Annual Report 2014

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

Contents

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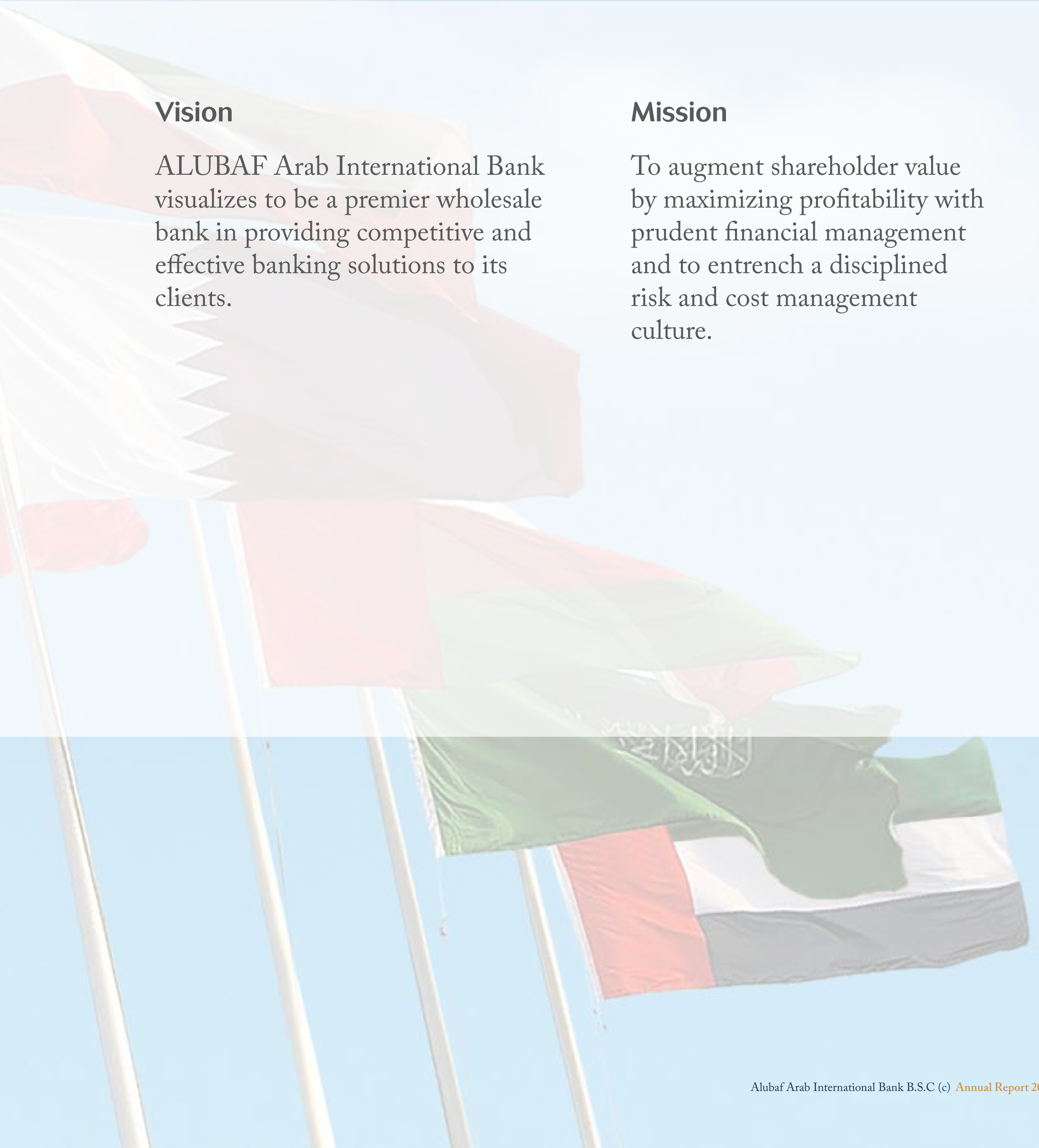
Section Three

ALUBAF visualizes to provide effective solution to all international banking services and its products and services broadly comprise of Treasury, Trade finance and Loans.

ALUBAF ARAB INTERNATIONAL BANK BSC(C) IS A WHOLESALE BANK REGISTERED IN THE KINGDOM OF BAHRAIN.



Vision

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

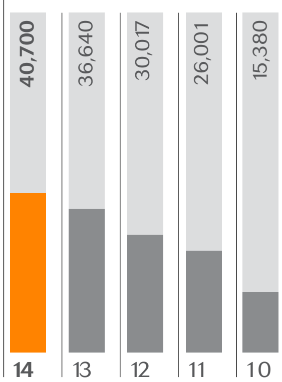
Mission

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

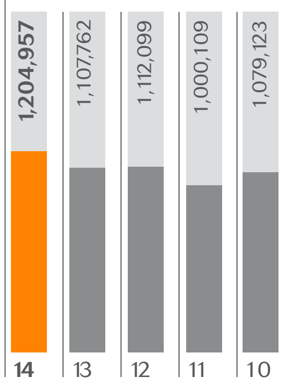
Financial Highlights

Year 2014 was a special year for Alubaf Bank in achieving a significant milestone in its growth path.

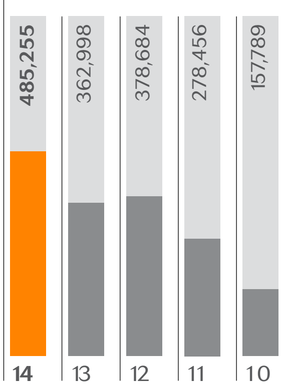
NET PROFIT
US$ '000s
40,700



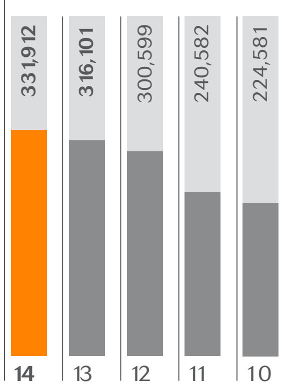
TOTAL ASSETS
US$ '000s
1,204,957



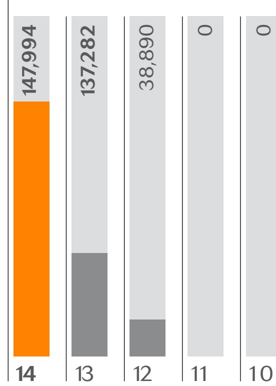
TOTAL LOANS
US$ '000s
485,255



TOTAL EQUITY
US$ '000s
331,912



NON TRADING INVESTMENTS
US$ '000s
147,994



	2014 USD '000s	2013 USD '000s	2012 USD '000s	2011 USD '000s	2010 USD '000s
Financial Position					
Net Profit before appropriation	40,700	36,640	30,017	26,001	15,380
Total Assets	1,204,957	1,107,762	1,112,099	1,000,109	1,079,123
Total Non-Trading Investments	147,994	137,282	38,890	13,819	-
Total Loans	485,255	362,998	378,684	278,456	157,789
Total Liablities	873,045	791,661	811,500	759,527	854,542
Total Equity	331,912	316,101	300,599	240,582	224,581
Ratios %					
Profitability					
ROAA -Return on Average Assets %	4%	3%	3%	3%	2%
ROAE-Return on Average Equity %	13%	12%	11%	11%	9%
Cost to Income	25%	23%	19%	18%	27%
Capital					
Capital Adequacy Ratio	42%	44%	50%	45%	43%
Equity Assets Ratio	28%	29%	27%	24%	21%
Asset Quality					
Loans to Total Assets	40%	33%	34%	26%	15%
Non Trading Investment/ Total assets	12%	12%	3%	1%	0%
NPA/Gross loans	1.5%	1.1%	0.6%	0.9%	1.5%
Liquidity					
Liquid assets to Total Assets	46%	54%	60%	70%	84%
Liquid assets to Liabilities	64%	75%	83%	93%	104%

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. Suleiman Esa Al Azzabi
Deputy Chairman

Masters in Banking and Finance, with over 20 years of experience. General Manager of National Commercial Bank, Tripoli, Libya and Committee Member of Leasing Law, Libya. Formerly, a Board member of Arab Financial Services Bahrain.

Mr. Ali Makhzum Ben Hamza
Director

BA in Statistics, with over 25 years of Banking experience. Manager of Training Department, Libyan Foreign Bank, Libya.

Mr. Fathi Ahmed Yahia
Director

Deputy Manager of Participations department of Libyan Foreign Bank, Libya. He has more than three decades of extensive experience in Banking. Formerly, a Board member of Alubaf International Bank, Tunis.

"We expect to strengthen our competitive position and add value to shareholders, provide state of the art service to our customers, reward management and staff for their valuable contribution and be fully compliant with all regulatory requirements. We are confident that Alubaf is well positioned to seize right growth opportunities and strengthen its drive to increase shareholder value."

Moraja G. Solaiman | Chairman

+11.1%

Alubaf posted a strong growth of 11.1% over last year's results and achieved a Net profit of US$ 40.7 million for the year ended 31 December 2014.

Members of the General assembly of the Alubaf Arab International Bank, Bahrain:

On behalf of the Board of Directors and for myself, it is my honour to present the Annual report and audited financial statements for the year ended 31 December 2014.

The Middle East and African Region witnessed continued geo- political events in 2014, and the banking industry was not spared from being impacted. However, Alubaf was able to face these continued new challenges and achieved remarkable financial results in 2014.

The Bank posted a strong growth of 11.1% over last year's results and achieved a Net profit of US$ 40.7 million for the year ended 31 December 2014. Overall operating income before provisions stood at US$ 61.9 million, an increase of 20.6% over last year's US$ 51.4 million. However, the Bank increased its provisioning this year to keep pace with the loans portfolio growth and improved its provision coverage ratio to 97% as a prudential measure. After deduction of provisions, the net operating income stood at US$ 54.1 million for the year ended 31 December 2014, as compared to last year's US$ 47.3 million.

Operating expenses increased to 24.9% of the net operating income compared to last year's 22.7%. This is mainly due to increase in staff costs and other operating expenses, to align with increased business activity and to optimize operational efficiency. However, overall cost to income ratio, remained at a reasonable level of 25%. Capital adequacy ratio at 42.19%, reflects its capital strength. Liquidity ratio remained comfortable. Growth in total assets was 8.8%, loans portfolio grew by 33.7% and Non trading investments by 7.8% compared to previous year 2013. Change in product mix was healthy and contributed to a balanced risk-return yield levels.

The Board continued with its strategic focus on growth in delivering increasing return to shareholders. The Board and management's adaptation to complex economic scenario has positioned the Bank in strategic growth path. Return on average equity improved to a new level of 13% for the year ended 31 December 2014. The Board seeks to ensure that the Bank's return to shareholders improves over long term.

