ANNUAL REPORT 2018

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

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

VISION

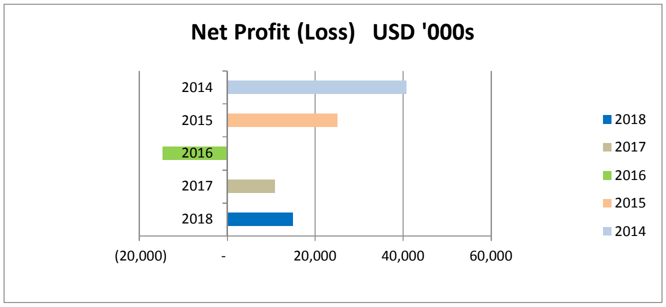
ALUBAF Arab International Bank visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients.

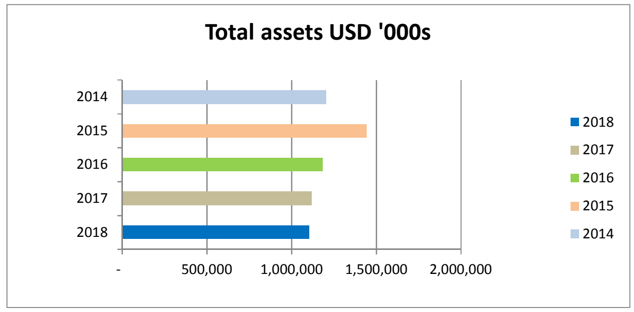
MISSION

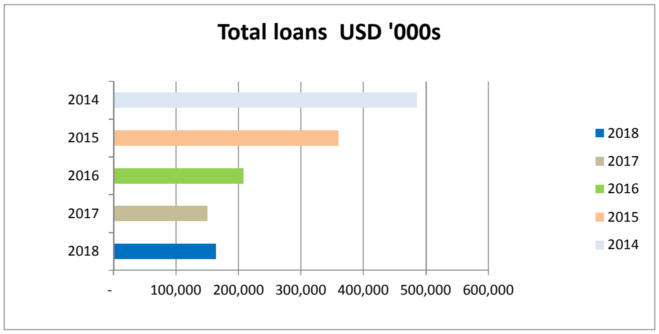
To augment shareholder value by maximizing profitability with prudent financial management and to entrench a disciplined risk and cost management culture.

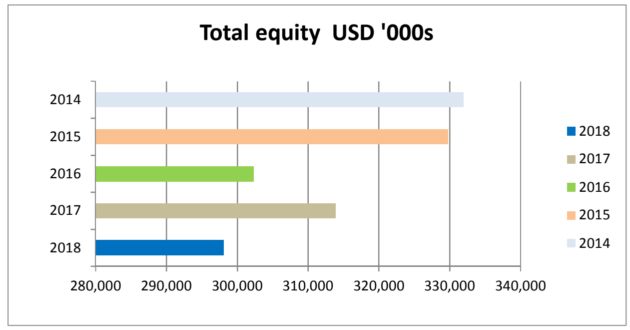
FINANCIAL HIGHLIGHTS

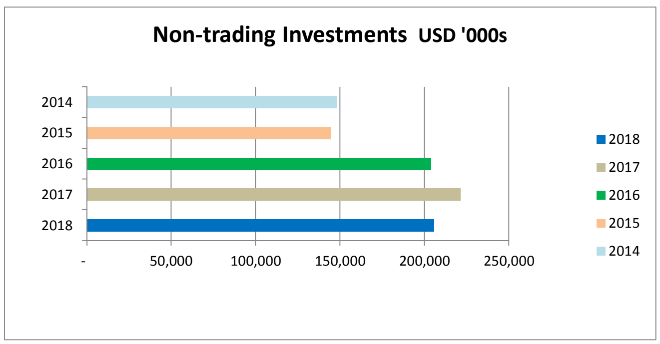
	2018	2017	2016	2015	2014
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
Financial Position					
Net Profit (Loss) before appropriation	15,000	10,830	(14,685)	25,072	40,700
Total Assets	1,104,888	1,118,643	1,180,936	1,443,007	1,204,957
Total Non-Trading Investments	205,597	221,374	203,767	144,289	147,994
Total Loans	163,338	150,256	208,041	360,176	485,255
Total Liablities	806,821	804,792	878,659	1,113,237	873,045
Total Equity	298,067	313,851	302,277	329,770	331,912
Ratios %					
Profitability					
ROAA -Return on Average Assets %	1%	1%	-1%	2%	4%
ROAE-Return on Average Equity %	5%	4%	-5%	8%	13%
Cost to Gross Income	39%	38%	25%	21%	22%
Capital					
Capital Adequacy Ratio	43%	37%	40%	44%	42%
Equity Assets Ratio	27%	28%	26%	23%	28%
Asset Quality					
Loans to Total Assets	15%	13%	18%	25%	40%
Non trading investment/ Total assets	19%	20%	17%	10%	12%
NPA/Gross loans	38%	34%	30%	19%	1%
Liquidity					
Liquid assets to Total Assets	66%	66%	64%	64%	46%
Liquid assets to Liabilities	90%	91%	86%	83%	64%


Net Profit (Loss) USD '000s
2014
2015
2016
2017
2018
(20,000)
-
20,000
40,000
60,000
2018
2017
2016
2015
2014


Total assets USD '000s
2014
2015
2016
2017
2018
-
500,000
1,000,000
1,500,000
2,000,000
2018
2017
2016
2015
2014


Total loans USD '000s
2014
2015
2016
2017
2018
-
100,000
200,000
300,000
400,000
500,000
600,000
2018
2017
2016
2015
2014


Total equity USD '000s
2014
2015
2016
2017
2018
280,000
290,000
300,000
310,000
320,000
330,000
340,000
2018
2017
2016
2015
2014


Non-trading Investments USD '000s
2014
2015
2016
2017
2018
-
50,000
100,000
150,000
200,000
250,000
2018
2017
2016
2015
2014

Board of Directors

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

Mr. Anthony Mallis
Deputy Chairman
Graduated from the American University of Beirut in 1976 and studied at the Stanford Graduate School of Business.
Retiring in 2014, after spending thirteen years as Chief Executive Officer of Securities & Investment Company (SICO) and transforming the company into a highly respected Bahrain-based GCC focused investment bank and asset manager.
Anthony has worked with a number of banks in the commercial, investment banking, asset management and private equity spaces in London, Bahrain and Saudi Arabia with Citibank, GIB, Bankers Trust, CSAM Investment Management and its predecessor, CSFB Investment Management. He served on the boards of Zawya, Pinebridge Middle East and on The Bahrain Bankers' Society. Besides consulting on strategic business matters he serves on the Board of Al Ramz Corporation in the UAE and on the investment committee of a prominent family office.

Mr. Tallal Al Zain
Director
Master's in Business Administration from Mercer University, Atlanta with over 20 years of experience in banking industry. Currently, a Board member of Bahrain Islamic Bank. Formerly-CEO of Pine Bridge Investment Middle East, BSC(c), CEO of Bahrain Mumtalakat Holding Co. , (Investment arm for the Kingdom of Bahrain.) and Managing Director and Co-Head of Placement & relationship Management of Investcorp, Bahrain.

Mr. Guima Masaud Salem Kordi
Director
Bachelor of Computer Science, Tripoli University with over 20 years of experience in banking industry. Currently, Information Technology department Manager of Libyan Foreign Bank. Formerly, a Board member of Ares Bank , Spain.

Mr. Achour Abboud

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

Executive Management

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

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

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.

Mr. Abbas Abdulla Al-Shamma
Head of Internal Audit
"A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), he holds a B.Sc. in Accounting from the University of Bahrain. He is a member of the Global Institute of Internal Auditors and the Information Systems Audit and Control Association, USA. He joined Alubaf in December 2009 and has more than 10 years of experience in the banking sector in the field of Internal and External audit, Risk Assessment, and Corporate Governance. Before joining Alubaf, he previously worked with Ernst and Young and BDO - Bahrain.

Ms. Najla Mahmood Qambar
Head of Compliance and MLRO
An MBA degree from University College Bahrain, as well as a holder of Professional international certificate on Compliance – ICA, with over ten years of experience in Banking sector, in Bahrain.

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

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

Mr. Anas Mohammed Zawia
Head of Information Technology Department
Over 10 years of experience in Information Technology and Security. Graduate of the Higher Institute of Computer Technology – Libya. Member of the Global Institute of Information Systems Audit and Control Association (ISACA), USA and Member of the Global Institute of Project Management (PMI), USA. Certified Islamic Banker (CIB), General Council for Islamic Banks and Financial Institutions CIBAFI.

Mr. Othman Shwaimat
Head of Treasury & Investments Department
Skilled professional with more than 29 years' experience dedicated to profitable cash and financial management, held executive positions in Treasury and investments with large and international banks. Former board member of ABC Investment , Brokerage firm – Jordan , and former board member of several Companies.
Master degree in finance from Arab academy for Banking and financial sciences, and Bachelor in Business administration , Managerial finance and accounting from Yarmouk University - Jordan.

CORPORATE GOVERNANCE DISCLOSURES

AS OF 31 DECEMBER 2018

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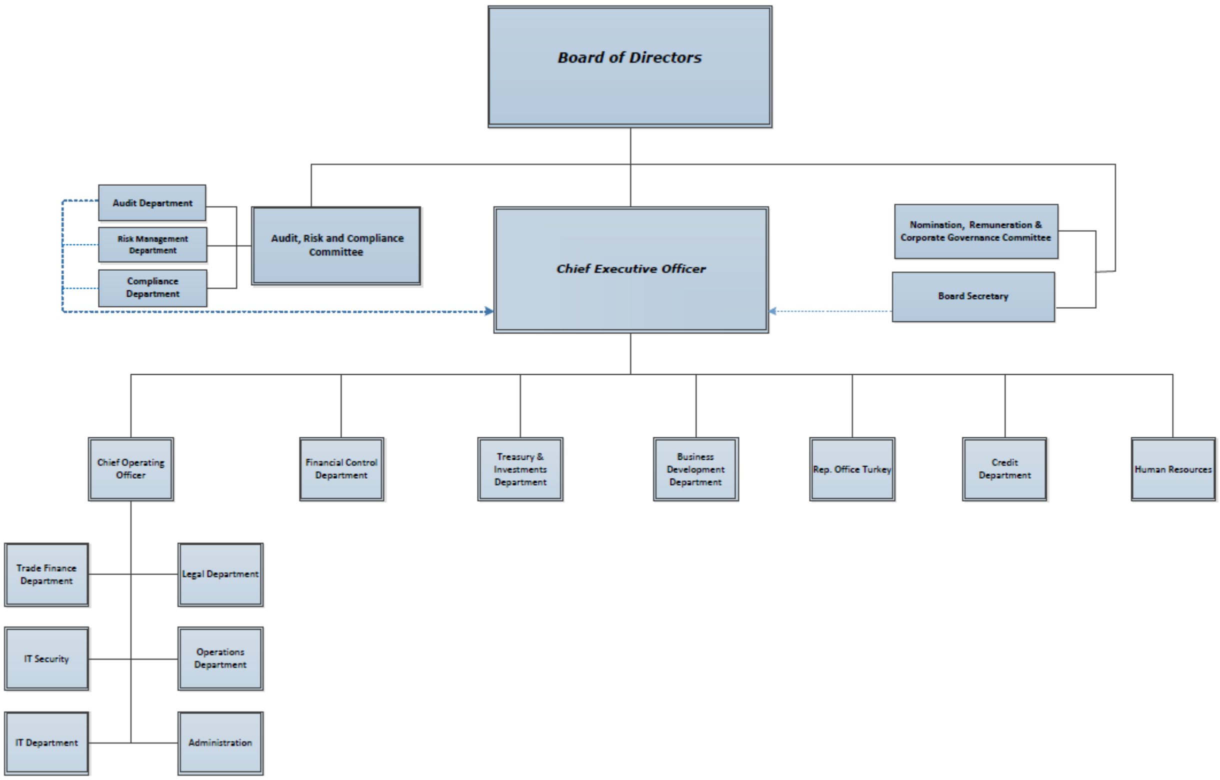
1. ALUBAF’S CORPORATE GOVERNANCE PHILOSPHY

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

As a Wholesale commercial bank, Alubaf’s corporate governance framework is based on the guidelines of the Corporate Governance Code as introduced by the Ministry of Industry, Commerce and Tourism, the Commercial Companies Law and its Implementation Regulations (“CCL”) and the regulations of the Central Bank of Bahrain (“CBB”) as specified in Volume 1 of its Rulebook - High Level Controls (Module HC).

