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

Annual Report 2013

CONTENTS

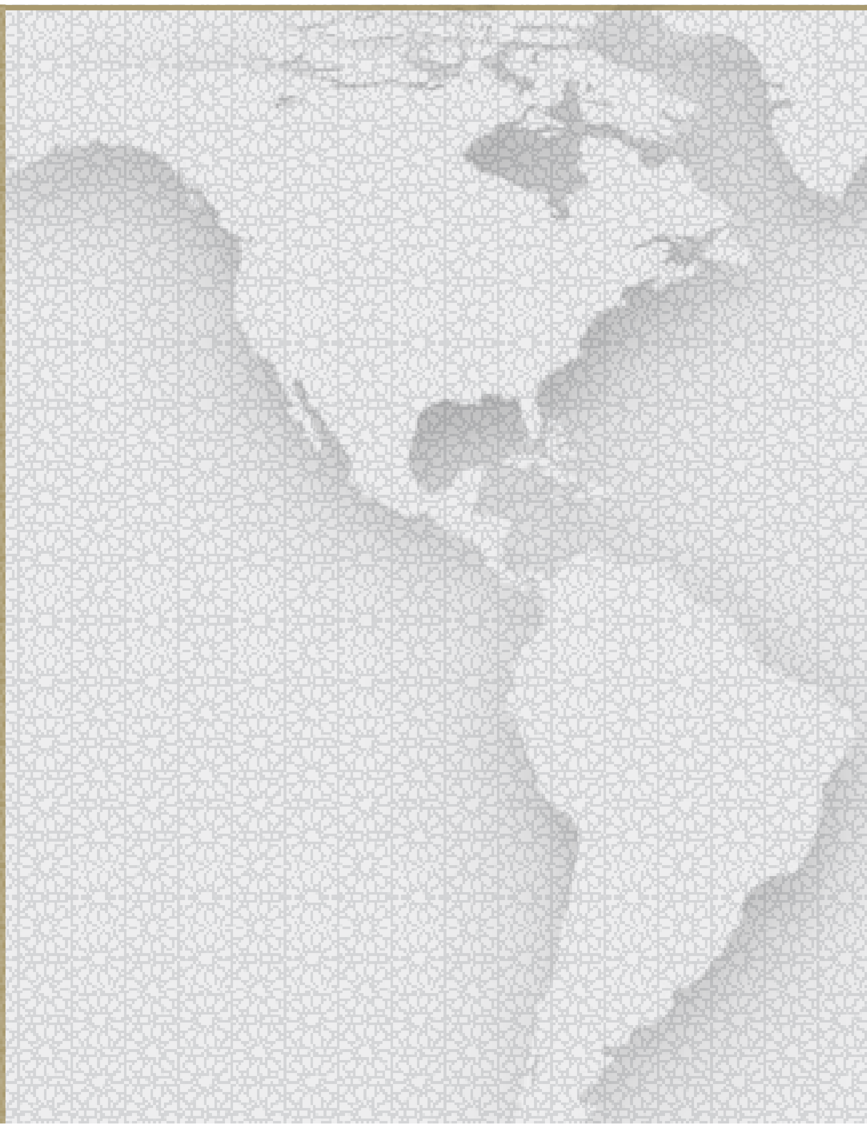
Profile

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.

ALUBAF reactivated its business in the region effective December 2007.

ALUBAF's operations include Treasury, Trade finance and Lending.



Vision & Mission

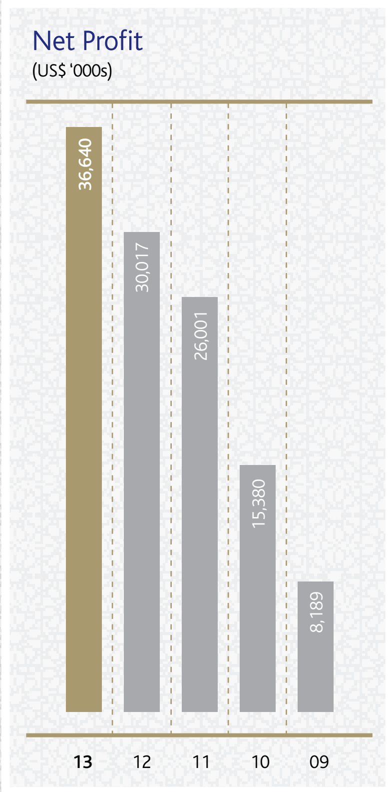
Our Vision

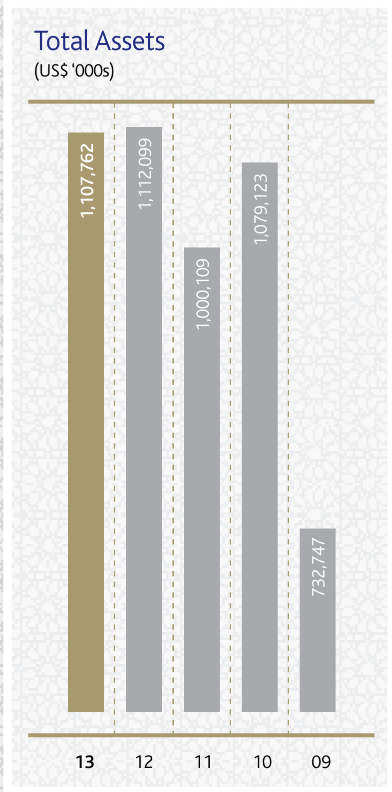
ALUBAF Arab International Bank visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients.

Our Mission

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

Financial Highlights



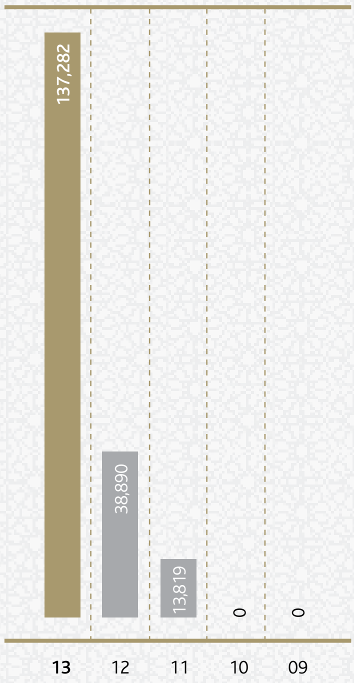


Net Profit

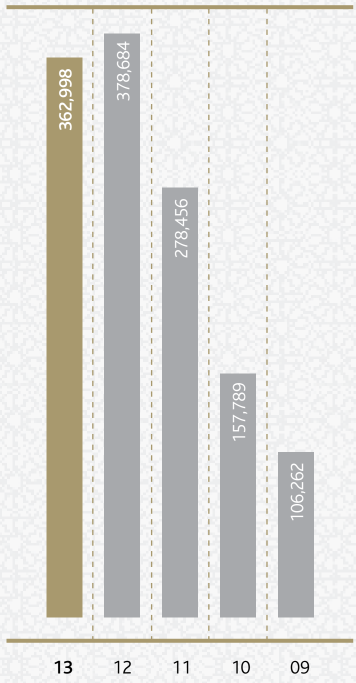
+22%

The net profit for the year ended 31 December 2013 was US$37 million as against US$30 million in 2012, an increase of 22%. The results prove the bank has been maintaining its growth momentum.

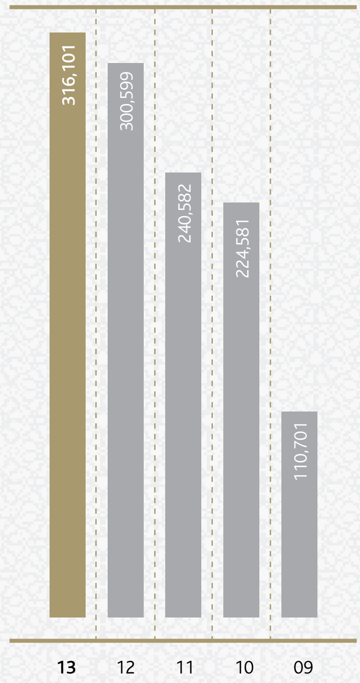
Non Trading Investments
(US$ '000s)



Total Loans
(US$ '000s)



Total Equity
(US$ '000s)



	2013 USD '000s	2012 USD '000s	2011 USD '000s	2010 USD '000s	2009 USD '000s
Financial Position					
Net Profit before appropriation	**36,640**	30,017	26,001	15,380	8,189
Total Assets	**1,107,762**	1,112,099	1,000,109	1,079,123	732,747
Total Non Trading Investment	**137,282**	38,890	13,819	-	-
Total Loans	**362,998**	378,684	278,456	157,789	106,262
Total Liablities	**791,661**	811,500	759,527	854,542	622,046
Total Equity	**316,101**	300,599	240,582	224,581	110,701
Ratios %					
Profitability					
ROAA -Return on Average Assets %	**3%**	3%	3%	2%	1%
ROAE-Return on Average Equity %	**12%**	11%	11%	9%	8%
Cost to Income	**23%**	19%	18%	27%	29%
Capital					
Capital Adequacy Ratio	**44%**	50%	45%	43%	29%
Equity Assets Ratio	**29%**	27%	24%	21%	15%
Asset Quality					
Loans to Total Assets	**33%**	34%	26%	15%	15%
Non Trading Investment/ Total assets	**12%**	3%	1%	0%	0%
NPA/Gross loans	**1.1%**	0.6%	0.9%	1.5%	2.1%
Liquidity					
Liquid assets to Liabilities	**75%**	83%	93%	104%	97%

Board of Directors

MR. MORAJA GAITH SOLAIMAN
Chairman (Seated)

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 (Standing, first left)

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. SEYFULLAH ASSAD SALIM
Director (Standing, second right)

Masters in Banking and Finance and Bachelors in Accounting, with over 25 years of Banking experience. Manager, International Foreign Relations Department, Libyan Foreign Bank, Libya. Formerly, a Board member of Alubaf International Bank, Tunis.