The Board of Directors is pleased to propose a dividend of US$5 per share, at 10% of paid up share capital, i.e., US$ 25 million for the year 2014, subject to regulatory approval.

Looking ahead, we expect to strengthen our competitive position and add value to shareholders, provide state of the art service to our customers, reward management and staff for their valuable contribution and be fully compliant with all regulatory requirements. We are confident that Alubaf is well positioned to seize right growth opportunities and strengthen its drive to increase shareholder value.

Finally, I would like to thank all members of the Board, the shareholders, the Ministry of Industry and Commerce in the Kingdom of Bahrain, the Central Bank of Bahrain and all correspondent banks and our customers for their continued support.

I also extend my appreciation and thanks to all the employees for their dedication and commitment in achieving remarkable results.

Moraja G. Solaiman
Chairman

Executive Management

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1. Mr. Hasan Khalifa 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.

2. Mr. Mohamed S. Ftera
Senior Deputy Chief Executive Officer

Bachelor in Business Administration. He held various positions in Libyan Foreign Bank and its participations, and brings in more than two decades of experience in International Banking, is deputed to head Finance, Operations and Information Technology. He was for an interim period of six months in 2012 as Acting General Manager of Alubaf-Bahrain.

3. Mr. Mahmoud Abdullah Azzouz
Deputy Chief Executive Officer

A senior manager of Libyan Foreign Bank is deputed to head Business development, Treasury and Trade Finance. He has held several senior position in varied departments in Libyan foreign Bank and its participations, brings in more than four decades of International banking experience in Trade Finance and Operations.

4. 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.

5. Mr. Abdulrahman Khalfan
Head of Business Development

Diploma in Commerce from Kingdom of Bahrain. He has over thirty years of extensive experience in Banking Industry in Bahrain and has held senior position with leading Banks in Bahrain with high specialization in Trade finance business and operations in GCC and MENA Region.

6. 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 10 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.

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7. Mr. Saeed Al Banna
Head of Human Resources and Administration

B.Sc. in Human Resources management has served in various capacities in banking industry and has over 25 years of strong experience with specialization in compensation & benefits.

8. Mr. Mohamed A.Hameed A. Qader
Head of Risk Management and 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.

9. Mr. Tallal Ali El Mshawat
Head of Information Technology

Over fourteen 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 he is PMP certified project manager.

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

Diploma in Banking, with over 25 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.

11. Ms. K.R.Usha
Head of Financial Control

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

12. 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 ten years of experience in Banking operations, Treasury and customer relationship management.

Review of the Chief Executive Officer

Total operating income

Total operating income for the year was US$ 61.9 million, reflecting an increase of 20.6% over last year 2013.

Net Profit

Alubaf recorded a Net profit of US$ 40.7 million for the financial year ended 31 December 2014, as against US$ 36.6 million for previous year.

Amidst the challenging environment for Banking industry due to regional and global developments which negatively affected the economic climate, the financial year 2014 has ended for Alubaf with another sequentially successful and strong financial performance.

Alubaf recorded a Net profit of US$ 40.7 million for the financial year ended 31 December 2014, as against US$ 36.6 million for previous year, resulting in a growth of 11.1%. This is the sixth consecutive year of growth in profit achieved by the bank.

Total assets grew by 8.8% for the year ended 31 December 2014 compared to last year 2013 and return on average equity improved to 12.6% for 2014 compared to 11.9% for previous year ended 2013.

Total operating income for the year was US$ 61.9 million, reflecting an increase of 20.6% over last year 2013. Operating income broadly comprise of:

- Net interest income US$ 44 million
- Gain from trading portfolio US$ 0.5 million
- Gain on non- trading investments US$ 0.3 million
- Foreign exchange gains US$ 0.6 million and
- Fee and commission income US$ 16.4 million.

The Bank continued with its prudent measure of provisioning, adopting its conservative policy and provided a sum of US$ 7.8 million for the year from its operating income, towards specific and general provision for credit losses. Thus, net Operating income stood at US$ 54.1 million for the year 2014 and resulted in a growth of 14.3% over last year figures. Due to high provisioning, net operating income and Net profit earned contracted for the year ended 2014.

Corresponding to growth in Operating income, there was an increase in Operating expenses by 25.3% over last year, to dynamically meet the changes in business requirements and to consistently improve operational efficiency. Marginal increase is evidenced in Cost to income ratio, which stood at a reasonable level of 24.9%.

Financial ratios indicated healthy and strong financial position of the Bank, with Liquid assets to total assets at 46.3% and capital adequacy ratio at 42.19% as at 31 December 2014.

Strategic initiatives of widening customer base, product diversification, entering new markets and de-risk the Loans portfolio to a balanced risk-return ratio had sustained the steady growth levels and reflects the concerted efforts of management. These results reinforces Alubaf's position and reflects the inherent strength, abilities and competencies of its dynamic strategy and management. Above progress was within the framework of evaluation and precise control of risks to make it within the limits of the Bank's risk appetite.

In 2014, effective remedial measures were implemented for any gaps reported by audit.

Further, implementation of FATCA and Basel III continued at good pace to ensure timely execution according to timelines set by regulator. The Bank developed a sound remuneration policy in line with regulator, Central Bank of Bahrain requirements. Additionally, the Bank's Information technology proactively addresses issues to enhance and strengthen its technology platform with state of the art reporting tools.

Outlook for the year ahead 2015, is expected to be promising for Alubaf, with its strong financial position and performance achieved for the year ended 31 December 2014; However, we expect a gradual improvement due to continued economic uncertainties. Management's sharp focus to improve asset quality, with well diversified asset portfolio and income streams and sustain strong financial ratios is expected to spur growth in 2015.

In conclusion, I would like to express my sincere thanks and gratitude to all employees for their efforts and commitment, in realizing good results and I extend my thanks to Board of Directors for their strategic direction and guidance in achieving sustained growth levels.

I extend my thanks to the Government of Bahrain, Central Bank of Bahrain, correspondent Banks, customers and shareholders for their continued and unlimited support to the Bank.

Hasan Khalifa Abulhasan
Chief Executive Officer

Corporate Governance
Contents

1. GOVERNANCE

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

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

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

1. **Board of Directors Committees:**
   - Audit, Risk & Compliance Committee (ARCC); and
   - Nomination & Remuneration Committee (NRC).
2. **Management Committees:**
   - Asset and liability Committee (ALCO);
   - Management Risk Committee (MRC); and
   - Human Resource and Compensation Committee (HRCC).

2. INDEPENDENCE AND AUTHORITY

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

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

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

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

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

3. SHAREHOLDERS

The Bank is majority owned by Libyan Foreign Bank (LFB) by 99.50%, a Bank registered in Libya and 100% owned by the Central Bank of Libya.

The shareholding structure of the Bank as at 31st December 2014:

Name of Shareholder	Percentage Shareholding	Nationality
Libyan Foreign Bank	99.50%	Libyan
National Bank of Yemen	0.28%	Yemeni
Yemen Bank for Reconstruction & Development	0.22%	Yemeni
Total	**100%**	

As of 31st December 2014, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

4. THE BOARD OF DIRECTORS

4.1 Responsibilities of the Board

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

- Establishing the objectives of the Bank;
- Monitor management performance;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Monitoring the implementation of strategy by management; and
- Causing financial statements to be prepared which accurately disclose the Bank's Financial position.
- The Board sets the 'tone at the top' of the Bank, and has a responsibility to oversee compliance with various laws and regulations, such laws involve Bahrain Bourse law, the Labour Law, the Commercial Companies Law and Central Bank of Bahrain rules and regulations.
- The Board shall ensure that processes are in place for maintaining the integrity and reputation of the Bank including Compliance with the laws, rules, regulations and internal policies governing the business of Bank.
- Review of internal control, processes & procedure is carried out by internal Audit Department.

4.2 Composition of the Board

For the Financial year of 2014, the Bank's Board of Directors composition as per the following:

Board Members	Position	Independent / Executive	Nationality	Appointment Date	Re-appointment Date
Mr. Moraja Gaith Solaiman	Chairman	Independent	Libyan	1-Nov-12	-
Mr. Suleiman Esa Al Azzabi	Deputy Chairman	Independent	Libyan	26-Oct-08	6-Jun-11
Mr. Ali Makhzum Ben Hamza	Director	Non- Executive	Libyan	7-Jul-04	6-Jun-11
Mr. Seyfullah Asaad Salim *	Director	Non- Executive	Libyan	16-Aug-07	6-Jun-11
Mr. Fathi Ahmed Yahia	Director	Non- Executive	Libyan	1-Nov-12	-

*Mr. Seyfullah Asaad Salim has completed his term.

Each term of Board of Directors consists of three years. Two Board members (Mr. Suleiman Al Azzabi & Mr. Ali Ben Hamza) were re-elected by shareholders at the Annual general Assembly held on April 2014.

4.3 Activities of the Board

As per CBB Rulebook, High-Level Control Module, section HC-1.3; the Board must meet frequently but in no event less than four times a year. Additionally, as per the Nomination and Remuneration Committee charter the committee shall meet at least twice a year, and as per the Audit, Risk and Compliance Committee charter the committee shall meet at least four times a year. During the year 2014, the Board met six times. In addition, Audit, Risk and Compliance Committee (ARCC) has met four times and Nomination & Remuneration Committee (NRC) has met three times.

The dates and attendance details of the Board meetings are given below:

	Date & Location of meeting	Names of Directors present	Names of directors not present
1	16th February 2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Suleiman Isa Azzabi Mr. Fathi A. Yahia Mr. Seyfullah A. Salim Mr. Ali Makhzom Bin Hamza	NONE
2	23rd March 2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Suleiman Isa Azzabi Mr. Fathi A. Yahia Mr. Seyfullah A. Salim Mr. Ali Makhzom Bin Hamza	NONE
3	1st June 2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Suleiman Isa Azzabi Mr. Fathi A. Yahia Mr. Ali Makhzom Bin Hamza	Mr. Seyfullah A. Salim*
4	9th September 2014 Held In Istanbul - Turkey	Mr. Moraja G. Solaiman Mr. Suleiman Isa Azzabi Mr. Fathi A. Yahia Mr. Ali Makhzom Bin Hamza	NONE
5	30th October 2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Suleiman Isa Azzabi Mr. Fathi A. Yahia Mr. Ali Makhzom Bin Hamza	NONE
6	14th December 2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Suleiman Isa Azzabi Mr. Fathi A. Yahia Mr. Ali Makhzom Bin Hamza	NONE

* Mr. Seyfullah has completed his term with the Bank.