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

2. ORGANIZATION STRUCTURE:



- The Bank's Internal Audit function is independent from the aforementioned functions and reports directly to the ARCC. This department sets out to examine the adequacy and effectiveness of the internal control systems, procedures and to identify areas of deficiency and/or recommend enhancements or corrective measures. The said department reports its findings to the ARCC in accordance with the Board approved Audit Plan.
- The Bank's Compliance function is independent from the aforementioned functions and reports directly to the ARCC. This Department sets out to assess monitoring and testing compliance as well as reporting on a regular basis to senior management. The compliance function has the overall responsibility to manage the compliance risk of the Bank.
- The Bank's Risk Management function. This Department sets out to provides independent overview-comments on Credit Applications, prepares Country- Risk reports / reviews country-limits and monitors the risks in the Bank's asset-portfolios, reporting directly to ARCC.

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

- To communicate (at any time and on their own initiative) with any staff member and obtain any records or files necessary to enable them to carry out their responsibilities;
- A direct line of communication with the CBB, regulatory authorities and the ARCC; and

- Authority and resources (including engaging external specialists) to initiate and carry out or investigate possible breaches of laws and regulations and plan corrective actions, where necessary.

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

All departments and functions indicated on the approved Organizational Chart reporting to the CEO.

The Board reviewed the Board Charter, Board Committees' Terms of Reference, the Corporate Governance framework, and other relevant policies to ensure they stay up to date and relevant.

3. CG'S FRAMEWORK

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

4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK

NAME	NATIONALITY	NO. OF SHARES	NOMINAL VALUE (USD)	%
LIBYAN FOREIGN BANK	LIBYAN	4,975,008	248,750,400	99.50
National Bank of Yemen	YEMENI	13,768	688,400	0.28
Yemen Bank for Reconstructions and Development	YEMENI	11,224	561,200	0.22

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

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

- *Distribution of Shareholding according to Nationality as of 31 December 2018 is as follows:*

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

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

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

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

As of 31 December 2018, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2018, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

5. BOARD OF DIRECTORS

5.1 BOARD COMPOSITION

As per the Bank's Articles of Association, the Bank shall be administered by a Board of Directors comprising of at least three (3) directors and not more than nine (9) directors ("**Directors**"). As of 31 December 2018, the total number of Directors is five (5). The Board of Directors also elects by secret ballot from its Directors a chairman ("**Chairman**"), and a deputy chairman ("Deputy Chairman") for its tenure.

In accordance with HC 1.5.2 of the CBB Rulebook, in conventional bank licensees with a controller, at least one third of the Board of Directors must be independent.

In compliance with HC 1.4.8, the Chairman is not an executive director Furthermore, the CBB Rulebook and Corporate Governance Code also require that the Chairman of the Board of Directors must be an independent Director. The Bank's Chairman, Mr. Moraja Gaith Solaiman Buhlaiga, complies with this requirement.

As of 31 December 2018, the Bank is in compliance with the aforementioned independence requirements with the following being its composition:

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

For the financial year ending 31 December 2018, the Bank's Board of Directors was as follows:

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

**Mr. Anthony Mallis has been appointed as deputy chairman on 8th April 2018 through Board resolution.*

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

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

The Board of Directors is supported by its Board Secretary, who provides it with professional and administrative support. The Board Secretary also acts as secretary for the Board of Director's committees and the General Assemblies. As per HC 1.6.2, the appointment of the Board Secretary is subject to approval of the Board of Directors.

5.2 APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS

The appointment of Directors is subject to obtaining the prior written approval of the CBB and comply at all times with the CCL and the CBB regulations. The Board of Directors is appointed for a term of three (3) years by the Annual General Assembly, such term being capable of renewal.

Appointments of Directors are also subject to Article 175 of the CCL for shareholders holding 10% of the share capital or more having the right to appoint representatives on the Board in proportion to the number of members on the Board. The current term of the Board of Directors started in April 2016 and will end in April 2019.

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

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

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

5.3 RESPONSIBILITIES OF THE BOARD

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

- Establishing the objectives of the Bank;
- Determining the overall business performance, plans and strategy of the Bank;
- Monitoring management performance and their implementation of strategic decisions;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;
- Annual approval of budget and monitoring management performance in relation to the same thereof;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Causing financial statements to be prepared which accurately disclose the Bank's financial position; and
- Setting the 'tone at the top' of the Bank and overseeing compliance with various laws and regulations, including but not limited to, CBB laws and regulations, CCL, Corporate Governance Code, Labor Law and other applicable laws and regulations.

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

5.4 MEETINGS OF THE BOARD OF DIRECTOR DURING THE YEAR 2018

In accordance with HC-1.3 of Volume 1 of the CBB Rulebook, the Board must meet frequently but in no event less than four (4) times a year. The Bank's Board of Directors has exceeded this requirement by meeting six (6) times in the financial year ending 31 December 2018. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year.

Dates of Board meetings held during the fiscal year 2018, as follows:

DIRECTOR	DATE OF FISRT APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	DATE OF RESIGNATION	1/2018 18-Feb-18	2/2018 8-Apr-18	3/2018 15-Jul-18	4/2018 30-Sep-18	5/2018 18-Nov-18	6/2018 23-Dec-18
Moraja Gaith Solaiman Buhlaiga	21-Apr-13	29-Jan-13	N/A	✓	✓	✓	✓	✓	✓
Talal Al Zain	12-Apr-15	14-Apr-15	N/A	x	✓	✓	✓	✓	✓*
Giuma Masaud Salem Kordi	19-Apr-16	21-Aug-15	N/A	✓	✓	✓	✓	✓	✓
Achour Abboud	18-Jun-17	6-Oct-16	N/A	✓	✓	✓	✓	✓	✓
Anthony Mallis	18-Jun-17	9-Jul-17	N/A	✓	✓	✓	✓	✓	✓

** participated by phone / video link*

6. BOARD COMMITTEES

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

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

6.1 EXECUTIVE COMMITTEE (EXCOM)

The EXCOM Charter stipulates that it shall meet at least four (4) times a year. There were no meetings convened as of 31 December 2018 as the committee has been dissolved by Board Resolution (10/2017) on 23rd April 2017.

6.2 AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)

6.2.1 COMPOSITION

As of 31 December 2018, the composition of the ARCC is as follows:

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

6.2.2 RESPONSIBILITIES

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

- Assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices;
- Assist the Board in its oversight of the integrity and reporting of the Bank's quarterly and annual financial statements;
- Review the performance and approve activities, staffing and organizational structure of the internal audit function;
- Oversee the independence and performance of the external auditors as well as recommending the appointment, replacement and compensation of external auditors;
- Review the adequacy and effectiveness of the Bank's system of financial, accounting and risk management controls and practices;
- Oversee the Bank's compliance with laws, regulations and supervisory and internal policies;
- Regularly report to the Board about the committee activities and related recommendations and review any reports the Bank issues that relate to the committee responsibility;

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

6.2.3 MEETINGS

The ARCC Charter stipulates that it shall meet at least five (5) times a year. During 2018, the ARCC has complied with this requirement. The dates and attendance details of the ARCC meetings are as follows:

DIRECTOR	1/2018 17-Feb-18	2/2018 29-Apr-18	3/2018 28-Sep-18	4/2018 22-Dec-18
Talal Al Zain	✓	✓	✓	✓ *
Guima Masaud Salem Kordi	✓	✓	✓	✓
Anthony Mallis	✓	✓	✓	✓

** participated by phone / video link*

6.3 NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

6.3.1 COMPOSITION

As of 31 December 2018, the composition of the NRCGC is as follows:

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

6.3.2 RESPONSIBILITIES

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

Nomination, appointment and board composition

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

- Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the board compared to its current position and make recommendations to the board with regard to any changes.

Succession planning and evaluation

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

Performance review and assessment

- Ensure effective policies and processes are in place to keep under review the leadership needs of the bank, both executive and non-executive, with a view to ensuring the continued ability of the bank to compete effectively in the marketplace.
- Periodically review the time required from non-executive directors. performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties.
- Report annually to the board with an assessment of the board's performance.
- Ensure effective policies and processes are in place for effective monitoring and making annual formal evaluations of senior management's performance in implementing agreed strategy and business plans.
- Monitor the orientation and continuing education programs for directors and based on it recommend to the board relevant training for the directors.

Remuneration

The nomination and remuneration committee shall be responsible for the design, implementation and supervision of the remuneration policy. In particular, the NRCGC shall:

- Design all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the bank. in designing the remuneration policy, the NRCGC shall consider the core remuneration policy of the bank, the business strategy of the bank, the regulatory pronouncements of the central bank of Bahrain and the labour laws of the kingdom of Bahrain;
- obtain approval of the board of directors and subsequently the shareholders on the remuneration policy adopted by the bank;
- ensure that the remuneration for non-executive directors does not include performance related elements such as grants of shares, share options or other deferred stock related incentive schemes, bonuses or pension benefits;

- ensure that the remuneration for officers is structured and that the employee's interest is aligned with the interests of the shareholders. These rewards include grants of shares, share options and other deferred stock related incentive schemes, bonuses and pension benefits which are not based on salary. if an officer is also a director, his remuneration as an officer should take into account, compensation received in his capacity as a director
- approve the remuneration policy and remuneration for each approved person and material risk-taker;
- approve targets and associated risk parameters, and variable pay for achieving the set target for each performance period;
- approve total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
- monitor and review the remuneration system on a regular basis to ensure the system operates as intended;
- undertake stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the bank's solvency and risk profile, and its long term objectives and business goals;
- undertake back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or malus;
- recommend board member remuneration based on their attendance and performance and in compliance with article 188 of the company law;
- determine the policy for, and scope of, pension arrangements for each executive director;
- determine the policy for the disclosure of directors' remuneration; and
- Be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee.