MR. ALI MAKHZUM BEN HAMZA
Director (Standing, first right)

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

MR. FATHI AHMED YAHIA
Director (Standing, second left)

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.

Report of the Board of Directors

On behalf of the Board of Directors of Alubaf Arab International Bank, I am delighted to present the Annual report and audited financial statements for the year ended 31 December, 2013.

Year 2013 was a special year for Alubaf Bank in achieving a significant milestone in its growth path.

In 2013, there was change in composition of the Board members and its committees, strategic initiatives were taken to expand business, included investments activity, broadened income streams from Treasury and investment related products and strengthened its core business by launching new products and services.

In 2013, the Bank moved its operations to its own Premises at Seef - Bahrain. Alubaf continued its growth momentum and achieved impressive financial results that reinforced its position in the Banking Industry.

Global economic scenario widely experienced negative growth in 2013 with advanced and emerging economies decelerated growth and most of MENA region countries grappling with Political stability, which ended in a challenging environment for Banking industry.

Financial Highlights and Performance

In the midst of challenging business environment, Alubaf Arab International Bank's Net Profit for the year ended 2013 surged to $37 million, signifying an increase of 22% over last year's net profit of $30 million.

Net profit for Q4, 2013 was $7 million, an increase of 37% over last year same period. Fourth quarter 2013, however, reduced compared to third quarter, 2013, due to provision for credit losses amounting to $4 million.

Gross operating income for 2013 was $51 million, an increase of 31% over previous year 2012, largely driven by interest income, which contributed to 67% of operating income. Net interest income increased by 38% compared to last year. Significant increase in interest income was from interest earnings from investment in fixed income securities, which increased by 340% in 2013 over previous year. This was achieved due to strategic initiatives taken in 2013.

Considerable increase in interest income from Trade finance and lending activity was also witnessed. However, taking a conservative stand, reasonable provision for credit losses was made at $4 million (increase of 73% over last year) during the year, thus, increasing the overall specific and general provision to $11 million. With the above increase in provisioning, the collective provision constitutes 1.5% of Loans Portfolio. Earnings from fee and commission income increased by 18% over last year, due to widening income stream from trade finance activity.

Mr. Moraja Gaith Solaiman
Chairman

Gains from foreign exchange amounted to $823 thousand, which increased by 119% over last year. Overall, net operating income after provision for credit losses, amounted to $47 million an increase of 28% over last year.

On the expenses front, operating expenses increased by 54%, mainly on account of depreciation on building and due to increase in manpower during 2013. However, cost to income ratio increased moderately to 23% in 2013 from 19% in 2012, in order to align with the growth and expansion plans.

Investments grew by 290% over last year. Whilst, loans portfolio had a negative growth of 4% over last year, total assets was almost in line with last year. Investments to total assets stood at 14% and Loan to total assets was at 33%. Nonperforming assets to gross loans increased to 1%, however, is adequately provided.

Return on average equity grew by 1% over last year and stood at 12% for 2013. Capital adequacy ratio continued to be strong at 44%. Liquid assets to liabilities stood at 75%.

In summary, the results achieved in 2013 was well aligned to management's expectations due to timely and proper implementation of various strategic initiatives planned.

Proposed dividend

Alubaf continues to be committed to its valued shareholders by ensuring record profit levels and good return to its shareholders. 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 2013, subject to regulatory and shareholders' approval.

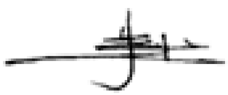
Outlook for the year ahead

Alubaf's clear strategic direction, right implementation of strategic initiatives, strong capital adequacy and sustained focus on achieving financial results is expected to bolster growth in 2014. Alubaf plans to augment its offering of core products and services, enhance internal control, compliance and operational efficiency to align with business expansion and industry practice.

Acknowledgement

Finally, I would like to thank all the members of the Board, the Shareholders, the Ministry of Industry and Commerce in the Kingdom of Bahrain, 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

> "Year 2013 was a special year for Alubaf Bank in achieving a significant milestone in its growth path."

Executive Management

1. MR. HASAN K. ABULHASAN
Chief Executive Officer

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

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. MOHAMED A. HAMEED A. QADER
Head of Risk Management & Compliance

Masters in Business Administration from University of Glamorgan Business School, UK, Bachelor in Accounting and Diploma in Compliance from International Compliance Association accredited by University of Manchester Business School, UK. He has about 16 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.

5. MR. SAEED AL-BANNA
Head of Human Resources and Administrations

BSc 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.

6. MR. ABBAS ABDULLA AL SHAMMA
Head of Internal Audit

B.Sc. in Accounting and has Certified Information Systems Audit from the

Information Systems Audit and Control Association, USA. He joined Alubaf in December 2009 and has more than 9 years experience in Internal and External Audit. Prior to joining Alubaf, he was an Auditor in Ernst and Young, Bahrain.

7. 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.

8. 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.

9. MR. TALLAL ALI EL MSHAWAT
Head of Information Technology

Bachelor in Computer Engineering, Libya. He is deputed from Libyan Foreign Bank, has 13 years of strong experience in leading IT Projects and enhancement for Libyan Foreign Bank group.

10. 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.

11. 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.

12. 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.

Review of the Chief Executive Officer

In the Name of Allah the Merciful, The Compassionate

We, at Alubaf Arab International Bank, are proud to announce the result of another year of success for the Bank, during which the profits made a record figure compared to previous years. The net profit for the year ended 31 December 2013 was US$37 million as against US$30 million in 2012, an increase of 22%. The results prove that the bank has been maintaining its growth momentum.

The main driver in generating these result was the gross interest income, which contributed to 67% of the operating income of US$51.4 million.

The Bank has a strong capital adequacy ratio at 44% against the required 12%, while the proportion of liquid assets to liabilities stood at 75% and the return on average equity ratio was 12%.

Hasan K. Abdulhasan
Chief Executive Officer

The Bank has adopted a very prudent policy in provisioning for credit losses. In 2013, the Bank created a provision of US$4 million, though the percentage of non-performing loans to total gross loans was not more than 1%.

The operating expenses increased by 54% over the previous year and the cost to income ratio moderately increased to 23% against 19% in 2012.

However, the year was not free from challenges at all levels. Alubaf's excellence in attaining such accomplishments was a result of the proper implementation of new strategy pertaining to products, markets and services, along with cost optimization to ensure sustainable growth to achieve our set objectives.

Alubaf looks forward to continually achieving its successes and providing highest quality services to clients and maintaining performance standards to further enhance its position and to achieve its mission to the satisfaction of its shareholders.

Finally, I would like to record my thanks and appreciation to all employees of the Bank for their efforts, that have contributed in acheiving these results. My thanks are also extended to the Government of Bahrain, the Central Bank of Bahrain, the Shareholders, our correspondent banks and customers for their unreserved support.

Together we can shape a better future.

Hasan K. Abdulhasan
Chief Executive Officer

"The Bank has a strong capital adequacy ratio at 44% against the required 12%."

Corporate Governance Disclosures

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 to 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.