The dates and attendance details of the Audit, Risk & Compliance Committee (ARCC) meetings are given below:

	Type of meeting, date & location	Committee members present	Committee members not present
1	Audit,Risk & Compliance Committee 16-February-2014 Held In Kingdom of Bahrain	Mr. Suleiman Isa Azzabi Mr. Ali Makhzom Bin Hamza Mr. Seyfullah Asaad Salim	NONE
2	Audit,Risk & Compliance Committee 31-May-2014 Held In Kingdom of Bahrain	Mr. Suleiman Isa Azzabi Mr. Ali Makhzom Bin Hamza	Mr. Seyfullah A. Salim*
3	Audit,Risk & Compliance Committee 29-October-2014 Held In Kingdom of Bahrain	Mr. Suleiman Isa Azzabi Mr. Ali Makhzom Bin Hamza	NONE
4	Audit,Risk & Compliance Committee 13-December-2014 Held In Kingdom of Bahrain	Mr. Suleiman Isa Azzabi Mr. Ali Makhzom Bin Hamza	NONE

* Mr. Seyfullah has completed his term with the Bank.

The dates and attendance details of the Nomination and Remuneration Committee (NRC) meetings are given below:

	Type of meeting, date & location	Committee members present	Committee members not present
1	Nomination & Remuneration Committee 22-March-2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Seyfullah A. Salim Mr. Fathi A. Yahia	NONE
2	Nomination & Remuneration Committee 1-June-2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Fathi A. Yahia	Mr. Seyfullah A. Salim*
3	Nomination & Remuneration Committee 13-December-2014 Held In Kingdom of Bahrain	Mr. Moraja G. Solaiman Mr. Fathi A. Yahia	NONE

* Mr. Seyfullah has completed his term with the Bank.

4.4 Evaluation of the Board

4.4.1 Appointment of Directors

As per the Bank Article of Association, the Bank shall be administered by a Board of Directors compromising not less than 3 Directors and not more than 9 Directors, appointed at the Annual General Meeting by secret ballot. The Board is appointed for a term of three years commencing on the date of the previous Board election. The appointment of the Board of Directors shall be based on the provision of Bahrain Commercial Company Law. The Board shall elect by secret ballot from its Directors, a Chairman and Deputy Chairman for the tuner of the Board. Board members adhere to Bank's Article of Association, the Corporate Governance Code of Conduct and all applicable laws and regulations. Additionally, the Bank's Article of Association lists all the situations which results of the Board member service termination, such as the Director failure to attend four consecutive meetings of the Board without lawful excuse.

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

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

4.4.2 Assessment of the Board

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

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

Board of Directors have conducted an independent self-assessment related to 2013, and the results have been forwarded to shareholders during the Annual General Meeting held on 28th April 2014. The Board of Directors have conducted the same exercise during 2014 and the findings of the report will be submitted to the shareholders during the next Annual General Meeting.

5. BOARD COMMITTEES

The Board has two committees namely the Audit, Risk &Compliance Committee (ARCC) and Nomination & Remuneration Committee (NRC). The ARCC consists of three members and NRC includes two members. All members of the committees are board members. In accordance with the CBB's rulebook (Volume 1), the majority members of Board committees should be independent directors.

The compositions of the Board Committees as of 31st December 2014 are:

Board Committees	Member Name	Member Position	Independent / Non-Independent
Audit, Risk &Compliance Committee (ARCC)	Mr. Suleiman Esa Al Azzabi	Chairman	Independent
	Mr. Ali Makhzom Ben Hamza	Director	Non-Independent
Nomination & Remuneration Committee (NRC)	Mr. Moraja Gaith Solaiman	Chairman	Independent
	Mr. Fathi Ahmed Yahia	Director	Non-Independent

5.1 Audit, Risk & Compliance Committee (ARCC)

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

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

5.2 Nomination & Remuneration Committee (NRC)

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

- Ensure a formal and transparent Board nomination process is in place;
- Give full consideration to succession planning for directors (in particular the Chairman and the 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;

6. MANAGEMENT COMMITTEES

There are three management level committees namely Asset and liability Committee (ALCO), Management Risk Committee (MRC), and Human Resource and Compensation Committee (HRCC).

The Management Committee members are:

Management Committees	Member Position	Committee Member Position
Asset and liability Committee (ALCO)	Chief Executive Officer	Head
	Deputy Chief Executive Officer (Business Development, Trade Finance, Treasury & Investment)	Deputy Head
	Senior Deputy Chief Executive Officer	Member
	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
	Senior Deputy Chief Executive Officer (Financial Control, Information Technology, Operations)	Deputy Head
	Deputy Chief Executive Officer	Member
	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
	Senior Deputy Chief Executive Officer	Member
	Deputy Chief Executive Officer	Member
	Head of Human Resources and Administration	Member

6.1 Asset and Liability Committee (ALCO)

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

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

6.2 Management Risk Committee (MRC)

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

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

6.3 Human Resources & Compensation Committee (HRCC)

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

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

7. APPROVAL AUTHORITY STRUCTURE

The materiality level for transactions that require Board approval varies for different activities and is governed by the Board approved Delegation of Authority document and Credit Facility Approval Authority Matrix.

- In addition, as per the Bank Board Charter, decisions made by the Board, other than those made at Annual General Meetings and Extraordinary General Meetings may be made through circulation. The Board's decisions shall be considered by a vote of the majority of the attending members or in accordance with regulatory requirements. In case of equality of votes, the Chairman of the Board shall have the casting vote. The dissenting member may record his/her dissent. In all such cases: The secretary shall ensure and confirm circulation of necessary information and documentation; and
- A decision through circulation will not be valid unless approved by majority.

Furthermore, the Bank has a proper credit due-diligence procedure for all type of facilities/exposures either with the transaction is being a related party or non-related party transaction.

8. CODE OF CONDUCT AND CONFLICT OF INTEREST

The Bank has adopted Code of Conduct and other internal policies and guidelines designed to guide all employees and directors through best practices to fulfill their responsibilities and obligations towards the Bank's stakeholders in compliance with all laws, rules and regulations that govern the Bank's business operations. The Code of Conduct contains rules on conduct, ethics and on avoiding conflict of interest applicable to all the employees and directors of the Bank. The Code of Conduct is documented, published and communicated throughout the Bank. The Bank has an annual declaration of Conflict of Interest statement for Board members and approved persons, during 2014 no issues related to the conflict of interest have arises. Additionally, as per the Board appointment agreement each director has the responsibility to disclose any material interest related to business transactions and agreements and gave them the privilege of accessing to independent professional advise if required. The Bank's website also contains the Board approved Code of Conduct.

The Bank set up a Whistle-blowing framework that enhances good governance and transparency within the Bank. The Bank is committed in maintaining the highest possible standards of ethical and legal conduct while conduction its operations.

9. COMMUNICATIONS

In compliance with CBB regulations under PD Module of the Volume 1 of CBB Rulebook, the Bank has a Board approved public disclosure policy that discloses material information about 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 communications. These disclosures are made on a timely basis in a manner required by applicable laws and regulatory requirements.

Management seeks to respond to shareholders' questions and concerns on a prompt basis, subject to the limitations imposed by law and the confidentiality of certain information. The Bank maintains a website at www.alubafbank.com, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report and reviewed quarterly financials of the Bank and others.

10. ANTI-MONEY LAUNDERING

The Bank's anti money laundering (AML) policy intended 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 anticipated to prevent the Bank's operations activities from being used by others for unlawful purposes.

The Bank's policy prohibit and actively prevent money laundering and any activity that facilitate money laundering or funding of terrorist or criminal activities by comply with the AML laws and regulations of the jurisdiction in which it undertakes business activities and as per compliance program.

The Bank committed to provide periodic training and information to ensure that all affected employees are aware of their responsibilities under the AML law and Central Bank of Bahrain regulation. The Bank provides up to date AML training for relevant staff that is appropriate to the Bank's activities and its differing types of customers.

11. Remuneration to External Auditors

In 2014, the Bank has paid its external auditors, Messers Ernst & Young, US$ 69 Thousand for audit and other audit related service fees (included prudential information reports reviews, quarterly reviews, anti money laundering review, public disclosures reviews). Messers Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the Financial year ending 31st December 2015. The Audit Risk Compliance Committee (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 on 12 April 2015.

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

	2014 USD'000s	2013 USD'000s
Audit and other audit related service fee	69	69
Non Audit services fee	-	42
Total	**69**	111

12. Financial Year 2014 Compliance

Central Bank of Bahrain (CBB) Penalty Disclosure

The Bank did not comply with the requirements of PD-3.1.6 of the CBB's Rulebook, which requires licensees to make all quantitative disclosure required by section PD-1.3 with their half-yearly financial statements on their website, within 45 calendar days of the end of the half yearly financial statements. In accordance with Module EN and the size of the Bank's total consolidated assets as of 30th June 2014, the bank has paid a financial penalty of BD 600.