<u>Policies and corporate governance</u>

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

6.3.3 MEETINGS

The NRCGC charter stipulates that it shall meet at least twice (2) a year. During 2018, the NRCGC has complied with this requirement. The dates and attendance details of the NRCGC meetings are as follows:

DIRECTOR	1/2018 17-Feb-18	2/2018 22-Dec-18
Moraja Gaith Solaiman Buhlaiga	✓	✓
Talal Al Zain	✓	✓ *
Achour Abboud	✓	✓

** participated by phone / video link*

7. BOARD ASSESSMENT AND EVALUATION

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

8. MANAGEMENT

8.1 SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT

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

8.2 MANAGEMENT COMMITTEES

The Bank as of 31 December 2018 has seven (7) main Management Committees to assist Management in the discharge of its duties and obligations. These Committees each have their own charters to which they adhere to. These Committees are established via Management Resolutions in accordance with the authorities delegated by the Board of Directors. The Board of Directors may recommend the establishment of certain types of Management Committees, as the case may be from time to time. The Board of Directors and/or Management may also establish temporary Committees to deal with specific objectives and dissolve these upon the full discharge of their respective tasks.

Details of the main Management Committees and their memberships as of 31 December 2018 are as follows:

Management Committees	Member Position	Committee Member Position
Asset and Liability Committee (ALCO)	Chief Executive Officer	Head
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Credit	Member
	Head of Risk Management	Member
	Head of Operations	Member/Secretary
Management Risk Committee (MRC)	Chief Executive Officer	Head
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury &Investments	Member
	Head of Credit	Member
	Head of Operations	Member
	Head of Risk Management	Member/Secretary
Human Resource Committee (HRC)	Chief Executive Officer	Head
	Head of Financial Control	Member
	Head of Human Resources and Administration	Member/Secretary
Credit and Investment Committee (CIC)	Chief Executive Officer	Head
	Head of Financial Control	Member
	Head of Business Development	Member/Secretary
	Head of Risk Management	Non-Voting Member
	Head of Credit	Member
	Head of Treasury &Investments	Member
Insurance Coverage Committee (ICC)	Head of Financial Control	Head
	Head of Risk Management	Member
	Legal Counsel	Member
	Head of Human Resources & Administration	Member/Secretary
	Chief Executive Officer	Head

Management Committees	Member Position	Committee Member Position
Tariff and Commission Committee (TCC)	Head of Business Development	Member
	Head of Financial Control	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member/Secretary
Special Asset Management Committee (SAMC)	Head of Financial Control	Member
	Head of Operations	Member/Secretary
	Head of Credit	Member
	Head of Risk Management	Member
	Legal Counsel	Member

8.2.1 ASSET AND LIABILITY COMMITTEE (ALCO)

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

- Actively manage the balance sheet;
- Effectively manage the Bank's liquidity requirements to meet business needs during normal conditions and during times of crisis;
- Monitor asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates;
- Manage foreign exchange risks;
- Within Board approved parameters, develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies in general;
- Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective;
- Review and monitor all aspects of liquidity policy including contingency planning and limits to ensure management of liquidity crisis;
- Review and approve or reject breaches of ALCO limits;
- Ensure that approved limits including, mismatch limits, inter-bank and country limits are reviewed on a regular basis, at least quarterly;
- Review of reports submitted by Risk Management Department and all business lines as appropriate;
- Approve currencies in which the TD will deal for undertaking FX transactions
- Review and approve / reject breaches of treasury limits, in accordance with the Delegation of Authority (DoA); and
- Approving transactions such as loan swaps and others as per Bank's DoA

8.2.2 MANAGEMENT RISK COMMITTEE (MRC)

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

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

- Follow up and implement the recommendations of ARCC / BOD review findings on matters related to Risk and financial reporting;
- Review other major risk concentration as deemed appropriate; and
- Approve Operational Risk framework and monitor the risk on ongoing basis.

8.2.3 HUMAN RESOURCES COMMITTEE (HRCC)

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

- Review and recommend changes to HR policy as appropriate;
- Review regularly and recommend Bank's executive/staff development for senior management positions, including performance and skills evaluation, training and succession planning;
- Recommend the bonus and other incentive distribution mechanism for staff below the level of managers to the NRCGC;
- Review matters relating to executive management succession and executive organization development;
- Resolve staff disciplinary matters as per Bank's HR Policy; and
- Prepare periodic reports for the NRCGC and the Board regarding the above items.

8.2.4 CREDIT AND INVESTMENT COMMITTEE (CIC)

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

- To structure the details of all facilities either prior to or following the approval of counterparty/ facility limits by delegated authority
- To implement the board credit risk strategy by managing the credit policies and procedures for identifying, measuring, monitoring and controlling credit risk within the bank;
- To review changes to the credit policy and recommend changes as appropriate to the Board of Directors for approval;
- Consider existing risk appetite of the Bank, strategic objectives with regards to servicing customers and geographies, desirable pricing, country, product, sector and concentration limits, provisioning policy, adequacy of collateral, customer relationships and repayment history;
- Review information presented by both the credit initiator, CD and RMD prior to making a decision;
- Meet to discuss issues highlighted by the CD and RMD regarding on-going performance of problem credits and assess adequacy of provisions;
- Monitor on-going risk profile of the Bank in aggregate and by individual business/economic sectors and geographic concentrations and concentration to a single borrowing entity;

- Review of all applications rejected by any delegated authority within the Bank (list of such facilities to be presented by business lines) in order to review enhancements in the Policy suggested by business lines, if required;
- Propose measures to remedy any counterparty limit breaches highlighted by the RMD;
- Evaluate and approve all new loan proposals as per DOA;
- Review and comment on introduction of new products by various business lines as per the DOA;
- Assess all guarantee facilities and ensure approval as per DOA;
- Review all rejected deals of any type of facility with its valid justifications;
- Review and initiate action on non-performing assets, provisions, and write-offs, customer covenant breaches;
- Review problematic credit exposure with expeditiously to minimize credit loss and maximize recoveries;
- The CIC shall have oversight for making the most appropriate investments and in adhering to the suitable procedures for selection of the investment opportunity, instrument or product;
- Review the application for renewal or amendment of various Counterparty limits and provide appropriate comments;
- Review and approve the investment deal proposals on HTM and AFS portfolios;
- Approving all types of loan transactions as per the DoA ;
- Approving the funding for deals; and
- Recommending action to be taken on customer covenant breaches, restructuring of loans.

8.2.5 INSURANCE COVERAGE COMMITTEE (ICC)

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

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

8.2.6 TARIFF AND COMMISSION COMMITTEE (TCC)

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

- Review the bank's tariffs and commissions;
- Set country pricing limit for LC refinance and discount;
- Review other applied charges by the bank; and

- Ensure the bank maintain completed terms and conditions.

8.2.7 SPECIAL ASSET MANAGEMENT COMMITTEE (SAMC)

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

- To take over the responsibility for handling customer accounts which is over 90 days past due;
- Initiate suspension of credit facilities to accounts transferred from CAU;
- To explore all possible avenues including engagement of external debt collection agencies to enhance collection;
- Initiate collateral realization procedures where approved;
- Based on account history, call logs and visit reports or if the account crosses 180 days past due decide on whether the account should be restructured/payments rescheduled or whether legal action should be pursued;
- To report to CEO and ARCC periodically and obtain their approval if any legal action is to be taken; and
- To monitor restructured accounts over twelve month cooling off period and transfer of account ownership to CAU following cooling off period.

9. MATERIALITY AND AUTHORITY LEVELS

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

10. RELATED PARTY TRANSACTIONS

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

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

11. CODE OF CONDUCT AND CONFLICT OF INTEREST

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

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

The Bank requires its Directors and Approved Persons to issue an Annual Declaration of Conflict of Interest statement. Additionally, as per the Board Appointment Agreements, each Director has the responsibility to disclose any material interests relating to business transactions and agreements and the privilege of accessing to independent professional advise in this regard if required. During 2018, there were no materially significant transactions entered into that may have potential conflict of interest with the interest of the Bank and no disclosures in this regard were accordingly made.

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

12. COMMUNICATIONS AND DISCLOSURE POLICY

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

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

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

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

13. ANTI-MONEY LAUNDERING

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

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

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

14. 2018 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS

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

- Due to the limited number of Directors on the Board, the Bank is not in compliance with HC-5.3.1A which requires that members of the Remuneration Committee must have independence of any risk taking function or committees. There is currently One (1) member on the ARCC that hold position in the NRCGC as well. The Bank is looking at taking the necessary actions to address this non-compliance at the earliest.

Central Bank of Bahrain (CBB) Penalty Disclosure: As per rule PD-1.3.37, the bank is in compliance with CBB rules and regulation and did not pay any penalties during 2018.

15. REMUNERATION OF EXTERNAL AUDITORS

In 2018, the Bank has paid its external auditors, Messers Ernst & Young, a total of USD 164,000 for audit and other audit related services fees. These services include year-end audit, prudential information return reviews, quarterly reviews, anti-money laundering review, sound remuneration reviews and public disclosures reviews. Messers Ernst & Young have expressed their willingness to continue as the auditors of the Bank for the financial year ending 31 December 2018. The ARCC has recommended the appointment of Ernst & Young and a resolution proposing their re-appointment will be presented at the Annual General Assembly meeting, which will be held in 28th April 2019.

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

TYPE OF SERVICE	2018	2017
	USD'000	USD'000
Audit and other audit related service fees	139	136
Non-audit service fees	25	215
Total	**164**	**351**

Sound Remuneration Disclosures

2018

Contents

1. INTRODUCTION

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

2. BANK'S REMUNERATION PHILOSOPHY

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain and a "**Remuneration Policy**" was drafted for the Bank's variable remuneration framework and approved by shareholders at the Annual General Meeting held on 12 April 2015. Which was further reviewed and enhanced in the year 2017, to align with market and best practices. This revised and updated "Remuneration Policy" was approved by Central Bank of Bahrain and shareholders in Annual general meeting held on 8th April, 2018.

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

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

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

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

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

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

3.1 Composition

During 2018, the composition of the NRCGC was as follows:

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

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4. CORE REMUNERATION POLICY

4.1 Overall Approach to Remuneration

The major components of this overall approach are:

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

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

- *Market environment*

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

- *Operating Costs*

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

- *Internal Equity*

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

- *Salary Ranges*

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

4.2 Variable Pay Scheme

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

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

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

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

4.3 Salary and Benefit Review

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

4.4 Severance Pay

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

4.5 Prohibition of Approved Person Benefits

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

5. REGULATORY ALIGNMENT

5.1 Governance

The composition of the NRCGC as of 31 December 2018 is as required by the CBB remuneration guidelines, whereby it is comprised of three (3) independent directors, including the chairman of the committee itself. The NRCGC charter was revised in line with the requirements of the CBB guidelines and approved by the Board on 26th February 2017.

5.2 CBB Remuneration Guidelines

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

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

6. VARIABLE PAY

6.1 CEO, Senior Management and Business Units

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

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

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

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

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

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

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

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

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

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

6.2 Control and Support Units

The variable pay for Control and support functions are designed in such a way that it is independent of the performance of the business units. The unit targets as set out and agreed with the NRCGC in the beginning of each evaluation period will be the base, with their individual performance score for variable pay to be paid except in the case of the Bank making a loss.
In years when the Bank achieves exceptional profits, at the discretion of NRCGC, the base multiples for Control and Support units may be increased as deemed fit by the NRCGC.

