 Bank has also requested permission to appeal.

21 COMMITMENTS AND CONTINGENT LIABILITIES

	2016 US$ '000	2015 US$ '000
Credit related contingencies		
Letters of credit	**57,947**	150,677
Letters of guarantee	**13,199**	14,079
Undrawn loan commitments	**10,605**	34,617
	81,751	199,373
Other		
Forward foreign exchange contracts (note 23)	**1,875**	147,524
	83,626	346,897

All undrawn loan commitments are maturing within one year from 31 December 2016 and 31 December 2015 respectively.

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

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.

	Gross maximum exposure 2016 US$ '000	***Net maximum exposure 2016 US$ '000***	*Gross maximum exposure 2015 US$ '000*	*Net maximum exposure 2015 US$ '000*
Balances with banks	**289,793**	**289,793**	488,518	488,518
Deposits with banks and other financial institutions	**437,992**	**437,992**	408,117	408,117
Investments held for trading	**22,203**	**22,203**	21,455	21,455
Non-trading investments	**203,767**	**203,767**	144,289	144,289
Loans and advances	**208,041**	**184,614**	360,176	301,206
Interest receivable	**6,134**	**6,134**	6,581	6,581
Other assets	**1,281**	**1,281**	1,567	1,567
Total funded credit risk exposure	**1,169,211**	**1,145,784**	1,430,703	1,371,733
Unfunded exposure on credit related contingencies	**81,751**	**59,874**	199,373	114,048
Total funded and unfunded credit risk exposures	**1,250,962**	**1,205,658**	1,630,076	1,485,781

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 2016 and 31 December 2015. 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.

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 2016						
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 exposures	99,110	1,053,757	3,408	82,388	(69,452)	1,169,211
Credit related contingencies	606	81,145	-	-	-	81,751
Gross unfunded exposures	606	81,145	-	-	-	81,751
Net funded and unfunded exposures	99,716	1,134,902	3,408	82,388	(69,452)	1,250,962

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

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

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 2015						
Balances with banks	68,345	420,173	-	-	-	488,518
Deposits with banks and other financial institutions	21,000	387,117	-	-	-	408,117
Investments held for trading	-	21,455	-	-	-	21,455
Non-trading investments	18,579	125,710	-	-	-	144,289
Loans and advances	-	291,842	26,079	74,463	(32,208)	360,176
Interest receivable	211	6,370	-	-	-	6,581
Other assets	-	1,567	-	-	-	1,567
Funded exposure	108,135	1,254,234	26,079	74,463	(32,208)	1,430,703
Credit related contingencies	606	198,767	-	-	-	199,373
Gross unfunded exposures	606	198,767	-	-	-	199,373
Net funded and unfunded exposures	108,741	1,453,001	26,079	74,463	(32,208)	1,630,076

Aging analysis of past due but not impaired financial assets

	Less than 30 days 2016 US$ '000	***31 to 60 days 2016 US$ '000***	***61 to 90 days 2016 US$ '000***	***More than 90 days 2016 US$ '000***	***Total 2016 US$ '000***
Loans and advances	**363**	**-**	**-**	**3,045**	**3,408**

	Less than 30 days 2015 US$ '000	*31 to 60 days 2015 US$ '000*	*61 to 90 days 2015 US$ '000*	*More than 90 days 2015 US$ '000*	*Total 2015 US$ '000*
Loans and advances	1	91	2,234	23,753	26,079

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 2016

	Bahrain US$ '000	Other GCC countries US$ '000	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

At 31 December 2015

	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	244,121	38,781	42	205,257	317	488,518
Deposits with banks and other financial institutions	186,331	51,000	10,000	160,786	-	408,117
Investments held for trading	13,342	5,113	-	3,000	-	21,455
Non-trading investments	43,402	37,153	10,061	48,889	4,784	144,289
Loans and advances	-	3,278	288,525	58,624	9,749	360,176
Interest receivable	1,224	469	3,489	1,208	191	6,581
Other assets	1,028	-	525	14	-	1,567
Gross funded exposures	489,448	135,794	312,642	477,778	15,041	1,430,703
Credit related contingencies	-	34,314	138,953	5,575	20,531	199,373
Gross unfunded exposures	-	34,314	138,953	5,575	20,531	199,373
Gross funded and unfunded exposures	489,448	170,108	451,595	483,353	35,572	1,630,076

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:

At 31 December 2016	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Total US$ '000*
Balances with banks	234,444	55,349	-	289,793
Deposits with banks and other financial institutions	-	437,992	-	437,992
Investments held for trading	13,463	8,341	399	22,203
Non-trading investments	127,738	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	-	166	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 funded and unfunded exposures	495,210	627,406	128,346	1,250,962

At 31 December 2015	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Total US$ '000*
Balances with banks	239,642	248,876	-	488,518
Deposits with banks and other financial institutions	-	408,117	-	408,117
Investments held for trading	13,342	8,113	-	21,455
Non-trading investments	66,540	39,144	38,605	144,289
Loans and advances	123,199	131,638	105,339	360,176
Interest receivable	2,730	2,708	1,143	6,581
Other assets	-	585	982	1,567
Gross funded exposures	445,453	839,181	146,069	1,430,703
Credit related contingencies	18,581	108,361	72,431	199,373
Gross unfunded exposures	18,581	108,361	72,431	199,373
Gross of funded and unfunded exposures	464,034	947,542	218,500	1,630,076

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.

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

	Impact on statement of profit or loss	
	2016	*2015*
	US$ '000	*US$ '000*
25 bps increase/decrease		
US Dollar	**± 1,307**	± 161
Euro	**± 37**	± 764

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:

	Change in rate	*Effect on statement of profit or loss for the year*	
		2016	*2015*
		US$ '000	*US$ '000*
Euro	± 5%	**± 216**	± 7,351
GBP	± 5%	**± 3**	± 4

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:

	Change in equity prices	*Effect on net income and equity for the year*	
		2016	*2015*
		US$ '000	*US$ '000*
Investments held for trading	± 10%	**± 21**	± 2

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.

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at **31 December 2016** 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.

	Up to 1 year						
At 31 December 2016	***Up to 1 month US$ '000***	***1 to 3 months US$ '000***	***3 to 12 months US$ '000***	***Total US$ '000***	***More than 1 year US$ '000***	***No specific maturity US$ '000***	***Total US$ '000***
ASSETS							
Cash,balances with banks and Central Bank	171,615	100,614	17,573	289,802	-	-	289,802
Deposits with banks and other financial institutions	341,035	74,957	22,000	437,992	-	-	437,992
Investments held for trading	22,413	-	-	22,413	-	-	22,413
Non-trading investments	-	-	5,016	5,016	198,751	-	203,767
Loans and advances	33,973	28,222	45,188	107,383	100,658	-	208,041
Property, equipment and software	-	-	-	-	-	11,149	11,149
Interest receivable	3,733	1,387	1,014	6,134	-	-	6,134
Other assets	51	504	24	579	1,059	-	1,638
Total assets	**572,820**	**205,684**	**90,815**	**869,319**	**300,468**	**11,149**	**1,180,936**
LIABILITIES							
Deposits from banks and other financial institutions	255,528	98,598	232,698	586,824	-	-	586,824
Due to banks and other financial institutions	100,732	27,791	27,792	156,315	-	-	156,315
Due to customers	105,932	23,823	-	129,755	-	-	129,755
Interest payable	181	110	690	981	-	-	981
Other liabilities	1,709	1,999	-	3,708	1,076	-	4,784
Total liabilities	**464,082**	**152,321**	**261,180**	**877,583**	**1,076**	**-**	**878,659**
Net liquidity gap	**108,738**	**53,363**	**(170,365)**	**(8,264)**	**299,392**	**11,149**	**302,277**
Cumulative liquidity gap	**108,738**	**162,101**	**(8,264)**	**-**	**291,128**	**302,277**	**-**

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2015	*Up to 1 year*						
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Total US$ '000*
ASSETS							
Cash, balances with banks and Central Bank	248,884	239,642	-	488,526	-	-	488,526
Deposits with banks and other financial institutions	331,424	51,693	25,000	408,117	-	-	408,117
Investments held for trading	21,477	-	-	21,477	-	-	21,477
Non-trading investments	-	-	2,995	2,995	141,294	-	144,289
Loans and advances	70,724	49,576	45,019	165,319	194,857	-	360,176
Property, equipment and software	-	-	-	-	-	11,893	11,893
Interest receivable	3,584	1,836	1,161	6,581	-	-	6,581
Other assets	357	508	58	923	1,025	-	1,948
Total assets	676,450	343,255	74,233	1,093,938	337,176	11,893	1,443,007
LIABILITIES							
Deposits from banks and other financial institutions	241,821	176,046	252,534	670,401	200,000	-	870,401
Due to banks and other financial institutions	169,611	32,748	-	202,359	-	-	202,359
Due to customers	26,074	3,148	2,350	31,572	-	-	31,572
Interest payable	570	37	695	1,302	-	-	1,302
Other liabilities	1,374	4,364	489	6,227	593	783	7,603
Total liabilities	439,450	216,343	256,068	911,861	200,593	783	1,113,237
Net liquidity gap	237,000	126,912	(181,835)	182,077	136,583	11,110	329,770
Cumulative liquidity gap	237,000	363,912	182,077	-	318,660	329,770	-