Enhancement Initiative

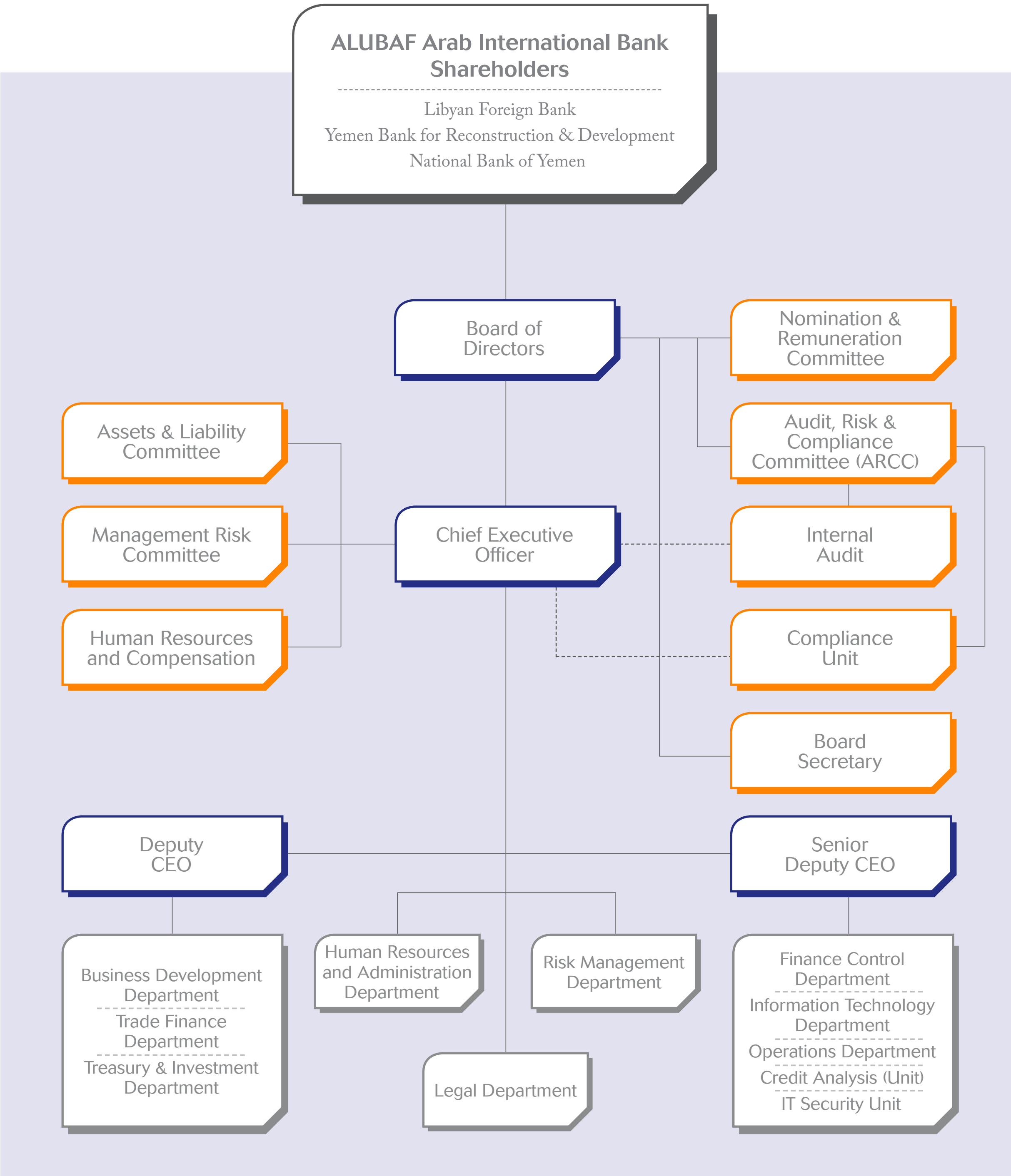
The Bank is complying with the CBB requirement set out in section HC-1.5.2 of the High Level Controls Module of the CBB Rulebook related to the level of independence of at least one third of the board members.

This level of independent directors has not enabled the Bank to comply with the CBB requirements in sections HC-3.2.1, HC 4.2.1 & HC 5.2.1 related to Audit, Nomination & remuneration committees composition.

The change in Board composition has delayed the process of appointing new Board members but the Bank will take the necessary actions and initiatives to address the level of independent members within committees as well as will keep CBB informed at all times.

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

Corporate Governance chart



Remuneration Disclosures
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Remuneration Disclosures

INTRODUCTION

This document has been prepared in accordance with CBB new remuneration disclosure requirements for Wholesale Banks under CBB rulebook (Volume 1 – Conventional Banks).

CORE REMUNERATION POLICY

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors of the bank and requires approval of the shareholders in the ensuing Annual General Meeting are:

- 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 Banks intention to reward employees in a way which reflects merit. Merit being 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.
- The major components of this overall approach are:
  - Base Compensation for the individual employee's overall contribution & 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 appraisal and performance ranking process. 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 operator's is reviewed periodically, to ensure that the Bank salary 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, know-how, 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
- The Bank has a well-defined variable pay scheme in place, to support the NRC, should they 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;
- 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;
  - 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:
  - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours 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

CORE REMUNERATION POLICY (continued)

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

The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector Law No.36 of 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.

The Bank would not allow any of its employees identified as approved persons as per CBB guidelines, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers except for Board related remuneration linked to their fiduciary duties to the investors of the project/investment including those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments.

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.

Governance

The composition of the Board Nomination and Remuneration Committee (NRC) is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The NRC charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The Committee utilised the services of an external consultant to re-design and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.

Remuneration policy

The Bank has revised the variable pay policy in light of the CBB remuneration guidelines and the key feature are:

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 componentsubject to achieving the risk ajusted targets both at the business unit and the bank level.

For staff in Control and Support functions the pay mix is structured as more fixed and lesser variable pay. Further 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 overall bank's performance.

Variable Pay

Computation of variable pay pool for CEO, Senior Management and Business Units

The Variable pay computation process of the bank has been refined to include the following features:

- 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. In addition 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;
- 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:
  - The target setting process considers the realised versus unrealised profit mix;
  - Introduction of deferral of variable pay over 3 years:
    - The Bonus for the CEO, his deputies and Material Risk Takers and Approved persons as per CBB and whose total remuneration exceeds the regulatory threshold has a deferral element and share linked payment. Phantom or Shadow shares are being offered to such staff.
    - The deferral arrangements are as follows:

REGULATORY ALIGNMENT (continued)

Remuneration Policy (continued)

- CEO, his deputies and top 5 Senior Management members (in terms of total remuneration) in Business units:
  - 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 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 3 year period and the phantom or shadow shares can be encashed after 6 months from the vesting date.
- For all other employees in Business units and Approved persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold:
  - 50% of the variable pay will be paid in cash at the end of the performance period; and
  - 10% in the form of phantom or shadow shares at the end of the performance period which can be encashed by the employee after 6 months.
  - The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and can be encashed after 6 months from the vesting date.

- Introduction of claw back and malus clauses whereby the NRC has the right to invoke these clauses under certain pre-defined circumstanceswherein the bank can clawback the vested as well as the unvested bonus paid or payable to an employee. Some of the conditions are:
  - Where there is reasonable evidence of material error or culpability for a breach of Bank's 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 bonus for a result which was much higher than actually realised, the NRC might 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

Computation of Variable Pay – 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 bank making a loss, the variable pay for the staff in the Control and Support unit, would be payable based on the Unit targets and the individual performance.
- Base Bonus Multiples are set by grade for all the Control and Support units.
- The bonus is computed as:
  - 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 unit could be increased as deemed fit by the NRC.
- Bonus will be deferred, for those employees whose total remuneration exceeds the regulatory threshold currently set at BD 100,000 per annum, as follows:
- 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 6 months.
  - The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period
- The Variable Pay is subject to clawback and the unvested portion of deferred pay is subject to Malus as explained earlier for the computation of variable pay for Business units.

The Summary of the Variable pay process is:

- 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

REGULATORY ALIGNMENT (continued)

Remuneration Policy (continued)

- 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 lesser or nil if the bank or business units do not achieve the risk adjusted targets or make losses
- 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

Board remuneration

As per the Board charter , the Board, based upon the recommendation of the Nomination and Remuneration committee and subject to the laws and regulations, determines the form and amount of Director Compensation. The Committee shall conduct an annual review of director compensation. Furthermore, as per the Bank's Article of Association, the General Assembly may prescribe the remuneration of the members of the Boards of Directors, provided that total of such remuneration shall not exceeds ten percent (10%) of the profit in any one financial year after allowing for the transfer to legal reserves and after allowing for the distribution to the shareholders of a dividend totalling not less than five percent (5%) of the capital of the company.

Nomination & Remuneration committee (NRC) Members.

NRC Members	Position	Independent / Executive	Appointment Date	Number of Meetings Attended
Mr. Moraja Gaith Solaiman	Chairman	Independent	1-Nov-12	2
Mr. Seyfullah Asaad Salim *	Director	Non- Executive	16-Aug-07	1
Mr. Fathi Ahmed Yahia	Director	Non- Executive	1-Nov-12	3

* Mr. Seyfullah Asaad Salim has completed his term with the Bank on June 2014.

Nomination & Remuneration Committee (NRC)

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

- Ensure a formal and transparent Board nomination process is in place;
- Give full consideration to succession planning for directors (in particular the Chairman and the Chief Executive Officer) and other senior management (such as the direct reports of the Chief Executive Officer);
- 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;
- Review and assess the adequacy of the Bank 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
  - The Nomination and Remuneration Committee shall be responsible for the design, implementation and supervision of the remuneration policy. In particular, the NRC shall:
  - Design all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the Bank. In designing the Remuneration Policy, the NRC shall consider the Core Remuneration Policy of the Bank, the business strategy of the Bank, the regulatory pronouncements of the Central Bank of Bahrain and the labour laws of the Kingdom of Bahrain;
  - Obtain approval of the Board of Directors and subsequently the Shareholders on the Remuneration Policy adopted by the Bank;
  - Approve the Remuneration Policy and remuneration for each Approved Person and Material Risk-Taker;
  - Approve targets and associated risk parameters, and variable pay for achieving the set target for each performance period;
  - Approve total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
  - Monitor and review the remuneration system on a regular basis to ensure the system operates as intended;
  - Undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long term objectives and business goals;
  - Undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or

REGULATORY ALIGNMENT (continued)

Nomination & Remuneration Committee (NRC) (continued)

malus; and

- Recommend Board Member remuneration based on their attendance and performance and in compliance with Article 188 of the Company Law.

Details of Remuneration Paid to Board of Directors

	2014 US$ '000s	2013 US$ '000s
Sitting fee, accommodation and travel allowance	346	369
* Remuneration	500	500
Others	0	8

* Accrued expenses (Remuneration paid for 2013 amounted to USD 400 thousand)

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 (ie, after the retention period).

Deferred Compensation.

1) CEO & Deputies.

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate			
Deferred cash	10%	3 years			
Deferred share awards	50%	3 years			

2) All others covered staff.

Elements of variable remuneration	Payout percentages	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate			
Upfront share awards	10%	Immediate	6 months		
Deferred share awards	40%	3 years			

3) Employee remuneration.