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

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

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

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

6.3 Malus and Claw Back Framework

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

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

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

6.4 Summary of Variable Pay

- The NRCGC has the overall responsibility for computation and approval of the variable pay across the Bank;
- Links reward to Bank, business unit and individual performance;
- Target setting process considers risk parameters which are both quantitative and qualitative;
- Aligned to time horizon of risk, the bonus has a deferral element and a share linkage to align the employees interest with that of the shareholders;

- Bonus can be reduced or nil if the Bank or business units do not achieve the risk adjusted targets or make losses; and
- Post risk assessment is carried out to ensure that, in case of material losses or realisation of less than expected income which can be attributed to employees actions, the claw back or malus as appropriate is invoked.

7. BOARD REMUNERATION

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

8. DETAILS OF REMUNERATION PAID

The NRCGC meeting held on 16th February, 2019, approved the bonus pool for the year 2018, in line with the banks variable remuneration policy.

The deferred element of variable remuneration relating to earlier years for certain eligible employees has, however, been paid during the year.

8.1 Board Remuneration

Elements of Remuneration	2018 USD '000	2017 USD '000
Sitting fee, accommodation and other expenses	374	308
Remuneration (Provision subject to approval)	480	440*
Total	**854**	**748**

*Actual paid in 2018 for the year 2017.

DETAILS OF REMUNERATION PAID FOR THE FINANCIAL YEAR ENDED 31.12.2018

(USD in '000)

Categories	No.	Fixed Remuneration			Variable Remuneration								Total
		Salaries and Wages	Other Benefits/ Allowance	Total	Performance Bonuses (in cash)	Performance Bonuses (in shares)[Refer Note 1]	Vested and release of Deferred Cash and Shares for 2014 and 2015	Deferred shares Compensation paid (Release 2nd Portion 2015)	Deferred shares Compensation paid (Release final Portion 2014)	Deferred cash compensation paid (Release 2nd Portion 2015)	Deferred cash compensation paid (Release final Portion 2014)	Total	
2. Approved persons (Business Lines) (not incl in 1,3 to 7.)	5	886	520	1,406	411	308	161	(74)	(58)	(16)	(13)	719	2,125
3. Approved persons (Control & Support) in risk management, internal audit, operations, financial controls, AML and Compliance Functions	12	1,090	448	1,538	435	58	21	(10)	(11)	-	-	493	2,031
4. Employees engaged in risk taking activities (Business Lines)	7	289	101	390	114	-						114	504
5. Employees, other Than approved persons, engaged in functions under 3. (Control & Support)	24	1,045	443	1,488	395	-						395	1,883
6. Other employees	6	247	80	327	93	-						93	420
TOTAL	54	3,557	1,592	5,149	1,448	366	182	(84)	(69)	(16)	(13)	1,814	6,963

Note 1: Deferred remuneration (Shares) for 2018, amounts to USD 138 thousand , fully unvested as of 31.12.2018, relates to four approved persons.

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

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

31 DECEMBER 2018

Board of Directors' Report

On behalf of the Board of Directors', I am delighted to present audited financial statements for the year ended 31 December 2018.

The year 2018 has been another challenging year for the Banking industry, due to global geopolitical risks and uncertainty, in particular, in the region we operate. Amid such challenging environment, Alubaf stood resilient and adapted to the dynamics and complexity of challenges that impact the Banking sector.

The Bank delivered improved financial performance for the year ended 31 December 2018 and resulted in a Net profit of US$ 15 million, as compared to a net profit of US$ 10.8 million last year 2017, which is an increase of 39%, year on year.

Net profit for the quarter ended 31 December 2018 was US$ 2.9 million, as compared to US$ 4.7 million for the same period, last year 2017.

This increase in profit for 2018, was achieved, mainly due to improved asset quality and reduction on high risk weighted exposures. With gradual reduction on stressed assets and improved asset quality parameters, the income streams stabilized in 2018 from performing assets.

Interest income for 2018 was US$ 42.9 million, an increase of 8.4% over last year 2017, while, interest expenses increased by 37.8%, from US$ 10.2 million to US$ 14 million , due to hike in LIBOR rates for the year 2018. This resulted in reduction of Net interest income to US$ 28.8 million in 2018, compared to US$ 29.3 million in 2017.

Non- interest income from fee, commission and other income, increased by 14% for the year ended 31 December 2018, as compared to last year ended 2017, mainly due to increase in fee and commission.

On the expenses front, the staff costs grew by merely 3.5% for 2018, as compared to 2017. As for other operating expenses, the increase evidenced is 11.7% year on year, primarily expensed to strengthen control and processes that comply with regulatory requirements and obligations. Thus, Total cost to operating income ratio stood at 39.4% at yearend 31 December 2018.

The Net equity at 31 December 2018 declined by 5% compared to last year, mainly due to adoption of IFRS 9 effective 1 January 2018, which required expected credit loss provision for all exposures. However, this is partly offset with current year earnings.

The main driver for current year 2018 profit was improved asset profile and decrease in impairment provision by 45% in 2018, compared to last year 2017.

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

برج اليوباف، ضاحية السيف
ص ب: ١١٥٢٩ مملكة البحرين
س ت: ١٢٨١٩، Swift: ALUBBHBM
تليفون: ١٧٥١٧٧٢٢ ٩٧٣+
فاكس: ١٧٥٤٠٠٩٤ ٩٧٣+

The Bank achieved a Return on average equity of 4.9% for the year ended 2018, as compared to 4% for last year 2017. The Bank's liquid assets to total assets stood at 66% and Capital adequacy ratio stood at 43% at 31 December 2018, signifying the Bank's strengthened capital and liquidity position.

In recognition of the importance and support of its valued shareholders, the Board of directors are pleased to propose a dividend of US$ 1 per share, amounting to US$ 5 million, representing 2% of paid up share capital for the year 2018, after due appropriation of US$ 1.5 million from Net profit for the year 2018, towards transfer to Statutory reserve. This Proposed dividend for the year 2018, is subject to regulatory and shareholders' approval in Annual general meeting.

Looking ahead, despite the continued global geopolitical risks, the results for the year 2018 are encouraging, that reinforces confidence in growth prospects, given our strong capital and focused commitment to dynamically adapt to changes and uncertainties in economic scenario to better position and sustain a consistent growth to our shareholders in the years ahead.

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

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

Moraja G. Solaiman
Chairman

Building a better
working world

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

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

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

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank"), which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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

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

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

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

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

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

Report on the Audit of the Financial Statements (continued)

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the audit of the financial statements (continued)

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2018 that might have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

Ernst + Young

Partner's Registration No. 117
17 February 2019
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	***2018 US$ '000***	*2017 US$ '000*
ASSETS			
Cash and balances with central bank and other banks	5	**364,769**	298,349
Deposits with banks and other financial institutions	6	**339,105**	409,496
Investments classified as fair value through profit and loss	7	**14,517**	20,462
Investment securities	8	**205,597**	221,374
Loans and advances	9	**163,338**	150,256
Property, equipment and software	10	**9,758**	10,371
Interest receivable		**6,628**	6,744
Other assets		**1,176**	1,591
TOTAL ASSETS		**1,104,888**	1,118,643
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	11	**644,570**	569,557
Due to banks and other financial institutions	11	**87,783**	133,417
Due to customers	12	**65,642**	93,805
Interest payable		**1,634**	1,086
Other liabilities	13	**7,192**	6,927
Total liabilities		**806,821**	804,792
Equity			
Share capital	14	**250,000**	250,000
Statutory reserve	14	**22,757**	21,257
Retained earnings		**26,352**	40,399
Fair value reserve		**(6,042)**	(2,805)
Proposed dividend	15	**5,000**	5,000
Total equity		**298,067**	313,851
TOTAL LIABILITIES AND EQUITY		**1,104,888**	1,118,643

Talal Al Zain
Director

Anthony C. Mallis
Deputy Chairman

The attached notes 1 to 27 form part of these financial statements.

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

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	**2018** **US$ '000**	2017 US$ '000
Interest and similar income	16	**42,861**	39,541
Interest expense	17	**(14,068)**	(10,212)
Net interest and similar income		**28,793**	29,329
Fee and commission income	18	**4,856**	4,254
(Loss) gain on investments classified as FVTPL	19	**(383)**	18
Gain (loss) on investment securities - net		**270**	(153)
Foreign exchange gain - net		**752**	683
Dividend income		**2**	9
Other income		**97**	90
OPERATING INCOME		**34,387**	34,230
Provision for expected credit losses for the year	20	**(5,838)**	(10,537)
NET OPERATING INCOME		**28,549**	23,693
Staff costs		**7,798**	7,533
Depreciation	10	**1,004**	1,082
Other operating expenses	21	**4,747**	4,248
OPERATING EXPENSES		**13,549**	12,863
NET PROFIT FOR THE YEAR		**15,000**	10,830

Talal Al Zain
Director

Anthony C. Mallis
Deputy Chairman

The attached notes 1 to 27 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	*2017*
	US$ '000	*US$ '000*
NET PROFIT FOR THE YEAR	**15,000**	10,830
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealised fair value (loss) gain on investments classified as fair value through other comprehensive income (FVOCI)	**(4,321)**	744
Reversal of impairment on FVOCI	**(1,847)**	-
Other comprehensive (loss) income for the year	**(6,168)**	744
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**8,832**	11,574

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	**2018 US$ '000**	*2017 US$ '000*
OPERATING ACTIVITIES			
Net profit for the year		**15,000**	10,830
Adjustments for:			
Provision for expected credit losses for the year	20	**5,838**	10,537
Depreciation	10	**1,004**	1,082
Amortisation of investments carried at amortised cost		**536**	515
(Gain) loss on investment securities - net		**(270)**	153
Unrealised loss on investments classified as FVTPL		**325**	26
Gain on disposal of fixed asset		**(7)**	-
Amortisation of assets classified as loans and advances		**(848)**	(779)
Operating profit before changes in operating assets and liabilities		**21,578**	22,364
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions		**15,400**	46,702
Investments classified as fair value through profit and loss		**4,558**	1,925
Investment securities		**(2,769)**	-
Loans and advances		**(35,895)**	48,027
Interest receivable		**116**	(610)
Other assets		**415**	47
Deposits from banks and other financial institutions		**75,013**	(17,267)
Due to banks and other financial institutions		**(45,634)**	(22,898)
Due to customers		**(28,163)**	(35,950)
Interest payable		**548**	105
Other liabilities		**258**	2,143
Net cash flows from operating activities		**5,425**	44,588
INVESTING ACTIVITIES			
Purchase of investment securities		**(4,644)**	(25,531)
Proceeds from disposal/redemption of investment securities		**16,123**	8,000
Purchase of property, equipment and software	10	**(391)**	(304)
Proceeds from sale of property and equipment		**7**	-
Net cash flows from (used in) investing activities		**11,095**	(17,835)
FINANCING ACTIVITY			
Dividends paid	15	**(5,000)**	-
Net cash flows used in financing activity		**(5,000)**	-
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**11,520**	26,753
Cash and cash equivalents at 1 January		**677,834**	651,092
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**689,354**	677,845

The attached notes 1 to 27 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	*Share capital US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Fair value reserve US$'000*	*Proposed dividend US$'000*	*Total US$ '000*
Balance as of 1 January 2018		250,000	21,257	40,399	(2,805)	5,000	313,851
Transition adjustment on adoption of IFRS 9		-	-	(22,547)	2,931	-	(19,616)
At 1 January 2018 - restated		**250,000**	**21,257**	**17,852**	**126**	**5,000**	**294,235**
Net profit for the year		-	-	15,000	-	-	15,000
Other comprehensive loss		-	-	-	(6,168)	-	(6,168)
Dividends paid	14	-	-	-	-	(5,000)	(5,000)
Proposed dividend for 2018	15	-	-	(5,000)	-	5,000	-
Transfer to Statutory reserve		-	1,500	(1,500)	-	-	-
Balance as of 31 December 2018		**250,000**	**22,757**	**26,352**	**(6,042)**	**5,000**	**298,067**
Balance as of 1 January 2017		250,000	20,174	35,652	(3,549)	-	302,277
Net profit for the year		-	-	10,830	-	-	10,830
Other comprehensive income		-	-	-	744	-	744
Dividends proposed for 2017	15	-	-	(5,000)	-	5,000	-
Transfer to Statutory reserve		-	1,083	(1,083)	-	-	-
Balance as of 31 December 2017		250,000	21,257	40,399	(2,805)	5,000	313,851

The attached notes 1 to 27 form part of these financial statements.