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at **31 December 2016** based on contractual undiscounted repayment amounts is as follows:

At 31 December 2016	*Up to 1 year*						
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Total US$ '000*
Liabilities							
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

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2015	*Up to 1 year*						
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Total US$ '000*
Liabilities							
Deposits from banks and financial institutions	241,916	176,253	253,424	671,593	200,940	-	872,533
Due to banks and other financial institutions	169,621	32,754	-	202,375	-	-	202,375
Due to customers	26,076	3,149	2,351	31,576	-	-	31,576
Interest payable	570	37	695	1,302	-	-	1,302
Other liabilities	1,374	4,364	489	6,227	593	783	7,603
Total undiscounted liabilities	439,557	216,557	256,959	913,073	201,533	783	1,115,389
Derivatives:							
Forward foreign exchange contracts (note 23)	2,896	42,678	101,950	147,524	-	-	147,524
Commitments and contingent liabilities							
Letters of credit	21,026	86,954	42,697	150,677	-	-	150,677
Letters of guarantee	7	206	13,866	14,079	-	-	14,079
Undrawn loan commitments	-	-	34,617	34,617	-	-	34,617
	21,033	87,160	91,180	199,373	-	-	199,373

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 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
	114,601	**16**	**114,617**

At 31 December 2015

	Level 1 US$ '000	*Level 2* US$ '000	*Total* US$ '000
Investments held for trading	21,477	-	21,477
Available-for-sale investments	29,175	-	29,175
Derivative financial instruments	-	563	563
	50,652	563	51,215

The Bank had no investments measured at fair value qualifying for level 3 of fair value heirarchy as at 31 December 2016 and as at 31 December 2015.

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2016, 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 (2015: 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 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
	154,120	**-**	**3,000**	**157,120**	**156,194**

At 31 December 2015

	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	109,853	-	3,000	112,853	115,114
Loans and advances	37,215	-	-	37,215	43,899
	147,068	-	3,000	150,068	159,013

- 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.

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 2016 and 31 December 2015.

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:

	2016		*2015*	
	Notional amount US$ '000	***Gain / (loss) US$ '000***	*Notional amount US$ '000*	*Gain / (loss) US$ '000*
Forward foreign exchange contracts	**1,875**	**16**	147,524	(563)

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 2016				31 December 2015			
	Shareholders US$ '000	*Key management personnel/ Board members US$ '000*	*Other related parties US$ '000*	*Total US$ '000*	*Shareholders US$ '000*	*Key management personnel/ Board members US$ '000*	*Other related parties US$ '000*	*Total US$ '000*
Statement of profit or loss								
Interest income	-	-	127	127	-	-	439	439
Interest expense	7,511	-	181	7,692	2,411	-	5	2,416
Fee and commission income	325	-	9	334	392	-	-	392
Statement of financial position								
Assets								
Cash and balances with banks	417	-	12,904	13,321	33	-	8,747	8,780
Deposit with banks and financial institutions	-	-	21,230	21,230	-	-	10,000	10,000
Loans and advances	-	-	110		-	-	3,559	
Interest receivable	-	-	1	1	-	-	11	11
Other assets	25	210	-	235	-	725	-	725
Liabilities								
Deposits from banks and other financial institutions	397,230	-	39,901	437,131	670,175	-	20,000	690,175
Due to banks and other financial institutions	2,089	-	7,229	9,318	3,131	-	11,623	14,754
Interest payable	897	-	16	913	69	-	1,189	1,258
Other liabilities	61	314	-	375	-	1,339	-	1,339
Assets under management (note 25)	20,104	-	-	20,104	21,005	-	-	21,005
Contingent liabilities								
Letters of credit and letters of guarantee (fully secured by deposits)	1,148	-	-	1,148	2,658	-	5,355	8,013

24 TRANSACTIONS WITH RELATED PARTIES (continued)

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

	2016 US$ 000	2015 US$ 000
Short term benefits	**2,204**	3,963
End of term benefits	**158**	314
Cash settled share based payments	**-**	270
Total compensation	**2,362**	4,547

Short term benefits include Board of Directors' sitting fees of US$ 144 thousand (2015: US$ 786 thousand) and reimbursement of travel, accommodation and other expenses amounting to US$ 127 thousand (2015: US$ 175 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 and allowances.