USD '000s

		Fixed Remuneration			Variable Remuneration						Total
Categories	No.	Salaries and Wages	Other Benefits/ Allowances	Total	Performance Bonuses (in Cash)	Performance Bonuses (in Shares)	Other Performance Linked Incentives	Deferred Compensation paid during the period	Others	Total	
1. Members of the Board	4		846	846							846
2. Approved persons (Business Lines) (not included in 1,3 to 6)	5	1,050	382	1,432	411	334	nil	nil	nil	745	2,177
3. Approved persons (Control & Support) risk management, internal audit, operations, financial controls, AML and compliance functions	7	857	196	1,053	416	48	nil	nil	nil	464	1,517
4. Employees engaged in risk taking activities. (Business Lines areas)	9	657	24	681	297	nil	nil	nil	nil	297	978
5. Employees, other than approved persons, engaged in functions under 3. (Control & support)	17	668	32	700	276	nil	nil	nil	nil	276	976
6. Other employees	11	509	21	530	196	nil	nil	nil	nil	196	726
TOTAL	**53**	**3,741**	**1,501**	**5,242**	**1,596**	**382**	**0**	**0**	**0**	**1,978**	**7,220**

Financial Statements 2014
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Independent Auditors' Report

to the Shareholders of Alubaf Arab International Bank B.S.C. (c)

Report on the financial statements

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 2014 and the statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory matters

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

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

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, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2014 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

Partner Registration Number: 115

16 February 2015
Manama, Kingdom of Bahrain

Statement of Financial Position

As at 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
ASSETS			
Cash and balances with banks	4	22,507	150,345
Deposits with banks and other financial institutions	4,5	523,645	422,005
Investments held for trading	6	3,037	14,626
Non-trading investments	7	147,994	137,282
Loans and advances	8	485,255	362,998
Property, equipment and software	9	12,320	13,366
Interest receivable		8,922	5,916
Other assets		1,277	1,224
TOTAL ASSETS		1,204,957	1,107,762
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	10	616,319	501,186
Due to banks and other financial institutions	10	219,636	268,273
Due to customers	11	25,151	7,714
Interest payable		189	205
Other liabilities	12	11,750	14,283
Total liabilities		873,045	791,661
Equity			
Share capital	13	250,000	250,000
Advance towards capital increase	13	140	-
Statutory reserve	13	17,667	13,597
Retained earnings		65,272	28,642
Fair value reserve		(1,167)	(1,138)
Proposed dividend	14	-	25,000
Total equity		331,912	316,101
TOTAL LIABILITIES AND EQUITY		1,204,957	1,107,762

Suleiman Esa Al Azzabi
Deputy Chairman

Mr. Ali Makhzum Ben Hamza
Director

Hasan Khalifa Abulhasan
Chief Executive Officer

The attached notes 1 to 25 form part of these financial statements.

Statement of Profit or Loss
For the year ended 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
Interest and similar income	15	**45,561**	34,627
Interest expense	16	**(1,476)**	(1,860)
Net interest income		**44,085**	32,767
Fee and commission income	17	**16,436**	17,874
Trading income	18	**505**	(1,027)
Gain on non-trading investments - net		**332**	953
Foreign exchange gain		**551**	823
Dividend income		**75**	18
OPERATING INCOME		**61,984**	51,408
Provision for impairment of loans and advances	8	**(7,817)**	(4,017)
NET OPERATING INCOME		**54,167**	47,391
Staff costs		**8,142**	6,253
Depreciation	9	**1,233**	1,078
Other operating expenses	19	**4,092**	3,420
OPERATING EXPENSES		**13,467**	10,751
NET PROFIT FOR THE YEAR		**40,700**	36,640

Suleiman Esa Al Azzabi
Deputy Chairman

Mr. Ali Makhzum Ben Hamza
Director

Hasan Khalifa Abulhasan
Chief Executive Officer

The attached notes 1 to 25 form part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 US$ '000	2013 US$ '000
NET PROFIT FOR THE YEAR	40,700	36,640
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	(29)	(1,138)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	(29)	(1,138)
Other comprehensive income for the year	(29)	(1,138)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	40,671	35,502

The attached notes 1 to 25 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 US$ '000	2013 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		**40,700**	36,640
Adjustments for:			
Provision for loan losses	8	**7,817**	4,017
Depreciation	9	**1,233**	1,078
Changes in fair value of investments held for trading	18	**(17)**	540
Net gain on non-trading investments		**(332)**	(953)
Amortisation of non-trading investments		**767**	542
Amortisation of assets reclassified as "loans and advances" from trading investments		**(603)**	(554)
Operating profit before changes in operating assets and liabilities		**49,565**	41,310
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		**41,015**	(188,910)
Loans and advances		**(129,471)**	12,223
Investments held for trading		**11,606**	(16,095)
Interest receivable		**(3,006)**	2,118
Other assets		**(53)**	(729)
Deposits from banks and other financial institutions		**115,133**	(17,831)
Due to banks and other financial institutions		**(48,637)**	1,210
Due to customers		**17,437**	(13,369)
Interest payable		**(16)**	36
Other liabilities		**(2,533)**	10,115
Net cash from (used in) operating activities		**51,040**	(169,922)
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(28,943)**	(109,112)
Proceeds from disposal of non-trading investments		**17,767**	10,946
Purchase of property, equipment and software	9	**(187)**	(478)
Net cash used in investing activities		**(11,363)**	(98,644)
FINANCING ACTIVITIES			
Advance towards capital increase	13	**140**	-
Dividends paid	14	**(25,000)**	(20,000)
Net cash used in financing activities		**(24,860)**	(20,000)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**14,817**	(288,566)
Cash and cash equivalents at 1 January		**373,440**	662,006
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	**388,257**	373,440

The attached notes 1 to 25 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2014

	Note	Share capital US$ '000	Advance towards capital increase US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Fair value reserve US$'000	Proposed dividend US$ '000	Total US$ '000
Balance as of 1 January 2014		250,000	-	13,597	28,642	(1,138)	25,000	316,101
Advance towards capital increase	13	-	140	-	-	-	-	140
Net profit for the year		-	-	-	40,700	-	-	40,700
Other comprehensive income		-	-	-	-	(29)	-	(29)
Total comprehensive income for the year		-	-	-	40,700	(29)	-	40,671
Dividends paid for 2013	14	-	-	-	-	-	(25,000)	(25,000)
Transfer to statutory reserve	13	-	-	4,070	(4,070)	-	-	-
Balance as of 31 December 2014		**250,000**	**140**	**17,667**	**65,272**	**(1,167)**	**-**	**331,912**
Balance as of 1 January 2013		250,000	-	9,933	20,666	-	20,000	300,599
Net profit for the year		-	-	-	36,640	-	-	36,640
Other comprehensive income		-	-	-	-	(1,138)	-	(1,138)
Total comprehensive income for the year		-	-	-	36,640	(1,138)	-	35,502
Dividends paid for 2012	14	-	-	-	-	-	(20,000)	(20,000)
Transfer to statutory reserve	13	-	-	3,664	(3,664)	-	-	-
Proposed dividend	14	-	-	-	(25,000)	-	25,000	-
Balance as of 31 December 2013		250,000	-	13,597	28,642	(1,138)	25,000	316,101

The attached notes 1 to 25 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 and Commerce under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB") under the new integrated licensing framework. 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 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 16 February 2015.

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 measured at fair value.

Functional and presentation currency
The financial statements are presented in United States Dollars (US$), being the Bank's functional currency, and all value are rounded to the nearest thousand (US$ '000), except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period.

2.2 Summary of 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:

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial assets and financial liabilities (continued)

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

i) Financial assets (continued)

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.

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 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 impairement 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

i) Financial assets (continued)

Impairment of financial assets (continued)

b) Available-for-sale (continued)

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, 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.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks 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 is not depreciated. Repair and maintenance costs are recognised in 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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

iii) Offsetting of financial instruments (continued)

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.

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

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in the Kingdom of Bahrain. The Bank makes contributions to Social Insurance Organisation calculated as a percentage of 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 and statutory reserve

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 2001 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 corporate laws in the Kingdom of Bahrain, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

iii) Offsetting of financial instruments (continued)

Fair value measurement

The Bank measures financial instruments, such as investments and derivatives at fair value at each balance sheet date. 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 21.5.

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

iii) Offsetting of financial instruments (continued)

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 2014. However, they did not impact the annual financial statements of the Bank.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Bank as the Bank does not have any derivatives.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, none of which had an impact on the Bank's financial statements.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, none of which had an impact on the Bank's financial statements.

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 which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. Management is currently assessing the impact of adopting IFRS 9 when it becomes effective.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since the Bank has no defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

a) IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same Bank;
- A performance condition may be a market or non-market condition; and
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

This improvement has no impact on the Bank as it does not have any share based payments.

b) IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

c) IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

As the Bank is not a listed entity, it is not required to make segment disclosures. Accordingly, these improvements have no impact on the Bank.

d) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

e) IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective (continued)

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

f) IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the it's effective date.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgements, 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 judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements.

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

Going concern

The Bank's management 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 is 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 the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

4 CASH AND BALANCES WITH BANKS

	2014 US$ '000	2013 US$ '000
Cash	18	4
Money at call and short notice	22,489	150,341
Cash and balances with banks	22,507	150,345
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 5)	365,750	223,095
Cash and cash equivalents	388,257	373,440

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:

	2014 US$ '000	2013 US$ '000
Deposits with original maturities of 90 days or less (note 4)	365,750	223,095
Deposits with original maturities of over 90 days	157,895	198,910
	523,645	422,005

6 INVESTMENTS HELD FOR TRADING

	2014 US$ '000	2013 US$ '000
Quoted:		
- Debt securities	3,000	11,715
- Equity	37	2,911
	3,037	14,626

7 NON-TRADING INVESTMENTS

	2014 US$ '000	2013 US$ '000
Held-to-maturity:		
Debt securities:		
- Sovereign	53,122	47,446
- Banks and corporates	74,150	71,553
Wakala units	3,000	3,000
Total held-to-maturity	130,272	121,999
Available-for-sale:		
Debt securities:		
- Sovereign	4,549	7,194
- Banks and corporates	13,173	8,089
Total available-for-sale	17,722	15,283
Total non-trading investments	147,994	137,282

8 LOANS AND ADVANCES

Loans and advances are stated net of provision for loan losses. The below gross loans and provisions for loan losses exclude interest in suspense amounting to US$ 304 thousand as of 31 December 2014 (2013: US$ 252 thousand).

	2014 US$ 000	2013 US$ 000
Sovereign loans	53,826	61,536
Commercial loans	166,441	106,212
Letters of credit - financing	283,870	206,334
	504,137	374,082
Provision for loan losses	(18,882)	(11,084)
	485,255	362,998

Movements in provision for loan losses were as follows:

	2014 US$ '000	2013 US$ '000
At 1 January	11,084	7,067
Provided during the year	7,817	4,017
Exchange difference	(19)	-
At 31 December	18,882	11,084

8 LOANS AND ADVANCES (continued)

The provision for loan losses comprise of the following:

	2014 US$ '000	2013 US$ '000
Specific provision	**7,236**	5,384
Collective provision	**11,646**	5,700
At 31 December	**18,882**	11,084
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**7,472**	12,595

Renegotiated facilities

	2014 US$ '000	2013 US$ '000
Loans and advances Commercial loans	**8,412**	8,828

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:

	2014 US$ '000	2013 US$ '000
Carrying value	**43,242**	42,639
Fair value	**46,361**	46,687

Additional fair value loss that would have been recognised in the statement of profit or loss for the year ended 31 December 2014 had the trading investment not been reclassified amounts to US$ 277 thousand (2013: US$ 5,076 thousand).

The Bank earns an effective interest rate of 8.89% (2013: 8.89%) and expects to recover US $43,242 thousand (2013: US $ 42,639 thousand) on this reclassified financial asset.