Corporate Governance Disclosures continued

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 2013:

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 2013, 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 2013, the Bank's Board of Directors composition is as per the following:

Board Members	Position	Type of Membership	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	-

4 THE BOARD OF DIRECTORS (continued)

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 2013, the Board met six times. In addition, Audit, Risk and Compliance Committee (ARCC) has met four times and Nomination & Remuneration Committee (NRC) has met four 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. 29 Janauary 2013	Mr. Moraja Gaith Solaiman	Mr. Suleiman Esa Al Azzabi
Held in Kingdom of Bahrain	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	
2. 22 April 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi	
	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	
3. 17 June 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi	
	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	
4. 2 September 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi	
	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	
5. 10 October 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi	
	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	
6. 8 December 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Suleiman Esa Al Azzabi	
	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	

Corporate Governance Disclosures continued

4 THE BOARD OF DIRECTORS (continued)

4.3 Activities of the Board (continued)

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

Date & Location of Meeting	Names of Directors present	Names of Directors not present
1. 28 Janauary 2013	Mr. Ali Makhzom Ben Hamza	Mr. Suleiman Esa Al Azzabi
Held in Kingdom of Bahrain	Mr. Seyfullah Asaad Salim	
2. 16 June 2013	Mr. Suleiman Esa Al Azzabi	NONE
Held in Kingdom of Bahrain	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
3. 1 September 2013	Mr. Suleiman Esa Al Azzabi	NONE
Held in Kingdom of Bahrain	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	
4. 7 December 2013	Mr. Suleiman Esa Al Azzabi	NONE
Held in Kingdom of Bahrain	Mr. Ali Makhzom Ben Hamza	
	Mr. Seyfullah Asaad Salim	

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

Date & Location of Meeting	Names of Directors present	Names of Directors not present
1. 21 January 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Seyfullah Asaad Salim	
	Mr. Ali Makhzom Ben Hamza	
2. 18 April 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Seyfullah Asaad Salim	
	Mr. Ali Makhzom Ben Hamza	
3. 12 June 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	
4. 2 December 2013	Mr. Moraja Gaith Solaiman	NONE
Held in Kingdom of Bahrain	Mr. Seyfullah Asaad Salim	
	Mr. Fathi Ahmed Yahia	

As per Board resolution, Mr. Fathi Ahmed has been appointed in the NRC replacing Mr. Ali Hamza.

4 THE BOARD OF DIRECTORS (continued)

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 2012, and the results have been forwarded to shareholders during the Annual General Meeting held on 21st April 2013 The Board of Directors have conducted the same exercise during 2013 and the findings of the report will be submitted to the shareholders during the next Annual General Meeting.

Corporate Governance Disclosures continued

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 2013 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
	Mr. Seyfullah Asaad Salim	Director	Non-Independent
Nomination & Remuneration Committee (NRC)	Mr. Moraja Gaith Solaiman	Chairman	Independent
	Mr. Seyfullah Asaad Salim	Director	Non-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;

Corporate Governance Disclosures continued

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 a related party or non-related party.

Corporate Governance Disclosures continued

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 2013 no issues arised related to the conflict of interest. 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 conducting 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 other relevant information.

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 complying 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 DISCLOSURES

In January 2011, the Central Bank of Bahrain issued its corporate governance principles “Principle to remunerate approved persons fairly and responsibly” which set out the CBB’s principle regarding remuneration of senior management and Board of Directors.

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

The Bank employed 51 members of staff as at 31st December 2013 (2012: 41 staff). The remuneration to Board of Directors and staff, including staff salaries are as follows:

Staff costs:	2013 US$ '000	2012 US$ '000
Salaries	**3,458**	2,220
Remuneration of Board of Directors	**877**	577
Remuneration of Executive Management	**805**	436
Remuneration of Staff	**684**	464

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

Governance of all matters related to remuneration within the Bank is held with Board committee at Nomination and Remuneration committee.

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

The Nomination and Remuneration committee has acted as per Bank approved Nomination and Remuneration committee charter by the Board of Directors and assisted by a management committee of Human Resource & Compensation Committee of which chaired by the Chief Executive Officer and membership of the Senior Deputy Chief Executive Officer and Deputy Chief Executive Officer as well as it has a membership of the Head of Human Resources & Administrations to provide recommendations to reward the Bank staff.

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

Performance awards under the policy qualify as remuneration. Directors, Executive Management and staff Performance awards are payable in first quarter following the year to which the reward relates.

Corporate Governance Disclosures continued

11 REMUNERATION DISCLOSURES (continued)

Additionally, 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 Board of Directors, provided that total of such remuneration shall not exceed ten percent (10%) of the net 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 totaling not less than five percent (5%) of the capital of the company.

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

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

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

The Bank had 51 employees as of 31st December 2013 (41 employees, December 2012) who are to be eligible for performance awards in respect of their service during 2013. The cost of performance awards payable to staff in respect of 2013 was US$ 1,489 thousand of which US$ 805 thousand allocated to the thirteen approved persons and US$ 684 thousand was in respect of other staff (US$ 900 thousand of which US$ 436 thousand allocated to the twelve approved persons and US$ 464 thousand was in respect of other staff in December 2012).

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

12 REMUNERATION TO EXTERNAL AUDITORS

In 2013, 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 2014. The non audit services and other advisory services provided by the external auditors amounts to US$ 42 Thousand.

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 28 April 2014.

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

	2013 US$ '000	2012 US$ '000
Audit and other audit related service fee	**69**	56
Non Audit services fee	**42**	32
Total	**111**	88

13 FINANCIAL YEAR 2013 COMPLIANCE ENHANCEMENT UNDERTAKEN

The effort has continued to ensure the Bank compliance with all CBB rules and regulations, corporate governance standards and best practices.

During 2013, the Board Nomination and Remuneration Committee (NRC) has undertaken an assessment evaluating each member of the Board member and will provide its recommendations to shareholders at the Annual General Meeting (AGM). The assessment measures how the Board operates, evaluate the performance of each committee in light of its purposes and responsibilities, it reviews individual director's performance, attendance and value-added by the Board members.

Confidential communication channels have been afforded to employees enabling them to have access to the ARCC to raise concerns about possible improprieties in financial or legal matters. The Board has adopted a "whistleblower" program in which all employees can communicate their concerns directly to any ARCC member or, to an identified person who has access to the ARCC.

To ensure that all Board Members are up to date with all Corporate Governance issues and to ensure their ability to fulfill their duties with regards to all Corporate Governance requirements and procedures, the Bank has conducted an awareness workshop to all Board members regarding all Corporate Governance principles and codes, the international best practices corporate governance standards set by bodies such as the Basel Committee for Banking Supervision, and all CBB's related high-level controls and policies.

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

14 ONGOING REQUIREMENTS AND ENHANCEMENTS INITIATIVES

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 independency of at least one third of the board members.

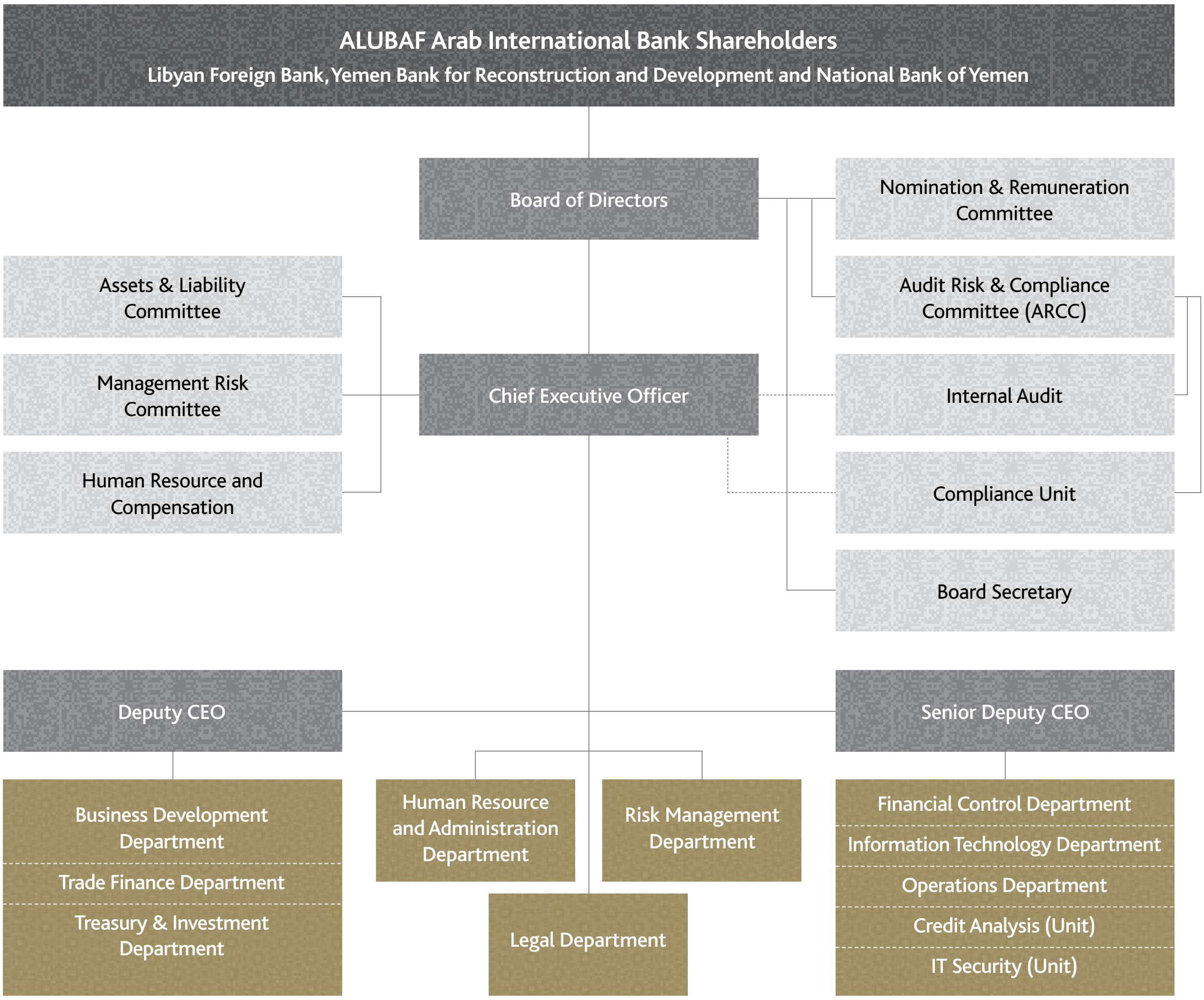
This level of independent directors have not enable the Bank to comply with the CBB requirements in sections HC-3.2.1, HC 4.2.1 & HC 5.2.1 related to Audit, Nomination & remuneration committees composition.