25 ASSETS UNDER MANAGEMENT

The Bank provides trade finance services to certain customers on behalf of its Parent, 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 2016, the Bank had fiduciary assets under management of US$ 30,564 thousand (2015:US$ 21,005 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:

	2016 US$ 000	2015 US$ 000
Capital base:		
Tier 1 capital	**301,849**	329,611
Tier 2 capital	**3,500**	3,765
Total capital base (a)	**305,349**	333,376
Risk weighted assets (b)	**766,464**	753,148
Capital adequacy (a/b * 100)	**39.84%**	44.26%
Minimum requirement	**12.00%**	12.00%

alubaf

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

بنك اليوباف العربي الدولي ش.م.ب (م)

BASEL III PILLAR III DISCLOSURES

31 DECEMBER 2016

ALUBAF Arab International Bank B.S.C (c)
Basel III -Pillar III disclosures
As at 31 December 2016

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ALUBAF Arab International Bank B.S.C.(c)
BASEL III PILLAR III disclosures
31 December 2016

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 2016, comprising of 5 million equity shares of US$ 50 each.

Break down of Capital Base		
	US$ '000s	**US$ '000s**
	CET I	**Tier II**
Share Capital	250,000	-
Statutory reserve	20,174	-
Retained earnings	50,337	-
Loss for current period	(14,685)	-
Unrealized loss on Available for sale financial instruments	(3,549)	-
Less: Regulatory adjustment for Intangibles	(428)	
Collective impairment loss provision	-	3,500
Total	**301,849**	**3,500**
Total Available Capital		**305,349**

ALUBAF recorded a net loss of US$ 14,685 thousand for the year ended 31 December 2016.

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 39.84% is well above the minimum regulatory requirement of 12.5%.

	US$ '000
Total Eligible Capital Base	**305,349**
Risk weighted assets (RWA)	
Credit risk	659,039
Market risk	275
Operational risk	107,150
	766,464
CET I ratio	**39.38%**
Capital adequacy ratio	**39.84%**

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	488,709	6,502	495,211	15,720	192,692	24,087
Claims on banks	572,562	47,304	619,866	12,961	342,165	42,771
Claims on corporate	93,723	27,945	121,668	4,748	94,749	11,844
Past due exposures	16,436	-	16,436	-	16,436	2,055
Equity portfolio	210	-	210	-	210	26
Other exposures	12,787		12,787	-	12,787	1,598
Total	**1,184,427**	**81,751**	**1,266,178**	**33,429**	**659,039**	**82,381**

Gross credit exposure before credit risk mitigation

US$ '000

	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	488,709	447,414
Claims from Banks	572,562	712,098
Claims on Corporate	93,723	114,292
Past due exposures	16,436	38,000
Equity Portfolio	210	339
Other exposures	12,787	13,851
Total funded exposure	**1,184,427**	**1,325,994**
Unfunded exposures	**81,751**	**114,171**
Gross credit exposures	**1,266,178**	**1,440,164**

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2016.

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	275	34	4,175	275

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$ 13,394 thousand on operational risk weighted exposure of US$ 107,150 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 2016, 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 *	354,000	Nil	354,000
Counterparty B **	57,418	Nil	57,418
Counterparty C ***	46,075	Nil	46,075

* Comprise of CBB Treasury Bills and exempted exposure.