1 ACTIVITIES

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

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer to note 14 for more details).

The financial statements of the Bank for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 17 February 2019.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investments classified as fair value through profit and loss or fair value through other comprehensive income that have been remeasured at fair value.

Functional and presentation currency

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

2.2 Significant accounting policies

Financial instruments

Date of recognition

Financial assets and liabilities, with the exception of loans and advances are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. Loans and advances are recognised when funds are transferred to the customers' accounts.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 2.2 and 2.3.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial instruments (continued)

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

Financial assets

2.2.1 Debt type instruments - Classification and subsequent measurement
Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVTPL, available-for-sale or held-to-maturity (amortised cost), as explained in the annual financial statements for the year ended 31 December 2017.

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets - debt type instruments in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

(i) the Bank's business model for managing the asset; and

(ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt type instruments - Classification and subsequent measurement (continued)

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Bank may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss within 'Other operating income' as a 'Gain on trading securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Other operating income' as a 'Gain on disposal of non-trading investments'. Interest income from these financial assets is included in ‘Interest and similar income’ using the EIR method.

Business model
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of a ‘held for trading’ business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the asset’s and business model performance is evaluated and reported to key management personnel;
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

SPPI test
The Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt type instruments - Classification and subsequent measurement (continued)

SPPI test (continued)
In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- the currency in which the financial asset is denominated, and the period for which the interest rate is set;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period other than the reclassifications made on the initial adoption of IFRS 9 at the date of transition.

2.2.2 Equity type instruments - classification and subsequent measurement
Equity instruments are instruments that meet the definition of equity from the issuer’s perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer’s net assets.

Upon initial recognition, the Bank elects to irrevocably designate certain equity investments at FVOCI which are held for purposes other than held for trading. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. All other equity investments which the Bank has not irrevocably elected at initial recognition or transition, to classify at FVOCI, are recognised at FVTPL.

Gains and losses on equity investments at FVTPL are included in 'Other operating income' as a 'Gain on disposal of non-trading investments' in the statement of profit or loss.

Dividends are recognised in the statement of profit or loss as 'Other operating income' when the Bank’s right to receive payments is established.

Modified or forbearance of loans
The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower’s financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower’s present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.2 Equity type instruments - classification and subsequent measurement (continued)

Modified or forbearance of loans (continued)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off or is transferred back to Stage 2.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial liabilities

Classification and subsequent measurement
In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives and financial liabilities held for trading (e.g. short positions in the trading booking). Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Impairment
The Bank assesses on a forward-looking basis, the ECL associated with its debt instruments financial assets carried at amortised cost and FVOCI and against the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises an ECL for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial guarantee contracts and loan commitments
The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision.

The premium received is recognised in the statement of profit or loss in other operating income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

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

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

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks, treasury bills and deposits with banks and other financial institutions with original maturities of 3 months or less.

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Property, equipment and software (continued)

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

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

Impairment of non-financial assets

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

Renegotiated loans

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

Provisions

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

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

Employees' end of service benefits

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

Contingent liabilities

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Share capital, statutory reserve and dividend

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

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

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

Fair value measurement
The Bank measures financial instruments, such as investments and derivatives at fair value at the date of statement of financial position. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are disclosed in note 23.5.

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Fair value measurement (continued)

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

Revenue recognition

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

Interest income

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

Fee and commission income

Fee and commission income are recognised when earned.

Foreign exchange gain

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the Bank's functional currency at the rates of exchange ruling at the date of the statement of financial position. Any gains or losses are taken to the statement of profit or loss.

Dividend income

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

Share based payments

Cash-settled share based payments

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

Foreign currencies

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2018
The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2018. The adoption of these standards and interpretations did not have any effect on the Bank's financial position, financial performance or disclosures.

IFRS 9 Financial Instruments

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

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

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

Having implemented IFRS 9, the Bank has concluded that:

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

For an explanation of how the Bank classifies financial assets and liabilities under IFRS 9, refer respective sections in note 3.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2018 (continued)

IFRS 9 Financial Instruments (continued)

Hedge accounting
IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained. There is an option in IFRS 9 for an accounting policy choice to continue with the IAS 39 hedge accounting framework; the Bank currently is not applying this option and apply hedge accounting in accordance with IFRS 9 since there are no significant changes due to new hedge requirements.

Impairment of financial assets

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

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see respective section of summary of significant accounting policies.

IFRS 7(revised) Financial instruments: Disclosures (IFRS 7R)
To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 4.

IFRS 7R also requires additional and more detailed disclosures for hedge accounting. However, the adoption of IFRS 9 for hedge accounting did not have a material impact on the hedging activities / accounting for the Bank for the year ended 31 December 2018.

IFRS 15 Revenue from Contracts with Customers
The Bank adopted IFRS 15 resulting in a change in the revenue recognition policy of the Bank in relation to its contracts with customers.

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several standards and interpretations within IFRS. It established a new five-step model that are applied to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. There were no adjustments to opening retained earnings and other account balances on the adoption of IFRS 15.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2018 (continued)

IFRIC Interpretation 22 Foreign currency transactions and advance considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Bank's financial statements.

ii) Standards issued but not yet effective

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

IFRS 16 Leases

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

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use asset similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. Therefore, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.

IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

IFRS 16 supersedes the following Standards and Interpretations:

a) IAS 17 Leases;
b) IFRIC 4 Determining whether an Arrangement contains a Lease;
c) SIC-15 Operating Leases – Incentives; and
d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex multinational tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment features with negative compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

Annual improvements 2015-2017 cycle (issued in December 2017)
These improvements include:

IFRS 3 Business combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Bank.

IAS 12 Income taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (issued in December 2017) (continued)

IAS 12 Income taxes (continued)
An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing costs
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainity about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements or estimates involved.

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

Impairment and uncollectability of financial assets
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the statement of profit or loss.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they enter bankruptcy or other financial reorganisation 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Financial assets carried at amortised cost and loans and receivables
For financial assets carried at amortised cost (such as amounts due from banks, loans and advances and held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually 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 profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a written-off financial asset is later recovered, the recovery is credited to 'other operating income'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Classification of financial assets
Management decides on acquisition of a financial asset whether it should be classified as "fair value through profit or loss", "fair value through other comprehensive income" or "at amortised cost". The classification of each investment reflects management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

4 TRANSITION DISCLOSURES

The Bank has applied changes in accounting policies resulting from the adoption of IFRS 9 retrospectively, except as described below:

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- Following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  i. Determination of the business model within which a financial asset is held.
  ii. Designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.

It is assumed that the credit risk has not increased significantly for those debt securities who carry low credit risk at the date of initial application of IFRS 9.

4.1 The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets and financial liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets

		31 December 2017				*1 January 2018*	
	Note	*IAS 39 category*	*IAS 39 Carrying amount*	*Reclassifica-tion*	*Remeasure-ment*	*IFRS 9 carrying amount*	*IFRS 9 category*
			US$'000	*US$'000*	*US$'000*	*US$'000*	
Financial assets at amortised cost							
Cash and balances with Central banks and other banks		Amortised cost (receivables)	298,349	-	(11)	298,338	Amortised cost
Deposits with banks and other financial institutions		Amortised cost (receivables)	409,496	-	(80)	409,416	Amortised cost
Loans and advances		Amortised cost (loans and receivables)	150,256	-	(17,823)	132,433	Amortised cost
Non-trading investments – Held to maturity		HTM	105,064	(105,064)	-	-	
Transfers to debt instruments at amortised cost	*(E)*		-	*(105,064)*	-	-	
Non-trading investments – debt instruments at amortised cost		Amortised cost (loans and receivables)	-	108,257	(1,930)	106,327	Amortised cost
Transfers to amortised cost (IFRS 9)	*(B)*			*13,263*			
Transfers from held to maturity (IAS 39)	*(E)*			*105,064*			
Transfers to FVTPL (IFRS 9)	*(A)*			*(10,070)*			
Total financial assets measured at amortised cost			**963,165**	**3,193**	**(19,844)**	**946,514**	

4 TRANSITION DISCLOSURES (continued)

		31 December 2017				1 January 2018	
	Note	IAS 39 category	IAS 39 Carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount	IFRS 9 category
			US$'000	US$'000	US$'000	US$'000	
Financial assets at FVTPL							
Investments classified as fair value through profit and loss		Fair value through profit or loss	20,462	(1,298)	235	19,399	FVTPL
Transfers from held to maturity (IAS 39)	*(A)*			*10,070*			
Transfers from available-for-sale (IAS 39)	*(C)*			*4,963*			
Transfers to amortised cost (IFRS 9)	*(B)*			*(13,263)*			
Transfers to FVOCI (IFRS 9)	*(D)*			*(3,068)*			
Total financial assets at FVTPL			**20,462**	**(1,298)**	**235**	**19,399**	
Financial assets at FVOCI							
Non-trading investments – debt securities under AFS category		AFS	116,310	(116,310)	-	-	
Transfers to FVOCI (debt securities)	*(E)*		*-*	*(116,310)*	*-*	*-*	
Non-trading investments – FVOCI (debt securities)			-	114,415	(2,931)	111,484	FVOCI
Transfer to FVOCI (debt securities)	*(E)*			*116,310*			
Transfers from FVTPL (IFRS 9)	*(D)*			*3,068*			
Transfers to FVTPL (IFRS 9)	*(C)*			*(4,963)*			
Total financial assets at FVOCI			**116,310**	**(1,895)**	**(2,931)**	**111,484**	
Total financial assets			**1,099,937**	**-**	**(22,540)**	**1,077,397**	
Non-financial assets							
Other assets			18,706	-	-	18,706	
Total assets			**1,118,643**	**-**	**(22,540)**	**1,096,103**	
Financial liabilities							
Other liabilities - Off balance sheet exposures			(29,523)	-	(7)	(29,530)	
Net impact of remeasurements			**1,089,120**	**-**	**(22,547)**	**1,066,573**	

The total remeasurement loss of US$ 22,547 thousand was recognised in opening retained earnings at 1 January 2018.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Bank as shown in the table above:

(A) Debt instruments previously classified as held to maturity but which fail the SPPI test

The Bank holds a portfolio of debt instruments that failed to meet the SPPI requirement for the amortised cost classification under IFRS 9. As a result, these instruments, which amounted to US$ 10,070 thousand were classified as FVTPL on the date of initial application.