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 Disclosures continued

15 CORPORATE GOVERNANCE CHART



Financial Statements 2013

Contents

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 the Alubaf Arab International Bank B.S.C. (c) ('the Bank'), which comprise the statement of financial position as at 31 December 2013 and the statements of income, 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 2013, 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 2013 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

16 February 2014
Manama, Kingdom of Bahrain

Statement of Financial Position

At 31 December 2013

	Note	2013 US$ '000	2012 US$ '000
ASSETS			
Cash and balances with banks	3	150,345	7,102
Deposits with banks and other financial institutions	3,4	422,005	664,904
Investments held for trading	5	14,626	24
Non-trading investments	6	137,282	38,890
Loans and advances	7	362,998	378,684
Property, equipment and software	8	13,366	13,966
Interest receivable		5,916	8,034
Other assets		1,224	495
TOTAL ASSETS		1,107,762	1,112,099
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions	9	501,186	519,017
Due to banks and other financial institutions	9	268,273	267,063
Due to customers	10	7,714	21,083
Interest payable		205	169
Other liabilities	11	14,283	4,168
Total liabilities		791,661	811,500
EQUITY			
Share capital	12	250,000	250,000
Statutory reserve	12	13,597	9,933
Retained earnings		28,642	20,666
Proposed dividend	13	25,000	20,000
Fair value reserve		(1,138)	-
Total equity		316,101	300,599
TOTAL LIABILITIES AND EQUITY		1,107,762	1,112,099

Moraja G. Solaiman
Chairman

Sulieman Esa Al Azzabi
Deputy Chairman

Hasan Khalifa Abulhasan
Chief Executive Officer

The attached notes 1 to 24 form part of these financial statements

Statement of Income

Year ended 31 December 2013

	Note	2013 US$ '000	2012 US$ '000
Interest and similar income	14	**34,627**	26,280
Interest expense	15	**(1,860)**	(2,472)
Net interest income		**32,767**	23,808
Fee and commission income	16	**17,874**	15,124
Trading and investment income - net	17	**(74)**	4
Foreign exchange gain		**823**	375
Other income		**18**	20
OPERATING INCOME		**51,408**	39,331
Provision for loan losses	7	**(4,017)**	(2,322)
NET OPERATING INCOME		**47,391**	37,009
Staff costs		**6,253**	4,518
Depreciation	8	**1,078**	354
Other operating expenses	18	**3,420**	2,120
OPERATING EXPENSES		**10,751**	6,992
NET PROFIT FOR THE YEAR		**36,640**	30,017

Moraja G. Solaiman
Chairman

Sulieman Esa Al Azzabi
Deputy Chairman

Hasan Khalifa Abulhasan
Chief Executive Officer

The attached notes 1 to 24 form part of these financial statements

Statement of Comprehensive Income

Year ended 31 December 2013

	2013 US$ '000	2012 US$ '000
NET PROFIT FOR THE YEAR	**36,640**	30,017
Other comprehensive loss:		
Items that may be reclassified to the statement of income in subsequent periods:		
Unrealised fair value loss on available-for-sale investments - net	(1,138)	-
Other comprehensive loss for the year	(1,138)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**35,502**	30,017

The attached notes 1 to 24 form part of these financial statements

Statement of Cash Flows

Year ended 31 December 2013

	Note	2013 US$ '000	2012 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		**36,640**	30,017
Adjustments for:			
Provision for loan losses	7	**4,017**	2,322
Depreciation	8	**1,078**	354
Write off of property, equipment and software		**-**	9
Trading and investment income - net	17	**74**	(4)
Amortisation of assets reclassified as "loans and advances" from trading investments		**(554)**	(509)
Gain on disposal of property, equipment and software		**-**	(20)
Operating income before changes in operating assets and liabilities		**41,255**	32,169
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		**(188,910)**	(10,000)
Loans and advances		**12,223**	(111,237)
Investments held for trading		**(15,629)**	2
Interest receivable		**2,118**	(2,920)
Other assets		**(729)**	371
Deposits from banks and other financial institutions		**(17,831)**	48,715
Due to banks and other financial institutions		**1,210**	(9,419)
Due to customers		**(13,369)**	12,716
Interest payable		**36**	(49)
Other liabilities		**10,115**	10
Net cash used in operating activities		**(169,511)**	(39,642)
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(109,523)**	(29,773)
Proceeds from disposal of non-trading investments		**10,946**	4,702
Purchase of property, equipment and software	8	**(478)**	(2,737)
Proceeds from disposal of property, equipment and software		**-**	20
Net cash used in investing activities		**(99,055)**	(27,788)
FINANCING ACTIVITIES			
Issue of share capital	12	**-**	50,000
Dividend paid	13	**(20,000)**	(20,000)
Net cash (used in) from financing activities		**(20,000)**	30,000
DECREASE IN CASH AND CASH EQUIVALENTS		**(288,566)**	(37,430)
Cash and cash equivalents at 1 January		**662,006**	699,436
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	**373,440**	662,006

The attached notes 1 to 24 form part of these financial statements

Statement of Changes in Equity

Year ended 31 December 2013

	Note	Share capital US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed dividend US$ '000	Fair value reserve US$ '000	Total US$ '000
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 loss		-	-	-	-	(1,138)	(1,138)
Total comprehensive income (loss) for the year		-	-	36,640	-	(1,138)	35,502
Dividends paid	13	-	-	-	(20,000)	-	(20,000)
Transfer to statutory reserve	12	-	3,664	(3,664)	-	-	-
Proposed dividend	13	-	-	(25,000)	25,000	-	-
Balance as of 31 December 2013		**250,000**	**13,597**	**28,642**	**25,000**	**(1,138)**	**316,101**
Balance as of 1 January 2012		200,000	6,888	13,694	20,000	-	240,582
Net profit for the year		-	-	30,017	-	-	30,017
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	30,017	-	-	30,017
Issue of share capital	12	50,000	-	-	-	-	50,000
Dividends paid	13	-	-	-	(20,000)	-	(20,000)
Transfer to statutory reserve	12	-	3,045	(3,045)	-	-	-
Proposed dividend	13	-	-	(20,000)	20,000	-	-
Balance as of 31 December 2012		250,000	9,933	20,666	20,000	-	300,599

The attached notes 1 to 24 form part of these financial statements

Notes to the Financial Statements

At 31 December 2013

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 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 12 for more details).

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 16 February 2014.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

Statement of compliance

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.

Accounting convention

The financial statements have been prepared on a historical cost basis, as modified for investments held for trading, available-for-sale investments and derivative financial instruments which have been measured at fair value. The financial statements are presented in United States Dollars (US$) which is the Bank's functional and presentation currency. All values are rounded off to the nearest thousand (US$ '000) unless otherwise indicated.

2.2 Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgement and estimates are as follows:

(i) 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.

(ii) 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 income. For assets carried at amortised cost, impairment is based on estimated future cash flows discounted at the original effective interest rate.

(iii) 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.

Notes to the Financial Statements

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.3 Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended IFRS:

IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The disclosures relating to fair value hierarchy are provided in note 20.5.

IAS 1 - Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on available-for-sale investments) have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Bank's financial position or performance.