** Exempted lending to Sovereign with Pledge deposit, as credit mitigant.

*** Exempted lending to Sovereign, of which USD 1,460 thousand matured within three months.

Risk mitigation –collateral

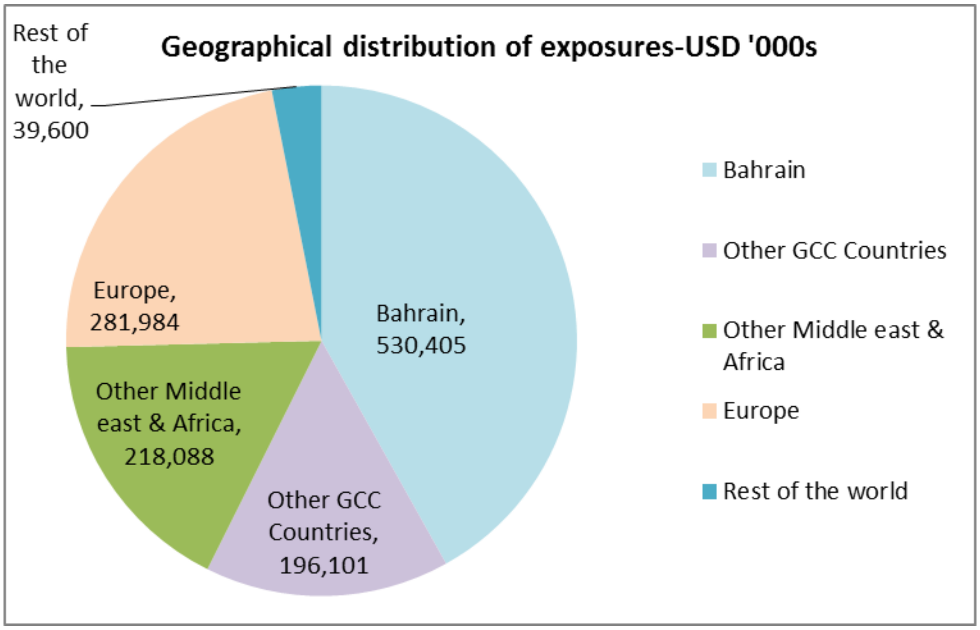
The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. However, the impact 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 22.2 of the annual audited financial statements for the year ended 31 December 2016.

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

US$'000

	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	530,405	530,405	-
Other GCC Countries	196,101	182,352	13,749
Other Middle east & Africa	218,088	156,582	61,506
Europe	281,984	277,780	4,204
Rest of the world	39,600	37,308	2,292
Total	**1,266,178**	**1,184,427**	**81,751**



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

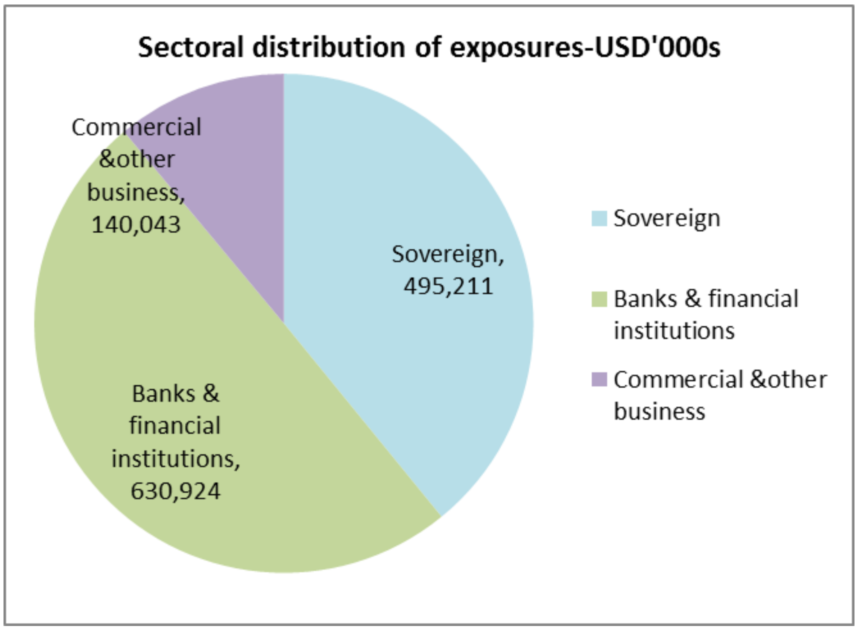
	Bahrain	Other GCC Countries	Other Middle East and Africa	Europe	Rest Of the world	Total
Claims from Sovereigns	332,205	35,747	113,783	-	6,974	**488,708**
Claims from Banks	180,289	131,768	26,299	208,864	25,342	**572,562**
Claims on Corporate	5,254	14,730	-	68,830	4,909	**93,723**
Past due exposures	-	-	16,436	-	-	**16,436**
Equity Portfolio	20	107	-	-	83	**210**
Other exposures	12,637	-	64	86	-	**12,787**
Total funded exposure	**530,405**	**182,352**	**156,582**	**277,780**	**37,308**	**1,184,427**
Unfunded exposures	**-**	**13,749**	**61,506**	**4,204**	**2,292**	**81,751**
Gross credit exposures	**530,405**	**196,101**	**218,088**	**281,984**	**39,600**	**1266,178**