9 PROPERTY, EQUIPMENT AND SOFTWARE

	Land and Building US$ '000	Furniture, equipment and motor vehicles US$ '000	Software US$ '000	Total US$ '000
Cost:				
At 1 January 2014	11,854	2,902	791	15,547
Additions during the year	31	154	2	187
Disposal during the year	-	(1)	-	(1)
At 31 December 2014	11,885	3,055	793	15,733
Depreciation:				
At 1 January 2014	465	1,159	557	2,181
Charge for the year	512	555	166	1,233
Relating to disposal	-	(1)	-	(1)
At 31 December 2014	977	1,713	723	3,413
Net book value:				
At 31 December 2014	**10,908**	**1,342**	**70**	**12,320**
At 31 December 2013	11,389	1,743	234	13,366

10 DEPOSITS FROM AND DUE TO 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.

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

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.

12 OTHER LIABILITIES

	2014 US$ '000	2013 US$ '000
Accrued expenses	**4,358**	2,204
Unearned fee income	**4,908**	9,865
Retention money	-	130
Other	**2,484**	2,084
	11,750	14,283

13 SHARE CAPITAL

	2014 US$ '000	2013 US$ '000
Authorised:		
10,000,000 (2013: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000
Issued and fully paid up:		
5,000,000 (2013: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

13 SHARE CAPITAL (continued)

Shareholders	2014 Percentage holding (%)	2014 US$ '000	2013 Percentage holding (%)	2013 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

Advance towards capital increase
At the Extra Ordinary General Meeting held on 28 April 2014, the shareholders approved the increase of the Bank's share capital from US$ 250 million to US$ 300 million. During the year, US$ 140 thousand was received by the Bank towards capital increase from one of the minority shareholders. On receipt of the remaining amounts, the capital increase will be registered with the Ministry of Industry and Commerce.

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

14 DIVIDENDS PAID AND PROPOSED

The Bank has not proposed a dividend for the year ended 31 December 2014 (2013: US$ 25million; US$ 5 per share).

During the year, the dividend for the year ended 31 December 2013 amounting to US$ 25 million (US$ 5 per share) was paid following regulatory approvals and the approval of the shareholders in the Annual General Meeting held on 28 April 2014.

15 INTEREST INCOME

	2014 US$ '000	2013 US$ '000
Loans and advances	**34,587**	23,967
Deposits with banks and other financial institutions	**3,302**	3,676
Investments held for trading	**375**	737
Non-trading investments	**7,297**	6,247
	45,561	34,627

16 INTEREST EXPENSE

	2014 US$ '000	2013 US$ '000
Deposits from and due to banks and other financial institutions	**1,475**	1,845
Due to customers	**1**	15
	1,476	1,860

17 FEE AND COMMISSION INCOME

	2014 US$ '000	2013 US$ '000
Commission income on letters of credit	**15,211**	17,257
Commission income on letters of guarantee	**304**	160
Other	**921**	457
	16,436	17,874

18 TRADING INCOME

	2014 US$ '000	2013 US$ '000
Changes in fair value of investments held for trading	**17**	(540)
Trading gains / (losses) - net	**488**	(487)
	505	(1,027)

19 OTHER OPERATING EXPENSES

	2014 US$ '000	2013 US$ '000
Administrative and marketing expenses	**2,213**	1,777
Board of Directors' expenses	**846**	921
Professional services	**178**	406
Fees and other charges	**855**	316
	4,092	3,420

20 COMMITMENTS AND CONTINGENT LIABILITIES

	2014 US$ '000	2013 US$ '000
Letters of credit	**260,062**	163,393
Letters of guarantee	**8,394**	6,347
Foreign exchange contracts	**340**	2,521
Undrawn loan commitments	**18,409**	1,102
	287,205	173,363

Legal claim contingency

The Bank is defendant in a legal proceeding that has arisen in the ordinary course of business. A counterparty is pursuing a claim of approximately US$ 8 million including opportunity loss for future periods. The counterparty's claim is based on a document, which management believes does not commit the Bank. The Directors of the Bank, on reviewing the advice of professional legal advisers, are satisfied that the claim is not legally tenable and the outcome will not have any material effect on the financial position of the Bank.

21 RISK MANAGEMENT

21.1 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. Audit staff examine both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the ARCC.

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.

21 RISK MANAGEMENT (continued)

21.2 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 formulated. 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 leter of credit.

	Gross maximum exposure 2014 US$ '000	Net maximum exposure 2014 US$ '000	Gross maximum exposure 2013 US$ '000	Net maximum exposure 2013 US$ '000
Balances with banks	22,489	22,489	150,341	150,341
Deposits with banks and other financial institutions	523,645	523,645	422,005	422,005
Investments held for trading	3,000	3,000	11,715	11,715
Non-trading investments	147,994	147,994	137,282	137,282
Loans and advances	485,255	439,643	362,998	341,937
Interest receivable	8,922	8,922	5,916	5,916
Other assets	921	921	928	928
Total funded credit risk exposure	1,192,226	1,146,614	1,091,185	1,070,124
Unfunded exposure on credit related contingencies	286,865	179,254	170,842	48,681
Total funded and unfunded credit risk exposures	1,479,091	1,325,868	1,262,027	1,118,805

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 2014 and 2013. 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.
(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.

21 RISK MANAGEMENT (continued)

21.2 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	Watch list US$ '000	Past due and individually impaired US$ '000	Provision for loan losses US$ '000	Total US$ '000
At 31 December 2014						
Balances with banks	1,883	20,606	-	-	-	22,489
Deposits with banks and other financial institutions	16,931	506,714	-	-	-	523,645
Investments held for trading	-	3,000	-	-	-	3,000
Non-trading investments	28,209	119,785	-	-	-	147,994
Loans and advances	-	496,665	-	7,472	(18,882)	485,255
Interest receivable	293	8,629	-	-	-	8,922
Other assets	-	921	-	-	-	921
Funded exposures	47,316	1,156,320	-	7,472	(18,882)	1,192,226
Credit related contingencies	-	286,865	-	-	-	286,865
Gross unfunded exposures	-	286,865	-	-	-	286,865
Net funded and unfunded exposures	47,316	1,443,185	-	7,472	(18,882)	1,479,091

	Neither past due nor impaired					
	High standard grade US$ '000	Standard grade US$ '000	Watch list US$ '000	Past due and individually impaired US$ '000	Provision for loan losses US$ '000	Total US$ '000
At 31 December 2013						
Balances with banks	131,250	19,091	-	-	-	150,341
Deposits with banks and other financial institutions	-	422,005	-	-	-	422,005
Investments held for trading	497	11,218	-	-	-	11,715
Non-trading investments	13,019	124,263	-	-	-	137,282
Loans and advances	-	370,315	-	3,767	(11,084)	362,998
Interest receivable	185	5,731	-	-	-	5,916
Other assets	-	928	-	-	-	928
Funded exposure	144,951	953,551	-	3,767	(11,084)	1,091,185
Credit related contingencies	-	170,842	-	-	-	170,842
Gross unfunded exposures	-	170,842	-	-	-	170,842
Net funded and unfunded exposures	144,951	1,124,393	-	3,767	(11,084)	1,262,027

Excludes loans of US$ 8,828 thousand which have been restructured and therefore classified under "Standard grade".

21 RISK MANAGEMENT (continued)

21.2 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 2014	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	5,936	1,346	54	15,051	102	22,489
Deposits with banks and other financial institutions	189,157	137,566	70,000	126,922	-	523,645
Investments held for trading	-	-	-	3,000	-	3,000
Non-trading investments	29,916	52,763	11,891	48,647	4,777	147,994
Loans and advances	-	5,225	377,663	88,239	14,128	485,255
Interest receivable	485	620	6,512	1,146	159	8,922
Other assets	882	-	39	-	-	921
Gross funded exposures	226,376	197,520	466,159	283,005	19,166	1,192,226
Credit related contingencies	-	510	264,757	11,839	9,759	286,865
Gross unfunded exposures	-	510	264,757	11,839	9,759	286,865
Gross funded and unfunded exposures	226,376	198,030	730,916	294,844	28,925	1,479,091

At 31 December 2013	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	2,597	14,030	167	14,706	118,841	150,341
Deposits with banks and other financial institutions	166,052	80,000	70,000	75,953	30,000	422,005
Investments held for trading	623	-	958	5,892	4,242	11,715
Non-trading investments	29,430	37,928	14,127	51,026	4,771	137,282
Loans and advances	-	3,914	288,073	52,113	18,898	362,998
Interest receivable	548	526	3,784	810	248	5,916
Other assets	928	-	-	-	-	928
Gross funded exposures	200,178	136,398	377,109	200,500	177,000	1,091,185
Credit related contingencies	-	11,536	157,162	110	2,034	170,842
Gross unfunded exposures	-	11,536	157,162	110	2,034	170,842
Gross funded and unfunded exposures	200,178	147,934	534,271	200,610	179,034	1,262,027

21 RISK MANAGEMENT (continued)

21.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk (continued)
Sectoral classification of gross credit exposures is presented below:

At 31 December 2014	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial, business and others US$ '000	Total US$ '000
Balances with banks	-	22,489	-	22,489
Deposits with banks and other financial institutions	-	523,645	-	523,645
Investments held for trading	-	3,000	-	3,000
Non-trading investments	57,670	49,704	40,620	147,994
Loans and advances	53,826	342,674	88,755	485,255
Interest receivable	2,149	5,644	1,129	8,922
Other assets	-	39	882	921
Gross funded exposures	113,645	947,195	131,386	1,192,226
Credit related contingencies	4,872	258,295	23,698	286,865
Gross unfunded exposures	4,872	258,295	23,698	286,865
Gross funded and unfunded exposures	118,517	1,205,490	155,084	1,479,091

At 31 December 2013	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial, business and others US$ '000	Total US$ '000
Balances with banks	-	150,341	-	150,341
Deposits with banks and other financial institutions	-	422,005	-	422,005
Investments held for trading	1,581	5,395	4,739	11,715
Non-trading investments	54,640	41,936	40,706	137,282
Loans and advances	61,537	286,170	15,291	362,998
Interest receivable	2,102	3,111	703	5,916
Other assets	-	7	921	928
Gross funded exposures	119,860	908,965	62,360	1,091,185
Credit related contingencies	1,102	156,911	12,829	170,842
Gross unfunded exposures	1,102	156,911	12,829	170,842
Gross of funded and unfunded exposures	120,962	1,065,876	75,189	1,262,027

21 RISK MANAGEMENT (continued)

21.3 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. 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.