IFRS 10 - Consolidated Financial Statements and IAS 27 Separate Financial Statements

The standard became effective for annual periods beginning on or after 1 January 2013. It replaced the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and S/C 12 Consolidation - Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of this standard did not have any impact on the financial position or performance of the Bank as the Bank has no subsidiaries and hence do not prepare consolidated financial statements.

IFRS 11 - Joint Agreements

The standard became effective for annual periods beginning on or after 1 January 2013. It replaced IAS 31 Interests in Joint Ventures and S/C 13 Jointly Controlled Entities-Non-monetary Contributions by Venturers. Because IFRS 11 uses the principle of control in IFRS 10 to define control, the determination of whether joint control exists may change. The adoption of this standard did not have any impact on the financial position or performance of the Bank as the Bank has no joint ventures.

IFRS 12 - Disclosure of interest in other entities

The standard became effective for annual periods beginning on or after 1 January 2013. It includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Bank concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Bank to reach a different conclusion regarding consolidation. The adoption of this standard did not have any impact on the financial position or performance of the Bank as the Bank have no investments in subsidiaries, joint ventures or associates.

IAS 28 - Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard became effective for annual periods beginning on or after 1 January 2013. The adoption of this standard did not have any impact on the financial position or performance of the Bank as the Bank have no investments in joint ventures or associates.

Notes to the Financial Statements

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

(i) Foreign currencies

Transactions in foreign currencies are initially recorded in the relevant functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into United States Dollars at rates of exchange prevailing at the statement of financial position date. Any exchange gains and losses are taken to the statement of income.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items in a foreign currency measured at fair value are translated using the exchange rates at the date when the fair value was determined.

(ii) Financial assets and financial liabilities

Recognition and de-recognition

Financial assets of the Bank comprise cash and bank balances, 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.

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades", purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or liability is initially measured at fair value which is the value of the consideration given (in the case of an asset) or received (in the case of a liability).

A financial asset (or, where applicable a part of a financial asset) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(iii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expires.

(iii) Investments

The Bank classifies its investments in the following categories: fair value through profit or loss, available for-sale and held-to-maturity.

Initial measurement

All the investments are recognised initially at fair value plus, in the case of investments not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the investment.

Notes to the Financial Statements

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(iii) Investments (continued)

Subsequent measurement

Investments at fair value through profit or loss

Investments at fair value through profit or loss include financial assets held for trading. Investments 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 income in the period in which they arise. Interest earned and dividends received are included in 'interest and similar income' and 'other income' respectively.

Available-for-sale investments

Available-for-sale investments include equity investments and debt securities. Equity investments classified 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.

Available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised in statement of comprehensive income and credited in fair value reserve in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is recognised in the statement of income.

Held-to-maturity investments

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 investments are measured at amortised cost using the effective interest rate, 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 effective interest rate. The amortisation is included as 'interest and similar income' in the statement of income. The losses arising from impairment are recognised in the statement of income.

(iv) Fair value measurement principles

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 to 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 fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices for assets and offer prices for liabilities, at the close of business on the statement of financial position date, without deduction for transaction costs.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date with the resulting value discounted back to present value.

(v) Loans and advances

Loans and advances 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 method, less impairment allowances. The losses arising from impairment are recognised in the statement of income as provision for loan losses.

Notes to the Financial Statements
At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(vi) 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 income. 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.

(vii) Impairment of financial assets

The Bank assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) 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 borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; 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.

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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. 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.

Available-for-sale investments

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

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment 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 income.

(viii) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is currently enforceable legal right to set off the recognised amounts and the Bank intends to settle on a net basis.

Notes to the Financial Statements

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(ix) Cash and cash equivalents

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.

(x) Property, equipment and software

Property, equipment and software is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment if the recognition criteria are met. All other repair and maintenance costs are recognised in the statement of income as incurred. Land is not depreciated. It is carried at cost less any impairment in value.

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

Asset	Estimated useful life in years
Building	15
Furniture, equipment and vehicles	3 to 5
Software	3 to 5

An item of property, equipment and software 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 is included in the statement of income in the year the asset is derecognised.

xi) Capital work in progress

All costs and expenses, including payments to project asset suppliers and directly attributable expenses incurred in connection with the construction of the building and the related infrastructure costs are recognised as capital work in progress.

Upon completion of the project, capital work in progress is classified into relevant class of property, equipment and software.

(xii) 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 any provision is presented in the statement of income.

(xiii) 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.

(xiv) 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.

(xv) Renegotiated loans

The Bank seeks to restructure loans rather than to take possession of collateral. 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.

Notes to the Financial Statements

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(xvi) 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.

(xvii) 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. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income and fees which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method, unless collectability is in doubt. 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 right to receive payment is established.

2.5 New standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards (where applicable) when they become effective:

IFRS 9 - Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASS's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2015, but amendments to IFRS 9 issued in November 2013, removed the mandatory effective date of 1 January 2015 for IFRS 9. A new mandatory date for IFRS 9 will be determined by the IASB when IFRS 9 is closer to completion. The Bank will quantify the effect of this standard in conjunction with the other phases, when the final standard including all phases is issued.

IAS 32 - 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'. It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

Notes to the Financial Statements

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.5 New standards and amendments issued but not yet effective (continued)

IAS 32 - Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (continued)

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Bank as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

These amendments become effective for annual periods beginning on or after 1 January 2014.

3 CASH AND BALANCES WITH BANKS

	2013 US$ '000	2012 US$ '000
Cash	4	7
Money at call and short notice	150,341	6,983
Balances with other banks	-	112
Cash and balances with banks	150,345	7,102
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 4)	223,095	654,904
Cash and cash equivalents	373,440	662,006

4 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. Except for US$ 199 million (2012: US$ 10 million) of deposits maturing in six months, all deposits have original maturities of 90 days or less (note 3).

5 INVESTMENTS HELD FOR TRADING

	2013 US$ '000	2012 US$ '000
Quoted:		
Debt securities	11,715	-
Equity securities	2,911	24
	14,626	24

Notes to the Financial Statements
At 31 December 2013

6 NON TRADING INVESTMENTS

	2013 US$ '000	2012 US$ '000
Held-to-maturity:		
Debt securities:		
- Sovereign	**47,446**	23,897
- Corporate	**71,553**	11,993
Wakala units	**3,000**	3,000
Total held-to-maturity	**121,999**	38,890
Available-for-sale:		
Debt securities:		
- Sovereign	**7,194**	-
- Corporate	**8,089**	-
Total available-for-sale	**15,283**	-
Total non trading investments	**137,282**	38,890

7 LOANS AND ADVANCES
Loans and advances are stated net of provisions for loan losses and interest in suspense.

	2013 US$ '000	2012 US$ '000
Sovereign loans	**61,536**	42,085
Commercial loans	**106,464**	37,031
Letters of credit - financing	**206,334**	306,864
	374,334	385,980
Provision for loan losses and interest in suspense	**(11,336)**	(7,296)
	362,998	378,684

Movement in provision for loan losses and interest in suspense in relation to loans and advances were as follows:

	2013 US$ '000	2012 US$ '000
At 1 January	**7,296**	4,951
Provided during the year	**4,017**	2,322
Movement in interest in suspense	**23**	23
At 31 December	**11,336**	7,296

Notes to the Financial Statements

At 31 December 2013

7 LOANS AND ADVANCES (continued)

The breakup of provision for loan losses and interest in suspense in relation to loans and advances is as follows:

	2013 US$ '000	2012 US$ '000
Specific provision	5,384	3,867
Interest in suspense	252	229
Collective provision	5,700	3,200
At 31 December	11,336	7,296
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	12,847	11,529

Renegotiated facilities

	2013 US$ '000	2012 US$ '000
Loans and advances		
Commercial loans	8,828	5,078

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:

	2013 US$ '000	2012 US$ '000
Carrying value	42,639	42,,085
Fair value	46,687	52,317

Additional fair value loss that would have been recognised in the statement of income for the year ended 31 December 2013 had the trading investment not been reclassified amounts to US$ 6.1 million (2012: fair value gain of US$ 6.6 million).

The Bank earns an effective interest rate of 8.89% (2012: 8.89%) and expects to recover US $43 million (2012: US$ 42 million) on Iraq notes which were reclassified in 2008.