6. Risk Management (continued)

6.3 Industry sector analysis of exposures is summarized below:

US$ '000

	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	495,211	488,709	6,502
Banks & financial institutions	630,924	583,620	47,304
Commercial &other business	140,043	112,098	27,945
Total	**1,266,178**	**1,184,427**	**81,751**



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	-	488,709	-	**488,709**
Claims from Banks	572,562	-	-	**572,562**
Claims on Corporate	-	-	93,723	**93,723**
Past due exposures	10,873	-	5,563	**16,436**
Equity Portfolio	20	-	190	**210**
Other exposures	165	-	12,622	**12,787**
Total funded exposure	**583,620**	**488,709**	**112,098**	**1,184,427**
Unfunded exposures	47,304	6,502	27,945	**81,751**
Gross credit exposures	**630,924**	**495,211**	**140,043**	**1,266,178**

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. TheBank 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	488,709	6,502	7,564	389,634	98,013
Claims on banks	572,562	47,304	80,975	407,617	131,274
Claims on corporate	93,723	27,945	11,177	29,906	80,585
Past due exposures	16,436	-	-	-	16,436
Equity portfolio	210	-	-	20	190
Other exposures	12,787	-	-	-	12,787
Total	**1,184,427**	**81,751**	**99,716**	**827,177**	**339,285**

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*	*Over10 Years*	*Undated*	*Total*
Claims on Sovereigns	133,571	119,981	28,005	**281,557**	162,537	44,615	-	**488,709**
Claims on Banks	417,539	80,091	38,988	**536,618**	30,914	5,030	-	**572,562**
Claims on Corporate	21,439	5,108	23,798	**50,345**	28,931	14,507	-	**93,723**
Past due exposures	-	-	-	-	16,436	-	-	**16,436**
Equity Portfolio	210	-	-	**210**	-	-	-	**210**
Other exposures	51	504	24	**579**	1,059	-	11,149	**12,787**
Total	**572,810**	**205,684**	**90,815**	**869,309**	**239,877**	**64,152**	**11,149**	**1,184,427**

6. Risk Management (continued)

6.5 Maturity analysis of unfunded exposures

US$ '000

	Notional principal	*Within 1 month*	*1-3 months*	*3-12 months*	*Total within 1 year*	*Over one year*	*Total*
Claims on Sovereigns	6,502	-	-	4,816	**4,816**	1,686	**6,502**
Claims from Banks	47,304	3,442	20,937	22,925	**47,304**	-	**47,304**
Claims from Corporate	27,945	-	21,593	6,352	**27,945**	-	**27,945**
Total	**81,751**	**3,442**	**42,530**	**34,093**	**80,065**	**1,686**	**81,751**

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 7.2 for details of impaired loans and relative specific provision made during 2016.

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 2016 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 10,453 thousand for US$ denominated and US$ 299 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 2016, 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 performedby 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 39.84% 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 2016 ***US$ '000***
Exposures to related parties:	34,661
Liabilities to related parties:	
Connected deposits	446,449

For further detail refer note 24 and 25 of the annual audited financial statements for the year ended 31 December 2016.

7 Other Disclosures (continued)

7.2 Impaired loans and related provision:

	31 December 2016
	US$ '000
Gross impaired loans	82,388
Less: Specific provision	(65,952)
Net impaired loans	**16,436**

Movement in impairment provision:

US$ '000	Specific Provision	Collective Provision	Total
Opening balance -1 January 2016	28,443	3,765	**32,208**
Charge /movement during the year-net	37,732	(265)	**37,467**
Recoveries during the year			**-**
Write off during the year			**-**
Exchange difference	(223)		**(223)**
Closing balance -31 December 2016	**65,952**	**3,500**	**69,452**

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	35,521	35,521
Claims on Banks	46,867	46,867
Total	**82,388**	**82,388**
Less: Specific Provision	**(65,952)**	**(65,952)**
Net Impaired loans	**16,436**	**16,436**

7 Other Disclosures (continued)

7.3 Restructured facilities:

	31 December 2016
	US$ '000
Balance of any restructured credit facilities as at year end	72,565
Loans restructured during the year	46,651
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 2016.

7.5 Equity positions in the banking book :

	31 December 2016
	US$ '000
Equity	210

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 2016.