21.3.1 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 reprise 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	
	2014 US$ '000	2013 US$ '000
25 bps increase/decrease		
US Dollar	**± 524**	± 291
Euro	**± 1**	± 5

21.3.2 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 comprehensive income:

		Effect on net income for the year	
	Change in rate	**2014 US$ '000**	2013 US$ '000
Euro	± 5%	**± 13**	± 94
GBP	± 5%	**-**	± 4

As other currencies exposure is 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.

21.3.3 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:

		Effect on net income and equity for the year	
	Change in equity prices	**2014 US$ '000**	2013 US$ '000
Investments held for trading	± 10%	**± 4**	± 291

21 RISK MANAGEMENT (continued)

21.4 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.

The maturity profile of the assets and liabilities at 31 December 2014 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 balance sheet date.

	Up to 1 year						
At 31 December 2014	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 and balances with banks	22,507	-	-	22,507	-	-	22,507
Deposits with banks and other financial institutions	337,267	186,378	-	523,645	-	-	523,645
Investments held for trading	3,037	-	-	3,037	-	-	3,037
Non-trading investments	-	3,813	5,067	8,880	139,114	-	147,994
Loans and advances	120,685	88,223	208,000	416,908	68,347	-	485,255
Property, equipment and software	-	-	-	-	-	12,320	12,320
Interest receivable	3,305	2,355	3,262	8,922	-	-	8,922
Other assets	48	288	69	405	872	-	1,277
Total assets	486,849	281,057	216,398	984,304	208,333	12,320	1,204,957
LIABILITIES							
Deposits from banks and other financial institutions	502,144	110,175	4,000	616,319	-	-	616,319
Due to banks and other financial institutions	80,091	104,650	34,114	218,855	781	-	219,636
Due to customers	18,668	4,023	95	22,786	2,365	-	25,151
Interest payable	95	87	7	189	-	-	189
Other liabilities	135	6,550	4,264	10,949	128	673	11,750
Total liabilities	601,133	225,485	42,480	869,098	3,274	673	873,045
Net liquidity gap	(114,284)	55,572	173,918	115,206	205,059	11,647	331,912
Cumulative liquidity gap	(114,284)	(58,712)	115,206	-	320,265	331,912	-

21 RISK MANAGEMENT (continued)

21.4 Liquidity risk (continued)

	Up to 1 year						
At 31 December 2013	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 and balances with banks	150,345	-	-	150,345	-	-	150,345
Deposits with banks and other financial institutions	159,595	262,410	-	422,005	-	-	422,005
Investments held for trading	14,626	-	-	14,626	-	-	14,626
Non-trading investments	-	2,220	4,315	6,535	130,747	-	137,282
Loans and advances	37,209	29,218	194,547	260,974	102,024	-	362,998
Property, equipment and software	-	-	-	-	-	13,366	13,366
Interest receivable	2,359	1,582	1,975	5,916	-	-	5,916
Other assets	2	311	28	341	883	-	1,224
Total assets	364,136	295,741	200,865	860,742	233,654	13,366	1,107,762
LIABILITIES							
Deposits from banks and other financial institutions	257,736	243,450	-	501,186	-	-	501,186
Due to banks and other financial institutions	137,368	36,315	87,465	261,148	7,125	-	268,273
Due to customers	7,714	-	-	7,714	-	-	7,714
Interest payable	67	138	-	205	-	-	205
Other liabilities	593	142	11,439	12,174	1,678	431	14,283
Total liabilities	403,478	280,045	98,904	782,427	8,803	431	791,661
Net liquidity gap	(39,342)	15,696	101,961	78,315	224,851	12,935	316,101
Cumulative liquidity gap	(39,342)	(23,646)	78,315	-	303,166	316,101	-

21 RISK MANAGEMENT (continued)

21.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at 31 December 2014 based on contractual undiscounted repayment amounts is as follows:

	Up to 1 year						
At 31 December 2014	**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	502,261	110,252	4,006	616,519	-	-	616,519
Due to banks and other financial institutions	80,096	104,668	34,126	218,890	782	-	219,672
Due to customers	18,669	4,023	95	22,787	2,367	-	25,154
Interest payable	95	87	-	182	-	-	182
Other liabilities	135	6,550	4,264	10,949	128	673	11,750
Total undiscounted liabilities	601,256	225,580	42,491	869,327	3,277	673	873,277
Derivatives:							
Foreign exchange contracts	340	-	-	340	-	-	340
Commitments and contingent liabilities							
Letters of credit	34,335	73,141	143,212	250,688	9,374	-	260,062
Letters of guarantee	3	1,053	1,122	2,178	6,216	-	8,394
Undrawn loan commitments	18,409	-	-	18,409	-	-	18,409
	52,747	74,194	144,334	271,275	15,590	-	286,865

	Up to 1 year						
At 31 December 2013	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	257,775	243,568	-	501,343	-	-	501,343
Due to banks and other financial institutions	137,389	36,331	87,544	261,264	7,138	-	268,402
Due to customers	7,715	-	-	7,715	-	-	7,715
Interest payable	67	138	-	205	-	-	205
Other liabilities	593	142	11,439	12,174	1,678	431	14,283
Total undiscounted liabilities	403,539	280,179	98,983	782,701	8,816	431	791,948
Derivatives:							
Foreign exchange contracts	2,521	-	-	2,521	-	-	2,521
Commitments and contingent liabilities							
Letters of credit	32,487	36,317	87,464	156,268	7,125	-	163,393
Letters of guarantee	-	1,355	4,973	6,328	19	-	6,347
Undrawn loan commitments	1,102	-	-	1,102	-	-	1,102
	33,589	37,672	92,437	163,698	7,144	-	170,842

21 RISK MANAGEMENT (continued)

21.5 Fair value of financial instruments

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.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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 2014	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Investments held for trading	3,037	-	3,037
Available-for-sale investments	17,722	-	17,722
Derivative financial instruments	-	(57)	(57)
	20,759	(57)	20,702

At 31 December 2013	Level 1 US$ '000	Level 2 US$ '000	Total US$ '000
Investments held for trading	14,626	-	14,626
Available-for-sale investments	15,283	-	15,283
Derivative financial instruments	-	7	7
	29,909	7	29,916

The Bank had no investments measured at fair value qualifying for level 3 of fair value heirarchy as at 31 December 2014 and as at 31 December 2013.

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2014, 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 (2013: nil).

21 RISK MANAGEMENT (continued)

21.5 Fair value of financial instruments (continued)

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 2014	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	121,988	-	7,815	129,803	130,272
Loans and advances	46,361	-	-	46,361	43,242
	168,349	-	7,815	176,164	173,514
At 31 December 2013					
Held-to-maturity investments	106,012	-	9,630	115,642	121,999
Loans and advances	46,687	-	-	46,687	42,639
	152,699	-	9,630	162,329	164,638

- Fair values of held-to-maturity investments are determined based on quoted prices in the active markets.
- Fair values of certain loans and advances falling under Level 1 are determined based on quoted prices in active markets.

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 2014 and 31 December 2013.

22 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:

	2014		2013	
	Notional amount US$ '000	Gain / (loss) US$ '000	Notional amount US$ '000	Gain / (loss) US$ '000
Forward exchange contracts	340	(57)	2,521	7

23 TRANSACTIONS WITH RELATED PARTIES

Related parties represent associated companies, 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:

	2014 US$ '000	2013 US$ '000
Statement of profit or loss		
Interest income	**756**	278
Interest expense	**841**	921
Fee and commission income	**1,077**	615

Statement of financial position	2014 US$ '000	2013 US$ '000
Assets		
Cash and balances with banks	**1,595**	10,772
Deposit with banks and financial institutions	**88,541**	77,500
Loans and advances	**7,511**	7,874
Interest receivable	**199**	119
Other assets	**220**	38
Liabilities		
Deposits from banks and other financial institutions	**400,376**	243,935
Due to banks and other financial institutions	**16,249**	15,536
Interest payable	**154**	128
Other liabilities	**2,221**	3,014
Assets under management (note 24)	**23,376**	26,517
Contingent liabilities- Letters of credit (fully secured by deposits)	**17,549**	21,542

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

	2014 US$ 000	2013 US$ 000
Short term benefits*	**4,330**	3,469
End of term benefits	**189**	132
Total compensation	**4,519**	3,601

* Includes accrual for sitting fee and bonus of US$ 662 thousand (2013: US$ 680 thousand) and the reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US$ 184 thousand (2013: US$ 197 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

Short term benefits also includes compensation paid to key management personnel as salary, allowances and bonus.

24 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 2014, the Bank had fiduciary assets under management of US$ 23,376 thousand (2013:US$ 26,517 thousand).

25 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that 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 II, approved by the Central Bank of Bahrain.

	2014 US$ 000	2013 US$ 000
Capital base:		
Tier 1 capital	331,912	311,206
Tier 2 capital	9,134	805
Total capital base (a)	341,046	312,011
Risk weighted assets (b)	808,372	712,166
Capital adequacy (a/b * 100)	42.19%	43.81%
Minimum requirement	12.00%	12.00%

Basel II Pillar III Disclosures
Contents

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 II 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 2014, comprising of 5 million equity shares of US$ 50 each.

Pursuant to increase in Share capital approved at the Extraordinary General meeting held on 28 April 2014,

To US$ 300 million, one of the minority shareholders subscribed US$ 140 thousand. On receipt of the remaining amounts from major shareholder, the capital increase will be registered with Ministry of Industry and Commerce.

Break down of Capital Base

	Tier I	Tier II	Total
	US$'000	US$'000	US$'000
Share capital	250,140	-	250,140
Statutory reserve	17,667	-	17,667
Retained earnings	64,105	-	64,105
Collective impairment loss provision	-	9,134	9,134
Total available capital base	**331,912**	**9,134**	**341,046**
Net available capital base	**331,912**	**9,134**	**341,046**

ALUBAF recorded a net profit of US$ 40,700 thousand for the year ended 31 December 2014 and transferred 10% of profits (US$ 4,070 thousand) towards Statutory reserve.

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 42.19% is well above the minimum regulatory requirement of 12%.

	US$ '000
Total Eligible Capital Base	**341,046**
Risk weighted assets (RWA)	
Credit risk	730,730
Market risk	750
Operational risk	76,892
	808,372
Capital adequacy ratio	**42.19%**

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 of loan.
(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) 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	113,645	-	113,645	-	76,785	9,214
Claims on banks	958,566	258,309	1,216,875	93,036	519,298	62,316
Claims on corporate	130,504	10,147	140,651	6,164	120,777	14,493
Past due exposures	236	-	236	-	236	28
Equity portfolio	37	-	37	-	37	5
Other exposures	13,597	-	13,597	-	13,597	1,632
Total	**1,216,585**	**268,456**	**1,485,041**	**99,200**	**730,730**	**87,688**

Gross credit exposure before credit risk mitigation

US$ '000

	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	113,645	113,265
Claims from Banks	958,566	890,175
Claims on Corporate	130,504	102,899
Past due exposures	236	651
Equity Portfolio	37	1,446
Other exposures	13,597	14,184
Total funded exposure	**1,216,585**	**1,122,620**
Unfunded exposures	**268,456**	**278,492**
Gross credit exposures	**1,485,041**	**1,401,112**

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2014.