Notes to the Financial Statements

At 31 December 2013

8 PROPERTY, EQUIPMENT AND SOFTWARE

	Land & Building US$ '000	Furniture, equipment and motor vehicles US$ '000	Software US$ '000	Capital work in progress US$ '000	Total US$ '000
Cost:					
At 1 January 2013	4,232	901	770	9,166	15,069
Additions during the year	35	422	21	-	478
Transfers in (out)	7,587	1,579	-	(9,166)	-
At 31 December 2013	11,854	2,902	791	-	15,547
Depreciation:					
At 1 January 2013	-	713	390	-	1,103
Charge for the year	465	446	167	-	1,078
At 31 December 2013	465	1,159	557	-	2,181
Net book value:					
At 31 December 2013	**11,389**	**1,743**	**234**	**-**	**13,366**
At 31 December 2012	4,232	188	380	9,166	13,966

The capital work in progress as of 31 December 2012 related to the Bank's head office premises, which was completed in January 2013.

9 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 as at the statement of financial position date.

10 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 as at the statement of financial position date.

11 OTHER LIABILITIES

	2013 US$ '000	2012 US$ '000
Accrued expenses	**2,204**	1,543
Unearned fee income	**9,865**	2,184
Retention money	**130**	168
Other	**2,084**	273
	14,283	4,168

12 SHARE CAPITAL

	2013 US$ '000	2012 US$ '000
Authorised:		
10,000,000 (2012: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

Notes to the Financial Statements

At 31 December 2013

12 SHARE CAPITAL (continued)

	2013 US$ '000	2012 US$ '000
Issued and fully paid up:		
At beginning of the year:		
5,000,000 (2012: 4,000,000) ordinary shares of US$ 50 each	**250,000**	200,000
Issued during the year		
Nil (2012: 1,000,000) ordinary shares of US$ 50 each	-	50,000
At end of the year:		
5,000,000 (2012: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

Shareholders

	2013		2012	
	Percentage holding (%)	US$ '000	Percentage holding (%)	US$ '000
Libyan Foreign Bank	**99.50**	**248,751**	99.50	248,751
Yemen Bank for Reconstruction and Development	**0.22**	**561**	0.22	561
National Bank of Yemen	**0.28**	**688**	0.28	688
	100.00	**250,000**	100.00	250,000

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.

13 DIVIDENDS PAID AND PROPOSED

The Bank has proposed a dividend of US$ 25 million (US$ 5 per share) for the year ended 31 December 2013 (2012: US$ 20 million; US$ 4 per share), which will be submitted for approval of the Bank's shareholders at the next Annual General Meeting subject to necessary regulatory approvals.

During the year, the dividend for the year ended 31 December 2012 amounting to US$ 20 million (US$ 4 per share) was paid following regulatory approvals and the approval of the shareholders in the Annual General Meeting held on 21 April 2013.

14 INTEREST INCOME

	2013 US$ '000	2012 US$ '000
Loans and advances	**23,967**	18,720
Deposits with banks and other financial institutions	**3,676**	5,972
Investments held for trading	**737**	-
Non-trading investments	**6,247**	1,588
	34,627	26,280

Notes to the Financial Statements

At 31 December 2013

15 INTEREST EXPENSE

	2013 US$ '000	2012 US$ '000
Deposits from and due to banks and other financial institutions	1,845	2,454
Due to customers	15	18
	1,860	2,472

16 FEE AND COMMISSION INCOME

	2013 US$ '000	2012 US$ '000
Commission income from letters of credit	17,257	15,105
Commission income from letters of guarantee	160	19
Other	457	-
	17,874	15,124

17 TRADING AND INVESTMENT INCOME

	2013 US$ '000	2012 US$ '000
Changes in fair value of investments held for trading	(540)	4
Trading loss- net	(487)	-
Investment income	953	-
	(74)	4

18 OTHER OPERATING EXPENSES

	2013 US$ '000	2012 US$ '000
Administrative and marketing expenses	1,777	1,118
Board of Directors' expenses	921	577
Professional services	406	179
Fees and other charges	316	182
Other	-	64
	3,420	2,120

19 COMMITMENTS AND CONTINGENT LIABILITIES

	2013 US$ '000	2012 US$ '000
Letters of credit	163,393	250,045
Letters of guarantee	6,347	1,845
Foreign exchange contracts	2,521	22,110
Undrawn loan commitments	1,102	-
	173,363	274,000

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT

20.1 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.

20.2 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.

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

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 LC's.

	Gross maximum exposure 2013 US$ '000	**Net maximum exposure 2013 US$ '000**	Gross maximum exposure 2012 US$ '000	Net Maximum exposure 2012 US$ '000
Balances with banks	**150,341**	**150,341**	7,095	7,095
Deposits with banks and other financial institutions	**422,005**	**422,005**	664,904	664,904
Investments held for trading	**11,715**	**11,715**	-	-
Non-trading investments	**137,282**	**137,282**	38,890	38,890
Loans and advances	**362,998**	**341,937**	378,684	316,455
Interest receivable	**5,916**	**5,916**	8,034	8,034
Other assets	**928**	**928**	263	263
Total funded credit risk exposure	**1,091,185**	**1,070,124**	1,097,870	1,035,641
Unfunded exposure on credit related contingencies	**170,842**	**48,681**	251,890	110,161
Total funded and unfunded credit risk exposures	**1,262,027**	**1,118,805**	1,349,760	1,145,802

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 2013 and 2012. 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 recoverability of loan is doubtful.
(iv) Past due and impaired - Where interest or principal sum of loan is due for more than 90 days.

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

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

	Neither past due nor impaired				
	High standard grade US$ '000	Standard grade US$ '000	Past due and individually impaired (including interest in suspense)* US$ '000	Provision for losses and interest in suspense 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	4,019	(11,336)	362,998
Interest receivable	185	5,731	-	-	5,916
Other assets	-	928	-	-	928
Funded exposures	144,951	953,551	4,019	(11,336)	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	4,019	(11,336)	1,262,027

* Excludes loans of US$ 8,828 thousand (2012: US$ 5,078 thousand) which have been restructured and therefore classified under "Standard grade".

	Neither past due nor impaired				
	High standard grade US$ '000	Standard grade US$ '000	Past due and individually impaired (including interest in suspense)* US$ '000	Provision for losses and interest in suspense US$ '000	Total US$ '000
At 31 December 2012					
Balances with banks	3,634	3,461	-	-	7,095
Deposits with banks and other financial institutions	119,297	545,607	-	-	664,904
Non-trading investments	11,992	26,898	-	-	38,890
Loans and advances	-	379,529	6,451	(7,296)	378,684
Interest receivable	173	7,861	-	-	8,034
Other assets	-	263	-	-	263
Funded exposure	135,096	963,619	6,451	(7,296)	1,097,870
Credit related contingencies	-	251,890	-	-	251,890
Gross unfunded exposures	-	251,890	-	-	251,890
Net funded and unfunded exposures	135,096	1,215,509	6,451	(7,296)	1,349,760

The Bank had no financial assets that are past due but not impaired as of 31 December 2013 or 31 December 2012.

Notes to the Financial Statements
At 31 December 2013

20 RISK MANAGEMENT (continued)
20.2 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 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
ASSETS						
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

At 31 December 2012

	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
ASSETS						
Balances with banks	615	932	322	3,409	1,817	7,095
Deposits with banks and other financial institutions	235,354	174,765	97,200	157,585	-	664,904
Non-trading investments	18,296	11,993	8,601	-	-	38,890
Loans and advances	-	3,828	357,152	17,704	-	378,684
Interest receivable	366	201	7,384	83	-	8,034
Other assets	263	-	-	-	-	263
Gross funded exposures	254,894	191,719	470,659	178,781	1,817	1,097,870
Credit related contingencies	-	511	250,827	552	-	251,890
Gross unfunded exposures	-	511	250,827	552	-	251,890
Gross funded and unfunded exposures	254,894	192,230	721,486	179,333	1,817	1,349,760

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.2 Credit risk (continued)

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

Sectoral classification of gross credit exposures is presented below:

At 31 December 2013

	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial, business and others US$ '000	Total US$ '000
ASSETS				
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 funded and unfunded exposures	120,962	1,065,876	75,189	1,262,027

At 31 December 2012

	Sovereign US$ '000	Banks and financial institutions US$ '000	Commercial, business and others US$ '000	Total US$ '000
ASSETS				
Balances with banks	-	7,095	-	7,095
Deposits with banks and other financial institutions	-	664,904	-	664,904
Non-trading investments	23,897	9,986	5,007	38,890
Loans and advances	42,085	329,067	7,532	378,684
Interest receivable	1,653	6,375	6	8,034
Other assets	-	37	226	263
Gross funded exposures	67,635	1,017,464	12,771	1,097,870
Credit related contingencies	-	248,288	3,602	251,890
Gross unfunded exposures	-	248,288	3,602	251,890
Gross of funded and unfunded exposures	67,635	1,265,752	16,373	1,349,760

20.3 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.