4 TRANSITION DISCLOSURES (continued)

(B) Debt instruments previously classified as trading

The Bank was previously holding a portfolio of debt instruments that was held for trading. These instruments passed the SPPI requirements and the Bank has reassessed its business model for holding these instruments to be "hold to collect". As a result, these instruments which amounted to US$ 13,263 thousand were classified as amortised cost on the date of initial application.

(C) Debt instruments previously classified as available-for-sale

The Bank has elected to designate certain of its investments at a carrying value of US$ 4,963 thousand as FVTPL as permitted under IFRS 9 from the initial date of application. These investments were previously classified as available-for-sale. Any changes in fair value of these securities will be recognised in the profit or loss.

(D) Debt instruments previously classified as held-for-trading

The Bank was previously holding a portfolio of debt instruments that was held for trading. These instruments passed the SPPI requirements and the Bank has reassessed its business model for holding these instruments to be "hold to collect and sell". As a result, these instruments which amounted to US$ 3,068 thousand were classified as FVOCI on the date of initial application.

(E) Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were ‘retired’, with no changes to their measurement basis:

(i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and

(ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

4.2 Impact on retained earnings and other reserves

	Retained earnings	*Cumulative changes in fair value reserve*
	US$'000	*US$'000*
Closing balance under IAS 39 (31 December 2017)	40,399	(2,805)
Reclassification of instruments from Amortised cost to FVTPL	235	-
Reclassification of instruments from FVOCI to FVTPL	(458)	458
Recognition of expected credit losses under IFRS 9:		
- Liquid funds	(11)	-
- Investment securities	(4,403)	2,473
- Loans and advances	(17,823)	-
- Placements with banks and other financial institutions	(80)	-
- Other liabilities - Off balance sheet exposures	(7)	-
	(22,324)	2,473
Opening balance under IFRS 9 (1 January 2018)	17,852	126

4 TRANSITION DISCLOSURES (continued)

4.3 Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing loan loss provisions measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 ECL model at 1 January 2018:

Measurement category	*Loan loss allowance under IAS 39*	*Reclassification*	*Remeasurement*	*ECL under IFRS 9*
	US$'000	*US$'000*	*US$'000*	*US$'000*
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash and balances with Central banks and other banks	-	-	11	11
Deposits with banks and other financial institutions	-	-	80	80
Loans and advances	80,627	-	17,823	98,450
	80,627	**-**	**17,914**	**98,541**
Non-trading investments				
FVOCI (debt securities)	-	458	2,473	2,931
Debt instruments at amortised cost	-	(235)	1,930	1,695
	-	**223**	**4,403**	**4,626**
Credit commitments and contingent items	-	-	7	7
Total	**80,627**	**223**	**22,324**	**103,174**

5 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2018	*2017*
	US$ '000	*US$ '000*
Cash	**3**	5
Money at call and short notice	**63,255**	49,852
Treasury bills - balances with Central Bank	**301,521**	248,492
Provision for expected credit losses (note 5.1)	**(10)**	-
Cash and balances with central bank and other banks	**364,769**	298,349
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 6)	**324,585**	379,496
Cash and cash equivalents	**689,354**	677,845

Note 5.1

Movement in provision for expected credit losses were as follows:

	2018
	Stage 1 12-month ECL US$ '000
Balance at 1 January - on adoption of IFRS 9	**11**
Recoveries / write-backs	(1)
At 31 December 2018	**10**

6 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2018	2017
	US$ '000	US$ '000
Deposits with original maturities of 90 days or less (note 5)	**324,585**	379,496
Deposits with original maturities of over 90 days	**14,714**	30,000
	339,299	409,496
Provision for expected credit losses (note 6.1)	**(194)**	-
	339,105	409,496

Note 6.1
Movement in provision for expected credit losses were as follows:

	2018
	Stage 1 12-month ECL US$ '000
Balance at 1 January - on adoption of IFRS 9	**80**
Provided during the period	**114**
At 31 December 2018	**194**

7 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT AND LOSS

	2018	2017
	US$ '000	US$ '000
Quoted:		
- Debt securities	**14,517**	20,335
- Equity securities	**-**	127
	14,517	20,462

8 INVESTMENT SECURITIES

	31 December 2018 (Audited)		
	*FVOCI **	*Amortised cost **	*Total*
	US$'000	*US$'000*	*US$'000*
Quoted investments			
- Sovereign debt securities	96,722	49,374	146,096
- Banks and Corporate debt securities	16,281	44,545	60,826
Total quoted investments	113,003	93,919	206,922
Provision for expected credit losses (note 8.1)	(626)	(1,325)	(1,951)
Reclassifying provision relating to FVOCI to OCI	626	-	626
Total investment securities	113,003	92,594	205,597

As at 31 December 2018, investments classified in stage 2 amounted to US$ 54,186 thousand for FVOCI and US$ 37,434 thousand for amortised cost.

* Titles have been changed to align to IFRS 9 classification.

8 INVESTMENT SECURITIES (continued)

	31 December 2017 (Audited)		
	Available-for-sale US$'000	*Held-to-maturity US$'000*	*Total US$'000*
Quoted investments			
- Sovereign debt securities	95,501	42,420	137,921
- Banks and Corporate debt securities	20,809	62,644	83,453
Total quoted investments	116,310	105,064	221,374
Provision for impairment on investment securities	-	-	-
Total investment securities	116,310	105,064	221,374

Note 8.1

Movements in provision for expected credit losses of 'FVOCI' investments were as follows:

	31 December 2018 (FVOCI)		
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Total ECL US$ '000***
Balance at 1 January - on adoption of IFRS 9	**332**	**2,141**	**2,473**
Changes due to financial assets recognised in opening balance that have:			
Transfer to 12 month ECL	-	-	-
Transfer to lifetime ECL not credit- impaired	(10)	10	-
Transfer to lifetime ECL credit- impaired	-	-	-
Provided during the period	-	-	-
Write-backs	(4)	(1,843)	(1,847)
At 31 December 2018	**318**	**308**	**626**

Movements in provision for expected credit losses of 'amortised cost' investments were as follows:

	31 December 2018 (Amortised cost)		
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Total ECL US$ '000***
Balance at 1 January - on adoption of IFRS 9	**272**	**1,658**	**1,930**
Changes due to financial assets recognised in opening balance that have:			
Transfer to 12 month ECL	1,331	(1,331)	-
Transfer to lifetime ECL not credit- impaired	(81)	81	-
Transfer to lifetime ECL credit- impaired	-	-	-
Provided during the period	-	772	772
Recoveries / write-backs	(1,377)	-	(1,377)
At 31 December 2018	**145**	**1,180**	**1,325**

9 LOANS AND ADVANCES

Loans and advances are stated net of provision for expected credit losses. The table below discloses the gross loans and provision for expected credit losses excluding interest in suspense amounting to US$ 21,299 thousand as of 31 December 2018 (2017: US$ 14,190 thousand).

	31 December 2018				
	Stage 1: 12-month ECL US$ 000	***Stage 2: Lifetime ECL not credit-impaired US$ 000***	***Stage 3: Lifetime ECL credit-impaired US$ 000***	***Total US$ 000***	*31 December 2017 US$ 000*
Letters of credit - financing and discounting	30,770	-	63,258	**94,028**	57,168
Sovereign loans	46,242	-	32,314	**78,556**	84,693
Commercial loans	66,879	3,123	6,326	**76,328**	69,652
Factoring	-	20,184	-	**20,184**	19,370
	143,891	**23,307**	**101,898**	**269,096**	230,883
Provision for expected credit losses (note 9.1)	**(3,651)**	**(2,636)**	**(99,471)**	**(105,758)**	(80,627)
	140,240	**20,671**	**2,427**	**163,338**	150,256

Note 9.1

Movements in provision for expected credit losses were as follows:

	31 December 2018			
	General Provision		***Specific Provision***	
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***Total ECL US$ '000***
Balance at 31 December 2017	**-**	**3,737**	**76,890**	**80,627**
Balance at 1 January 2018 - on adoption of IFRS 9	**2,856**	**14,873**	**94**	**17,823**
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12 month ECL	-	-	-	-
Transfer to lifetime ECL not credit- impaired	(42)	42	-	-
Transfer to lifetime ECL credit- impaired	-	(18,610)	18,610	-
Provided during the period	837	2,594	4,149	7,580
Recoveries / write-backs	-	-	-	-
Write off during the period	-	-	-	-
Exchange differences	-	-	(272)	(272)
At 31 December 2018	**3,651**	**2,636**	**99,471**	**105,758**

9 LOANS AND ADVANCES (continued)

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

The total value of collateral held by the Bank against its loans and advances exposure amounts to US$ 1,500 thousand as at 31 December 2018 with no cash collateral (31 December 2017: US$ 4,977 thousand of which US$ 3,177 thousand was held as cash collateral).

Impaired loans during the year

	2018 US$ '000	*2017 US$ '000*
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**101,898**	78,748

Facilities renegotiated during the year
During the year, no facilities were renegotiated by the Bank (2017: same).

10 PROPERTY, EQUIPMENT AND SOFTWARE

	Land US$ '000	*Building US$ '000*	*Furniture, equipment and motor vehicles US$ '000*	*Software US$ '000*	*Capital work in progress US$ '000*	*Total US$ '000*
Cost:						
At 1 January 2018	4,233	7,652	3,862	1,214	18	16,979
Additions/transfers during the year	-	-	139	240	12	391
Disposal during the year	-	-	(326)	-	-	(326)
At 31 December 2018	**4,233**	**7,652**	**3,675**	**1,454**	**30**	**17,044**
Depreciation:						
At 1 January 2018	-	2,528	3,183	897	-	6,608
Charge for the year	-	509	383	112	-	1,004
Relating to disposal	-	-	(326)	-	-	(326)
At 31 December 2018	-	**3,037**	**3,240**	**1,009**	-	**7,286**
Net book value:						
At 31 December 2018	**4,233**	**4,615**	**435**	**445**	**30**	**9,758**
At 31 December 2017	4,233	5,124	679	317	18	10,371

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

11 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

11.1 Deposits from banks and other financial institutions

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

11.2 Due to banks and other financial institutions

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

	2018	*2017*
	US$ '000	*US$ '000*
Current account balances	**56,598**	58,645
Cash collateral held	**31,185**	74,772
	87,783	133,417

12 DUE TO CUSTOMERS

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

	2018	*2017*
	US$ '000	*US$ '000*
Current account balances	**61,531**	73,668
Cash collateral held	**4,111**	20,137
	65,642	93,805

13 OTHER LIABILITIES

	2018	*2017*
	US$ '000	*US$ '000*
Accrued expenses	**5,752**	5,509
Provision for expected credit losses against off balance sheet exposures	**604**	-
Due to former directors and employees	**370**	316
Agency fee payable	**104**	647
Unearned fee income	**57**	50
Others	**305**	405
	7,192	6,927

Note 13.1
Movement in provision for expected credit losses against off balance sheet exposures were as follows:

	2018
	Stage 1 12-month ECL US$ '000
Balance at 1 January - on adoption of IFRS 9	**7**
Provided during the period	**597**
At 31 December 2018	**604**

Accrued expenses include US$ 446 thousand (2017: US$ 239 thousand) of liability relating to cash settled share based payments.