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	750	90	1,838	750

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 6,151 thousand on operational risk weighted exposure of US$ 76,892 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:

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.

As at 31 December 2014, 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 *	60,500	Nil	60,500
Counterparty B **	4,530	49,801	54,331

* These are interbank deposits maturing within 6 months from 31 December 2014 with guarantee and deposit from Major shareholder.
** Comprise of "Off Balance sheet" and overdrawn balances with a guarantee and deposits from Major shareholder.

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 21.2 of the annual audited financial statements for the year ended 31 December 2014.

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

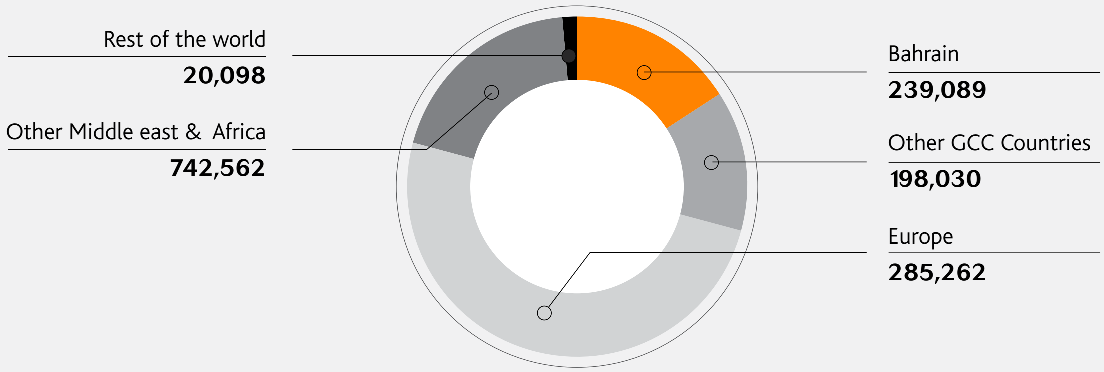
US$'000

	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	239,089	239,089	-
Other GCC Countries	198,030	197,520	510
Other Middle east & Africa	742,562	477,805	264,757
Europe	285,262	283,005	2,257
Rest of the world	20,098	19,166	932
Total	**1,485,041**	**1,216,585**	**268,456**

6. Risk Management (continued)

6.2 Geographical distribution of exposure (continued)

Geographic exposures -USD '000s



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	22,168	24,060	56,821	-	10,596	**113,645**
Claims from Banks	198,262	157,041	383,692	219,469	102	**958,566**
Claims on Corporate	5,064	16,419	37,017	63,536	8,468	**130,504**
Past due exposures	-	-	236	-	-	**236**
Equity Portfolio	37	-	-	-	-	**37**
Other exposures	13,558	-	39	-	-	**13,597**
Total funded exposure	**239,089**	**197,520**	**477,805**	**283,005**	**19,166**	**1,216,585**
Unfunded exposures	**-**	**510**	**264,757**	**2,257**	**932**	**268,456**
Gross credit exposures	**239,089**	**198,030**	**742,562**	**285,262**	**20,098**	**1,485,041**

6.3 Industry sector analysis of exposures is summarized below:

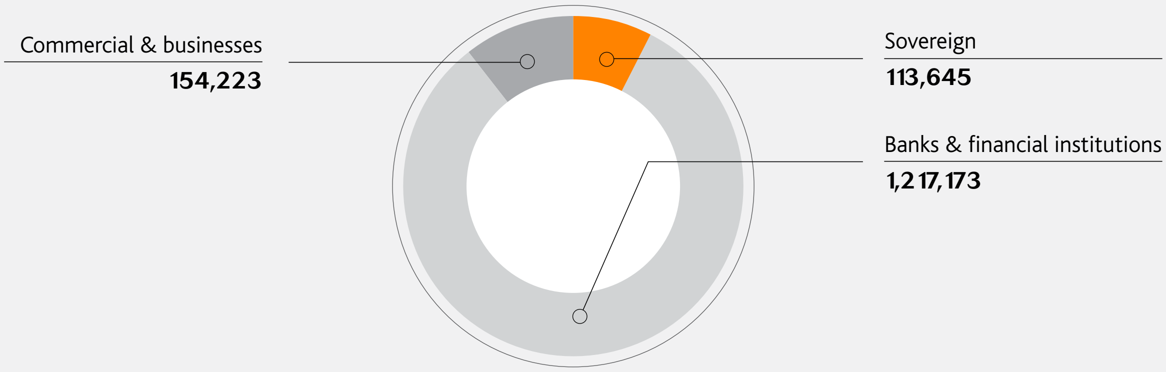
US$ '000

	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	113,645	113,645	-
Banks & financial institutions	1,217,173	958,878	258,295
Commercial &other businesses	154,223	144,062	10,161
Total	**1,485,041**	**1,216,585**	**268,456**

6. Risk Management (continued)

6.3 Industry sector analysis of exposures (continued)

Sectoral exposures - USD'000s



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	-	113,645	-	**113,645**
Claims from Banks	958,566	-	-	**958,566**
Claims on Corporate	-	-	130,504	**130,504**
Past due exposures	236	-	-	**236**
Equity Portfolio	37	-	-	**37**
Other exposures	39	-	13,558	**13,597**
Total funded exposure	**958,878**	**113,645**	**144,062**	**1,216,585**
Unfunded exposures	258,295	-	10,161	**268,456**
Gross credit exposures	**1,217,173**	**113,645**	**154,223**	**1,485,041**

6.4 Exposure by external credit rating

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

US$ '000

	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	113,645	-	10,187	43,349	60,109
Claims on banks	958,566	258,309	25,945	447,942	742,988
Claims on corporate	130,504	10,147	11,184	30,033	99,434
Past due exposures	236	-	-	-	236
Equity portfolio	37	-	-	37	-
Other exposures	13,597	-	-	-	13,597
Total	**1,216,585**	**268,456**	**47,316**	**521,361**	**916,364**

6. Risk Management (continued)

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	1,676	2,078	5,405	**9,159**	61,244	43,242	-	**113,645**
Claims on Banks	464,411	251,409	195,041	**910,861**	42,673	5,032	-	**958,566**
Claims on Corporate	20,659	27,282	14,398	**62,339**	53,270	14,895	-	**130,504**
Past due exposures	-	-	-	-	236	-	-	**236**
Equity Portfolio	37	-	-	**37**	-	-	-	**37**
Other exposures	48	288	69	**405**	872	-	12,320	**13,597**
Total	**486,831**	**281,057**	**214,913**	**982,801**	**158,295**	**63,169**	**12,320**	**1,261,585**

6.6 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 from Banks	258,295	34,335	70,729	140,801	**245,865**	12,430	**258,295**
Claims from Corporate	10,161	3	3,465	3,533	**7,001**	3,160	**10,161**
Total	**268,456**	**34,338**	**74,194**	**144,334**	**252,866**	**15,590**	**268,456**

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 2014.

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 2014 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 4,194 thousand for US$ denominated and US$ 12 on Euro denominated financial instruments.

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

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. During 2014, the Bank depended mainly on its own capital and assets were managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and deposits with banks.

6.9 Operational Risk

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

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

6.10 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 42.19% 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% 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 2014 US$ '000
Exposures to related parties:	97,647
Liabilities to related parties:	
Connected deposits	416,625

For further detail refer note 23 and 24 of the annual audited financial statements for the year ended 31 December 2014.

7.2 Impaired loans and related provision:

	31 December 2014 US$ '000
Gross impaired loans	7,472
Less: Specific provision	(7,236)
Net impaired loans	**236**

Movement in impairment provision:

US$ '000	Specific Provision	Collective Provision	Total
Opening balance -1 January 2014	5,384	5,700	**11,084**
Charge /movement during the year-net	1,852	5,946	**7,798**
Closing balance -31 December 2014	**7,236**	**11,646**	**18,882**

The impaired loans and provisions against these loans (both collective and specific) relate to commercial and business loans in Middle East and Other GCC Countries. The collaterals consist of securities and properties which are managed by the syndicated agent and valued on an annual basis.

For policies and processes for collateral valuation refer note 21.2 of the annual audited financial statements for the year ended 31 December 2014.

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

US$'000s	Other GCC Countries	Middle East & North Africa	Total
	<= 3 years	More than 90 days	
Claims on corporate	2,250	26	2,276
Claims on Banks	-	5,196	5,196
Total	2,250	5,222	7,472
Less: Specific Provision	(2,250)	(4,986)	(7,236)
Net Impaired loans	-	236	236

7.3 Restructured facilities:

	31 December 2014 US$ '000
Balance of any restructured credit facilities as at year end	8,412
Loans restructured during the year	-
Impact of restructured credit facilities on present and future earning Interest 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 2014.

7.5 Equity positions in the banking book:

	31 December 2014 US$ '000
Equity	37

The Bank's exposure to equity price risk is not significant. Please refer note 21.3.3 of the annual audited financial statements for the year ended 31 December 2014.

Corporate Directory

Registered Office

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Alubaf Tower, Al-Seef District
PO Box 11529, Kingdom of Bahrain

Tel: + 973 17517722
Fax: + 973 17540094

Employee's Name	Job Title	Direct Line
Executive Management:		
Hasan Khalifa Abulhasan	Chief Executive Officer	17-517750
Mohamed S. Ftera	Senior Deputy Chief Executive Officer	17-517754
Mahmoud Abdullah Azzouz	Deputy Chief Executive Officer	17-517757
Treasury & Investments:		
Ali Abdullah	Head of Treasury & Investments	17-517861
Business Development:		
Abdulrahman Khalfan	Head of Business Development	17-517721
Internal Audit:		
Abbas Abdulla Al Shamma	Head of Internal Audit	17-517758
Human Resources & Administration:		
Saeed Al- Banna	Head of Human Resources & Administration	17-517728
Risk Management & Compliance:		
Mohamed A.Hameed A.Qader	Head of Risk Management & Compliance	17-517726
Information Technology:		
Tallal Ali El Mshawat	Head of Information Technology	17-517753
Trade Finance:		
Hassan A.Rahman Al-Saffar	Head of Trade Finance	17-517752
Financial Control:		
K.R. Usha	Head of Financial Control	17-517734
Operations:		
Fatima Mohammed Bu Ali	Head of Operations	17-517720