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.3 Market risk (continued)

20.3.1 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 income	
	2013 US$ '000	2012 US$ '000
25 bps increase/decrease		
US Dollar	**(+)(-)291**	(+)(-)70
Euro	**(+)(-)5**	(+)(-)193

20.3.2 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:

	Change in rate	Effect on net income for the year	
		2013 US$ '000	2012 US$ '000
Euro	(+)(-)5%	**(+)(-)94**	(+)(-)8
GBP	(+)(-)5%	**(+)(-)4**	(+)(-)3

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.

20.3.3 Equity price risk

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

	Change in equity prices	Effect on net income and equity for the year	
		2013 US$ '000	2012 US$ '000
Investments held for trading	(+)(-)10%	**(+)(-)291**	(+)(-)2

20.4 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.

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2013 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.

At 31 December 2013

	Up to 1 year						
	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
ASSETS							
Cash 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	-

Notes to the Financial Statements
At 31 December 2013

20 RISK MANAGEMENT (continued)
20.4 Liquidity risk (continued)

At 31 December 2012

	Up to 1 year						
	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	7,102	-	-	7,102	-	-	7,102
Deposits with banks and other financial institutions	473,572	181,332	10,000	664,904	-	-	664,904
Investments held for trading	-	-	-	-	-	24	24
Non-trading investments	-	-	-	-	38,890	-	38,890
Loans and advances	42,725	62,874	226,736	332,335	46,349	-	378,684
Property, equipment and software	-	-	-	-	-	13,966	13,966
Interest receivable	2,939	1,147	3,948	8,034	-	-	8,034
Other assets	6	88	197	291	204	-	495
Total assets	526,344	245,441	240,881	1,012,666	85,443	13,990	1,112,099
LIABILITIES							
Deposits from banks and other financial institutions	305,546	81,471	132,000	519,017	-	-	519,017
Due to banks and other financial institutions	75,643	157,593	33,827	267,063	-	-	267,063
Due to customers	21,083	-	-	21,083	-	-	21,083
Interest payable	109	18	42	169	-	-	169
Other liabilities	147	-	3,725	3,872	42	254	4,168
Total liabilities	402,528	239,082	169,594	811,204	42	254	811,500
Net liquidity gap	123,816	6,359	71,287	201,462	85,401	13,736	300,599
Cumulative liquidity gap	123,816	130,175	201,462	-	286,863	300,599	-

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at 31 December 2013 based on contractual undiscounted repayment amounts is as follows:

At 31 December 2013

	Up to 1 year						
	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
LIABILITIES							
Deposits from banks and financial institutions	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	-	268,401
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

At 31 December 2012

	Up to 1 year						
	Up to 1 month US$ '000	1 to 3 months US$ '000	3 to 12 months US$ '000	Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Total US$ '000
LIABILITIES							
Deposits from banks and financial institutions	305,633	81,540	132,449	519,622	-	-	519,622
Due to banks and other financial institutions	75,664	157,727	33,942	267,333	-	-	267,333
Due to customers	21,089	-	-	21,089	-	-	21,089
Other liabilities	256	18	3,767	4,041	42	254	4,337
Total undiscounted liabilities	402,642	239,285	170,158	812,085	42	254	812,381
Derivatives:							
Foreign exchange contracts	22,110	-	-	22,110	-	-	22,110
Commitments and contingent liabilities:							
Letters of credit	19,278	90,650	138,341	248,269	1,776	-	250,045
Letters of guarantee	45	416	364	825	1,020	-	1,845
	19,323	91,066	138,705	249,094	2,796	-	251,890

Notes to the Financial Statements

At 31 December 2013

20 RISK MANAGEMENT (continued)

20.5 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 2013

	Level 1 US$ '000	Level 2 US$ '000	Level 3 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

At 31 December 2012

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Investments held for trading	24	-	-	24
Available-for-sale investments	-	-	-	-
Derivative financial instruments	-	-	-	-
	24	-	-	24

None of the financial assets were transferred into or out of level1 during the year ended 31 December 2013.

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At 31 December 2013

20 RISK MANAGEMENT (continued)

20.5 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 2013

	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total fair value US$ '000	Carrying value US$ '000
Held-to-maturity investments	106,012	-	9,630	115,642	121,999
Loans and advances	46,687	-	316,750	363,437	362,998
	152,699	-	326,380	479,079	484,997

At 31 December 2012

	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	33,626	-	6,630	40,256	38,890
Loans and advances	52,317	-	336,223	388,540	378,684
	85,943	-	342,853	428,796	417,574

- Fair values of held-to-maturity investments are determined based on quoted prices in the active markets.

- Fair values of loans and advances falling under Level 1 are determined based on quoted prices in active markets. Fair values of loans and advances falling under Level 3 are determined using discounted cash flows.

Balances with banks, deposits with banks and other financial institutions, deposits from banks and other financial institutions, due to banks and other financial institutions and due to customers are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 December 2013.

21 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.

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At 31 December 2013

21 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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:

	2013		2012	
	Notional amount US$ '000	Gain/ (loss) US$ '000	Notional amount US$ '000	Gain/ (loss) US$ '000
Forward exchange contracts	2,521	7	22,110	(4)

22 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 income and statement of financial position are as follows:

	2013 US$ '000	2012 US$ '000
Statement of comprehensive income		
Interest income	278	447
Interest expense	921	703
Fee and commission income	615	1,172
Statement of financial position		
Assets		
Cash and balances with banks	10,772	2,055
Deposit with banks and financial institutions	77,500	100,700
Loans and advances	7,874	-
Interest receivable	119	50
Other assets	38	41
Liabilities		
Deposits from banks and other financial institutions	243,935	249,673
Due to banks and other financial institutions	15,536	15,144
Interest payable	128	99
Other liabilities	3,014	164
Assets under management (note 23)	26,517	-
Contingent liabilities - Letters of credit (fully secured by deposits)	21,542	13,625

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

	2013 US$ '000	2012 US$ '000
Short term benefits*	3,469	2,413
End of term benefits	132	134
Total compensation	3,601	2,547

* Includes accrual for sitting fee and bonus of US$ 680 thousand (2012: US$ 436 thousand) and the reimbursement of travel, accommodation and other expenses paid to Board of Directors amounting to US$ 197 thousand (2012: US$ 141 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

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At 31 December 2013

23 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 on behalf of its Parent in a fiduciary capacity. Assets that are held in such capacity are not included in these financial statements. At 31 December 2013, the Bank had fiduciary assets under management of US$ 26,517 thousand (2012: nil).

24 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.

	2013 US$ '000	2012 US$ '000
Capital base:		
Tier 1 capital	311,206	300,599
Tier 2 capital	805	-
Total capital base (a)	312,011	300,599
Risk weighted assets (b)	712,166	599,925
Capital adequacy (a/b * 100)	43.81%	50.11%
Minimum requirement	12.00%	12.00%

Basel II Pillar III Disclosures

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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 2013, comprising of 5 million equity shares of US$ 50 each.

Break down of Capital Base

	Tier I US$ '000	Tier II US$ '000	Total US$ '000
Share capital	250,000	-	250,000
Statutory reserve	13,597	-	13,597
Retained earnings	52,504	-	52,504
Collective impairment loss provision	-	5,700	5,700
Total available capital base	316,101	5,700	321,801
Less: Regulatory deductions			
Excess amount over maximum permitted exposure	4,895	4,895	9,790
Net available capital base	311,206	805	312,011

ALUBAF recorded a net profit of US$ 36,640 thousand for the year ended 31 December 2013 and transferred 10% of profits (US$ 3,664 thousand) towards Statutory reserve.

The Bankproposed a dividend of US$ 25,000 thousand, i.e. US$ 5.00 per Ordinary share for the year 2013.

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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:

	US$ '000
Total Eligible Capital Base	**312,011**
Risk weighted assets (RWA)	
Credit risk	648,125
Market risk	4,063
Operational risk	59,978
	712,166
Capital adequacy ratio	**43.81%**

The Bank's capital adequacy ratio of 43.81% is well above the minimum regulatory requirement of 12%.

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.

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

(e) Equity portfolios

Investments in listed equities are risk weighted at 100%.

(f) Other exposures

These are risk weighted at 100%.

Credit exposure and risk weighted assets US$ '000

	Funded exposures	Unfunded exposures	Gross credit exposures	Elligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	119,860	1,102	120,962	-	81,120	9,734
Claims on banks	913,141	157,844	1,070,985	51,481	489,022	58,683
Claims on corporate	62,956	11,896	74,852	305	60,482	7,258
Equity portfolio	2,911	-	2,911	-	2,911	349
Other exposures	14,590	-	14,590	-	14,590	1,751
Total	**1,113,458**	**170,842**	**1,284,300**	**51,786**	**648,125**	**77,775**

Gross credit exposure before credit risk mitigation US$ '000

	Gross credit exposure	Average monthly gross exposure
Claims on Sovereigns	119,860	95,991
Claims on Banks	913,141	961,456
Claims on Corporate	62,956	57,483
Equity Portfolio	2,911	2,093
Other exposures	14,590	13,944
Total funded exposure	**1,113,458**	**1,130,967**
Unfunded exposures	**170,842**	**180,371**
Gross credit exposures	**1,284,300**	**1,311,338**

Average monthly balance represents the average of the sum of twelve month end balance for the year ended 31 December 2013.