13 OTHER LIABILITIES (continued)

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

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

14 SHARE CAPITAL

	2018	*2017*
	US$ '000	*US$ '000*
Authorised:		
10,000,000 (2017: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

	2018	*2017*
	US$ '000	*US$ '000*
Issued and fully paid up :		
5,000,000 (2017: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

Shareholders

	2018		*2017*	
	Percentage holding (%)	***US$ '000***	*Percentage holding (%)*	*US$ '000*
Libyan Foreign Bank	**99.50**	**248,750**	99.50	248,750
National Bank of Yemen	**0.28**	**689**	0.28	689
Yemen Bank for Reconstruction and Development	**0.22**	**561**	0.22	561
	100.00	**250,000**	100.00	250,000

Statutory reserve

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

15 PROPOSED DIVIDEND

During the year, the dividend for the year ended 31 December 2018 amounting to US$ 5 million (US$ 1 per share) is proposed subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting (during the year a dividend of US$ 5 million was paid for the year ended 31 December 2017).

16 INTEREST AND SIMILAR INCOME

	2018	*2017*
	US$ '000	*US$ '000*
Deposits with banks, other financial institutions and balance with central bank	**17,666**	11,455
Loans and advances	**13,373**	15,872
Investment securities	**11,036**	11,163
Investments classified as fair value through profit and loss	**786**	1,051
	42,861	39,541

17 INTEREST EXPENSE

	2018	2017
	US$ '000	*US$ '000*
Deposits from and due to banks and other financial institutions	**13,743**	10,051
Due to customers	**325**	161
	14,068	10,212

18 FEE AND COMMISSION INCOME

	2018	2017
	US$ '000	*US$ '000*
Commission income on letters of credit	**3,565**	2,736
Agency and factoring income	**1,241**	1,383
Commission income on letters of guarantee	**35**	135
Bank charges and other income	**15**	-
	4,856	4,254

19 (LOSS) GAIN ON INVESTMENTS CLASSIFIED AS FVTPL

	2018	2017
	US$ '000	*US$ '000*
Changes in fair value of investments classified as FVTPL	**(325)**	(26)
Realised (loss) gain during the year - net	**(58)**	44
	(383)	18

20 PROVISION FOR EXPECTED CREDIT LOSSES FOR THE YEAR

	2018	2017
	US$'000	*US$'000*
Reverasl of provision against nostros (note 5.1)	**(1)**	-
Provision against money market (note 6.1)	**114**	-
Provision against investment securities (note 8.1)	**(2,452)**	-
Provision against loans and advances (note 9.1)	**7,580**	10,537
Provision against off balance sheet (note 13.1)	**597**	-
	5,838	10,537

21 OTHER OPERATING EXPNESES

	2018	2017
	US$ '000	*US$ '000*
Professional services	**2,314**	1,686
Administration and marketing expenses	**1,515**	1,500
Board of Directors' remuneration and expenses (note 25)	**854**	808
Fees and other charges	**64**	254
	4,747	4,248

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2018	2017
	US$ '000	US$ '000
Credit related contingencies		
Letters of credit	**121,029**	29,462
Letters of guarantee	**2,098**	61
Provision for expected credit losses (note 13)	**(604)**	-
	122,523	29,523
Other		
Forward foreign exchange contracts (note 24)	**4**	11,749
	122,527	41,272

23 RISK MANAGEMENT

23.1 Introduction

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

a) Risk management structure

Board of Directors

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

Audit Risk and Compliance Committee

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

Management Risk Committee

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

Asset Liability Management Committee

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

Internal Audit

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

23 RISK MANAGEMENT (continued)

23.1 Introduction (continued)

b) Risk measurement and reporting systems

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

c) Credit concentration risk

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

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

23.2 Credit risk

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

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

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

	Gross maximum exposure 2018 US$ '000	***Net maximum exposure 2018 US$ '000***	*Gross maximum exposure 2017 US$ '000*	*Net maximum exposure 2017 US$ '000*
Balances with banks	**364,766**	**364,766**	298,344	298,344
Deposits with banks and other financial institutions	**339,105**	**339,105**	409,496	409,496
Investments classified as fair value through profit and loss	**14,517**	**14,517**	20,335	20,335
Investment securities	**205,597**	**205,597**	221,374	221,374
Loans and advances	**163,338**	**163,338**	150,256	147,079
Interest receivable	**6,628**	**6,628**	6,744	6,744
Other assets	**738**	**738**	1,243	1,243
Total funded credit risk exposure	**1,094,689**	**1,094,689**	1,107,792	1,104,615
Unfunded exposure on credit related contingencies	**122,523**	**95,087**	29,523	7,529
Total funded and unfunded credit risk exposures	**1,217,212**	**1,189,776**	1,137,315	1,112,144

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

b. Credit quality per class of financial assets

The table below presents an analysis of the financial assets exposed to credit risk and external rating designation at 31 December 2018 and 31 December 2017. The credit quality is graded based on external credit rating agencies - Standard & Poor, Fitch and Moody's and internal ratings are categorised as follows:

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

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for expected credit US$ '000*	*Total US$ '000*
At 31 December 2018						
Balances with banks	**54,993**	**309,783**	**-**	**-**	**(10)**	**364,766**
Deposits with banks and other financial institutions	**35,000**	**304,299**	**-**	**-**	**(194)**	**339,105**
Investments classified as fair value through profit and loss	**5,012**	**9,505**	**-**	**-**	**-**	**14,517**
Investment securities	**16,578**	**190,344**	**-**	**-**	**(1,325)**	**205,597**
Loans and advances	**-**	**147,014**	**20,184**	**101,898**	**(105,758)**	**163,338**
Interest receivable	**279**	**6,114**	**235**	**-**	**-**	**6,628**
Other assets	**-**	**738**	**-**	**-**	**-**	**738**
Funded exposures	**111,862**	**967,797**	**20,419**	**101,898**	**(107,287)**	**1,094,689**
Credit related contingencies	**285**	**122,842**	**-**	**-**	**(604)**	**122,523**
Gross unfunded exposures	**285**	**122,842**	**-**	**-**	**(604)**	**122,523**
Net funded and unfunded exposures	**112,147**	**1,090,639**	**20,419**	**101,898**	**(107,891)**	**1,217,212**

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 2017						
Balances with banks	8,450	289,894	-	-	-	298,344
Deposits with banks and other financial institutions	63,000	346,496	-	-	-	409,496
Investments held for trading	3,068	17,267	-	-	-	20,335
Non-trading investments	8,495	212,879	-	-	-	221,374
Loans and advances	-	148,398	-	78,748	(76,890)	150,256
Interest receivable	117	6,627	-	-	-	6,744
Other assets	-	1,243	-	-	-	1,243
Funded exposure	83,130	1,022,804	-	78,748	(76,890)	1,107,792
Credit related contingencies	-	29,523	-	-	-	29,523
Gross unfunded exposures	-	29,523	-	-	-	29,523
Net funded and unfunded exposures	83,130	1,052,327	-	78,748	(76,890)	1,137,315

Aging analysis of past due but not impaired financial assets

	Less than 30 days 2018 US$ '000 *	***31 to 60 days 2018 US$ '000***	***61 to 90 days 2018 US$ '000***	***More than 90 days 2018 US$ '000***	***Total 2018 US$ '000***
Loans and advances	**12,581**	**7,603**	**-**	**-**	**20,184**

	Less than 30 days 2017 US$ '000	*31 to 60 days 2017 US$ '000*	*61 to 90 days 2017 US$ '000*	*More than 90 days 2017 US$ '000*	*Total 2017 US$ '000*
Loans and advances	-	-	-	-	-

* This amount is not matured as at 31 December 2018 but considered as past due but not impaired (stage 2).

23 RISK MANAGEMENT (continued)

23.2 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 2018

	Bahrain	*Other GCC countries*	*Other Middle-East and African countries*	*Europe*	*Rest of the world*	*Provision for expected credit losses*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balances with banks	**301,754**	**9,450**	**2,214**	**11,118**	**40,240**	**(10)**	**364,766**
Deposits with banks and other financial institutions	**144,082**	**70,000**	**-**	**105,217**	**20,000**	**(194)**	**339,105**
Investments classified as fair value through profit and loss	**4,873**	**5,012**	**-**	**4,632**	**-**	**-**	**14,517**
Investment securities	**98,474**	**46,712**	**19,995**	**36,713**	**5,028**	**(1,325)**	**205,597**
Loans and advances	**-**	**3,123**	**195,761**	**65,884**	**4,328**	**(105,758)**	**163,338**
Interest receivable	**2,433**	**575**	**2,156**	**1,381**	**83**	**-**	**6,628**
Other assets	**564**	**-**	**174**	**-**	**-**	**-**	**738**
Gross funded exposures	**552,180**	**134,872**	**220,300**	**224,945**	**69,679**	**(107,287)**	**1,094,689**
Credit related contingencies	**-**	**20,911**	**101,922**	**10**	**284**	**(604)**	**122,523**
Gross unfunded exposures	**-**	**20,911**	**101,922**	**10**	**284**	**(604)**	**122,523**
Gross funded and unfunded exposures	**552,180**	**155,783**	**322,222**	**224,955**	**69,963**	**(107,891)**	**1,217,212**

At 31 December 2017

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

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

Sectoral classification of gross credit exposures is presented below:

At 31 December 2018	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Balances with banks	301,521	63,255	-	(10)	364,766
Deposits with banks and other financial institutions	-	339,299	-	(194)	339,105
Investments classified as fair value through profit and loss	-	9,885	4,632	-	14,517
Investment securities	143,596	32,862	30,464	(1,325)	205,597
Loans and advances	78,557	118,221	72,318	(105,758)	163,338
Interest receivable	4,076	1,462	1,090	-	6,628
Other assets	-	213	525	-	738
Gross funded exposures	527,750	565,197	109,029	(107,287)	1,094,689
Credit related contingencies	-	102,216	20,911	(604)	122,523
Gross unfunded exposures	-	102,216	20,911	(604)	122,523
Gross funded and unfunded exposures	527,750	667,413	129,940	(107,891)	1,217,212

At 31 December 2017	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Total US$ '000*
Balances with banks	248,492	49,852	-	298,344
Deposits with banks and other financial institutions	-	409,496	-	409,496
Investments held for trading	13,262	6,371	702	20,335
Non-trading investments	137,921	42,524	40,929	221,374
Loans and advances	84,692	16,410	49,154	150,256
Interest receivable	4,375	1,026	1,343	6,744
Other assets	-	-	1,243	1,243
Gross funded exposures	488,742	525,679	93,371	1,107,792
Credit related contingencies	3,911	25,601	11	29,523
Gross unfunded exposures	3,911	25,601	11	29,523
Gross of funded and unfunded exposures	492,653	551,280	93,382	1,137,315

23.3 Market risk

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

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

23.3.1 Interest rate risk

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

Sensitivity analysis - interest rate risk

	Impact on statement of profit or loss	
	2018	*2017*
	US$ '000	*US$ '000*
25 bps increase/decrease		
AED	± 120	± 76
US Dollar	± 97	± 228
Euro	± 34	± 1
SAR	± 26	± 7

23.3.2 Currency risk

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

	Change in rate	*Effect on statement of profit or loss for the year*	
		2018	*2017*
		US$ '000	*US$ '000*
Euro	± 5%	**8**	39
GBP	± 5%	**1**	367

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

23.3.3 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*	
		2018	*2017*
		US$ '000	*US$ '000*
Investments classified as fair value through profit and loss	± 10%	**-**	13

23.4 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.