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	4,063	488	4,063	1,125

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 7,197thousand on operational risk weighted exposure of US$ 59,978thousand. 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 operationalcapital charge; years with positive gross income are counted for computation of capital charge. This computation is as per CBB rulebook.

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6 Risk Management

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

Following is the Risk and Capital Management Structure:

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

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

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

6.1 Credit risk concentrations and thresholds

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

As at 31 December 2013, 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 *	117,298	Nil	117,298
Counterparty B *	65,000	Nil	65,000
Counterparty C **	58,060	Nil	58,060

* These are interbank deposits maturing within 6 months from 31 December 2013.

** Exempted by CBB in January 2014.

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 on collateral is not significant. For further details on refer note 20.2 of the annual audited financial statements for the year ended 31 December 2013.

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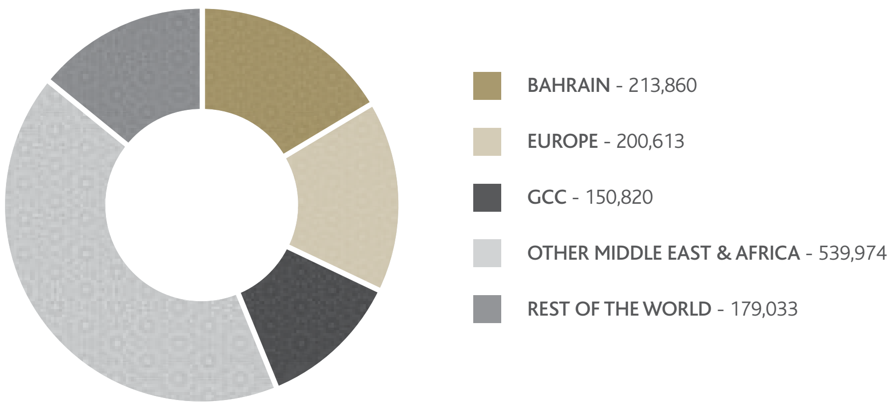
6 Risk Management (continued)

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

US$ '000

	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	213,860	213,860	-
Other GCC Countries	150,820	139,283	11,537
Other Middle east & Africa	539,974	382,813	157,161
Europe	200,613	200,503	110
Rest of the world	179,033	176,999	2,034
Total	**1,284,300**	**1,113,458**	**170,842**

Geographic exposures (US$ '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 on Sovereigns	22,370	14,096	59,265	5,168	18,961	**119,860**
Claims on Banks	171,811	107,194	323,522	161,766	148,848	**913,141**
Claims on Corporate	5,069	15,102	26	33,569	9,190	**62,956**
Equity Portfolio	20	2,891	-	-	-	**2,911**
Other exposures	14,590	-	-	-	-	**14,590**
Total funded exposure	**213,860**	**139,283**	**382,813**	**200,503**	**176,999**	**1,113,458**
Unfunded exposures	**-**	**11,537**	**157,161**	**110**	**2,034**	**170,842**
Gross credit exposures	**213,860**	**150,820**	**539,974**	**200,613**	**179,033**	**1,284,300**

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6 Risk Management (continued)

6.3 Industry sector analysis of exposures is summarized below:

US$ '000

	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	120,962	119,860	1,102
Banks & financial institutions	1,072,187	914,343	157,844
Commercial & other businesses	91,151	79,255	11,896
Total	**1,284,300**	**1,113,458**	**170,842**

Sectoral exposures (US$ '000s)

COMMERCIAL - 91,151

SOVEREIGN - 120,962

BANKS & FINANCIAL INSTITUTIONS - 1,072,187

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

US$ '000

	Banks & financial institutions	Sovereign	Commercial & other businesses	Total
Claims from Sovereigns	-	119,860	-	**119,860**
Claims from Banks	913,141	-	-	**913,141**
Claims on Corporate	-	-	62,956	**62,956**
Equity Portfolio	1,202	-	1,709	**2,911**
Other exposures	-	-	14,590	**14,590**
Total funded exposure	**914,343**	**119,860**	**79,255**	**1,113,458**
Unfunded exposures	**157,844**	**1,102**	**11,896**	**170,842**
Gross credit exposures	**1,072,187**	**120,962**	**91,151**	**1,284,300**

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6 Risk Management (continued)

6.4 Exposure by external credit rating

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

US$ '000

	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on sovereigns	119,860	1,102	-	71,939	49,023
Claims on banks	913,141	157,844	133,294	344,845	592,846
Claims on corporate	62,956	11,896	11,688	34,416	28,748
Equity portfolio	2,911	-	649	100	2,162
Other exposures	14,590	-	-	-	14,590
Total	**1,113,458**	**170,842**	**145,631**	**451,300**	**687,369**

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	10-20 years	Undated	Total
Claims on Sovereigns	1,533	2,513	8,489	12,535	64,686	42,639	-	119,860
Claims on Banks	347,716	291,906	187,849	827,471	77,637	8,033	-	913,141
Claims on Corporate	250	1,014	4,500	5,764	36,177	21,015	-	62,956
Equity Portfolio	-	-	-	-	-	-	2,911	2,911
Other exposures	2	311	28	341	883	-	13,366	14,590
Total	349,501	295,744	200,866	846,111	179,383	71,687	16,277	1,113,458

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 1 year	Total
Claims from Sovereign	1,102	1,102	-	-	1,102	-	1,102
Claims from Banks	157,844	22,547	37,105	91,067	150,719	7,125	157,844
Claims from Corporate	11,896	9,940	567	1,370	11,877	19	11,896
Total	170,842	33,589	37,672	92,437	163,698	7,144	170,842

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.

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6 Risk Management (continued)

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 minimum collective provision of 1% of the net loans portfolio as required by the regulator.

Refer Disclosures made under 7.2 for details of impaired loans and relative specific provision made during 2013.

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.

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 2013 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 2,331 thousandfor US$ denominated and US$ 43 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 2013, the Bank depended mainly on its own capital and assets weremanaged with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and deposits with banks.

6.9 Operational Risk

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

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

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6 Risk Management (continued)

6.10 Capital Management:

Internal Capital Adequacy Assessment Process (ICAAP)

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

Comprehensive assessment of economic capital, i.e., credit, market and operational risks and processes relating to other risks such as liquidity, is made, reviewed and monitored regularly. The Bank's capital adequacy ratio of 43.81% 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 Bankmaintains 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 2013 US$ '000
Exposures to related parties:	96,303
Liabilities to related parties:	
Connected deposits	262,613

For further detail refer note 22 of the annual audited financial statements for the year ended 31 December 2013.

7.2 Impaired Loans & related provision

	31 December 2013 US$ '000
Gross impaired loans	4,019
Less: Specific provision	(4,019)
Net impaired loans	-

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7 Other Disclosures (continued)

7.2 Impaired Loans & related provision (continued)

Movement in impairment provision:

US$ '000	Specific Provision	Collective Provision	Interest in suspense	Total
Opening balance - 1 January 2013	3,867	3,200	229	7,296
Charge / movement during the year	1,517	2,500	23	4,040
Closing balance - 31 December 2013	**5,384**	**5,700**	**252**	**11,336**

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 20.2 of the annual audited financial statements for the year ended 31 December 2013.

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

US$ '000	Other GCC Countries	Middle East & North Africa	Total
Claims on corporate	2,502	-	2,502
Claims on Banks	-	1,517	1,517
Total	**2,502**	**1,517**	**4,019**
Less: Specific Provision	**(2,502)**	**(1,517)**	**(4,019)**
Net Impaired loans	-	-	-

7.3 Restructured facilities

	31 December 2013 US$ '000
Balance of any restructured credit facilities as at year end	**8,828**
Loans restructured during the year	**3,705**
Impact of restructured credit facilities on present and future earning	-

7.4 Assets sold under recourse agreements:

The Bank did not enter into any recourse agreements during the year ended 31 December 2013.

7.5 Equity positions in the banking book:

	31 December 2013 US$ '000
Equity	**2,911**

The Bank's exposure to equity price risk is not significant. Please refer note 20.3.3 of the annual audited financial statements for the year ended 31 December 2013.

Corporate Directory

Registered Office

Alubaf Arab International Bank B.S.C (c)
Alubaf Tower, Al-Seef District
PO Box 11529, Kingdom of Bahain

Tel: + 973 17517722
Fax: +973 17540094

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