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at **31 December 2018** given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period at the date of the statement of financial position.

	Up to 1 year						*Provision for*	
At 31 December 2018	***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***	***expected credit losses US$ '000***	***Total US$ '000***
ASSETS								
Cash,balances with banks and Central Bank	**182,366**	**182,413**	**-**	**364,779**	**-**	**-**	**(10)**	**364,769**
Deposits with banks and other financial institutions	**324,299**	**15,000**	**-**	**339,299**	**-**	**-**	**(194)**	**339,105**
Investments classified as fair value through profit and loss	**14,517**	**-**	**-**	**14,517**	**-**	**-**	**-**	**14,517**
Investment securities	**-**	**2,500**	**11,801**	**14,301**	**192,621**	**-**	**(1,325)**	**205,597**
Loans and advances	**4,777**	**8,612**	**72,212**	**85,601**	**183,495**	**-**	**(105,758)**	**163,338**
Property, equipment and software	**-**	**-**	**-**	**-**	**-**	**9,758**	**-**	**9,758**
Interest receivable	**4,234**	**1,338**	**1,056**	**6,628**	**-**	**-**	**-**	**6,628**
Other assets	**34**	**655**	**13**	**702**	**474**	**-**	**-**	**1,176**
Total assets	**530,227**	**210,518**	**85,082**	**825,827**	**376,590**	**9,758**	**(107,287)**	**1,104,888**
LIABILITIES								
Deposits from banks and other financial institutions	**251,925**	**178,645**	**214,000**	**644,570**	**-**	**-**	**-**	**644,570**
Due to banks and other financial institutions	**87,783**	**-**	**-**	**87,783**	**-**	**-**	**-**	**87,783**
Due to customers	**65,642**	**-**	**-**	**65,642**	**-**	**-**	**-**	**65,642**
Interest payable	**240**	**322**	**1,072**	**1,634**	**-**	**-**	**-**	**1,634**
Other liabilities	**767**	**4,444**	**-**	**5,211**	**1,377**	**-**	**604**	**7,192**
Total liabilities	**406,357**	**183,411**	**215,072**	**804,840**	**1,377**	**-**	**604**	**806,821**
Net liquidity gap	**123,870**	**27,107**	**(129,990)**	**20,987**	**375,213**	**9,758**	**(107,891)**	**298,067**
Cumulative liquidity gap	**123,870**	**150,977**	**20,987**	**-**	**396,200**	**405,958**	**298,067**	**-**

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

At 31 December 2017	*Up to 1 year*						
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Total US$ '000*
ASSETS							
Cash, balances with banks and Central Bank	136,575	149,283	12,491	298,349	-	-	298,349
Deposits with banks and other financial institutions	354,496	55,000	-	409,496	-	-	409,496
Investments classified as fair value through profit and loss	20,462	-	-	20,462	-	-	20,462
Investment securities	-	-	1,000	1,000	220,374	-	221,374
Loans and advances	5,518	31,725	15,013	52,256	98,000	-	150,256
Property, equipment and software	-	-	-	-	-	10,371	10,371
Interest receivable	4,087	1,883	774	6,744	-	-	6,744
Other assets	69	654	63	786	805	-	1,591
Total assets	521,207	238,545	29,341	789,093	319,179	10,371	1,118,643
LIABILITIES							
Deposits from banks and other financial institutions	185,094	180,463	4,000	369,557	200,000	-	569,557
Due to banks and other financial institutions	133,417	-	-	133,417	-	-	133,417
Due to customers	73,805	20,000	-	93,805	-	-	93,805
Interest payable	55	240	791	1,086	-	-	1,086
Other liabilities	803	4,969	-	5,772	1,155	-	6,927
Total liabilities	393,174	205,672	4,791	603,637	201,155	-	804,792
Net liquidity gap	128,033	32,873	24,550	185,456	118,024	10,371	313,851
Cumulative liquidity gap	128,033	160,906	185,456	-	303,480	313,851	-

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at **31 December 2018** based on contractual undiscounted repayment amounts is as follows:

At 31 December 2018	*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*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Liabilities								
Deposits from banks and financial institutions	**252,029**	**179,366**	**222,537**	**653,932**	**-**	**-**	**-**	**653,932**
Due to banks and other financial institutions	**87,787**	**-**	**-**	**87,787**	**-**	**-**	**-**	**87,787**
Due to customers	**65,662**	**-**	**-**	**65,662**	**-**	**-**	**-**	**65,662**
Total undiscounted liabilities	**405,478**	**179,366**	**222,537**	**807,381**	**-**	**-**	**-**	**807,381**
Derivatives:								
Forward foreign exchange contracts (note 24)	**4**	**-**	**-**	**4**	**-**	**-**	**-**	**4**
Commitments and contingent liabilities								
Letters of credit	**19,954**	**52,296**	**26,106**	**98,356**	**22,673**	**-**	**(603)**	**120,426**
Letters of guarantee	**2,027**	**11**	**50**	**2,088**	**10**	**-**	**(1)**	**2,097**
	21,981	**52,307**	**26,156**	**100,444**	**22,683**	**-**	**(604)**	**122,523**

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

At 31 December 2017	*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	185,239	180,887	4,028	370,154	206,860	-	577,014
Due to banks and other financial institutions	133,421	-	-	133,421	-	-	133,421
Due to customers	73,807	20,002	-	93,809	-	-	93,809
Total undiscounted liabilities	392,467	200,889	4,028	597,384	206,860	-	804,244
Derivatives:							
Forward foreign exchange contracts (note 24)	11,749	-	-	11,749	-	-	11,749
Commitments and contingent liabilities							
Letters of credit	2,611	21,926	4,925	29,462	-	-	29,462
Letters of guarantee	-	-	61	61	-	-	61
Undrawn loan commitments	-	-	-	-	-	-	-
	2,611	21,926	4,986	29,523	-	-	29,523

23 RISK MANAGEMENT (continued)

23.5 Fair value of financial instruments

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

At 31 December 2018

	Level 1 US$ '000	***Level 2 US$ '000***	***Total US$ '000***
Investments classified as fair value through profit and loss	**14,517**	**-**	**14,517**
Investments classified as fair value through other comprehensive income	**113,003**	**-**	**113,003**
Derivative financial instruments	**-**	**4**	**4**
	127,520	**4**	**127,524**

At 31 December 2017

	Level 1 US$ '000	*Level 2 US$ '000*	*Total US$ '000*
Investments classified as fair value through profit and loss	20,462	-	20,462
Available-for-sale investments	116,310	-	116,310
Derivative financial instruments	-	(42)	(42)
	136,772	(42)	136,730

The Bank had no investments measured at fair value qualifying for level 3 of fair value heirarchy as at 31 December 2018 and as at 31 December 2017.

Transfers between level 1, level 2 and level 3
During the year ended 31 December 2018, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurement (2017: nil).

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

At 31 December 2018

	Level 1 US$ '000	***Level 2 US$ '000***	***Level 3 US$ '000***	***Total fair value US$ '000***	***Carrying value US$ '000***
Amortised cost investments	**91,263**	**-**	**-**	**91,263**	**92,594**
Loans and advances	**49,571**	**-**	**-**	**49,571**	**46,242**
	140,834	**-**	**-**	**140,834**	**138,836**

At 31 December 2017

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

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

23 RISK MANAGEMENT (continued)

23.6 Fair value of financial instruments (continued)

Balances with banks, deposits with banks and other financial institutions, loans and advances (other than those disclosed in the table above), interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 December 2018 and 31 December 2017.

24 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	2018		*2017*	
	Notional amount US$ '000	***Gain / (loss) US$ '000***	*Notional amount US$ '000*	*Gain / (loss) US$ '000*
Forward foreign exchange contracts	**4**	**4**	11,749	(42)

25 RELATED PARTY BALANCES AND TRANSACTIONS

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

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

	31 December 2018				*31 December 2017*			
	Shareholders US$ '000	***Key management personnel/ Board members US$ '000***	***Other related parties US$ '000***	***Total US$ '000***	*Shareholders US$ '000*	*Key management personnel/ Board members US$ '000*	*Other related parties US$ '000*	*Total US$ '000*
Statement of profit or loss								
Interest income	**2**	**-**	**212**	**214**	-	-	74	74
Interest expense	**12,526**	**-**	**555**	**13,081**	9,249	-	386	9,635
Fee and commission income	**52**	**-**	**97**	**149**	948	-	20	968
Statement of financial position								
Assets								
Cash and balances with banks	**324**	**-**	**5,583**	**5,907**	116	-	28,021	28,137
Deposit with banks and financial institutions	**-**	**-**	**9,714**	**9,714**	-	-	-	-
Loans and advances	**-**	**-**	**4,629**	**4,629**	-	-	4,799	4,799
Interest receivable	**-**	**-**	**44**	**44**	-	-	40	40
Other assets	**-**	**50**	**-**	**50**	-	58	-	58
Liabilities								
Deposits from banks and other financial institutions	**449,719**	**-**	**25,000**	**474,719**	402,821	-	27,367	430,188
Due to banks and other financial institutions	**1,676**	**-**	**2,104**	**3,780**	3,685	-	7,098	10,783
Interest payable	**1,440**	**-**	**18**	**1,458**	956	-	15	971
Other liabilities	**104**	**292**	**-**	**396**	71	398	-	469
Assets under management (note 26)	**21,967**	**-**	**-**	**21,967**	23,061	-	-	23,061
Contingent liabilities								
Letters of credit and letters of guarantee	**1,840**	**-**	**3,856**	**5,696**	46	-	5,975	6,021
Forward foreign exchange contracts	**-**	**-**	**-**	**-**	-	-	5,445	5,445

25 TRANSACTIONS WITH RELATED PARTIES (continued)

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

	2018	*2017*
	US$ 000	*US$ 000*
Short term benefits	**3,788**	4,041
End of term benefits	**217**	251
Total compensation	**4,005**	4,292

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US$ 705 thousand (2017: US$ 680 thousand) and reimbursement of travel, accommodation and other expenses amounting to US$ 149 thousand (2017: US$ 128 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

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

26 ASSETS UNDER MANAGEMENT

The Bank provides trade finance services to certain customers, which involve the Bank acting as an agent of the assets in a fiduciary capacity. Assets that are held in financing capacity are not included in these financial statements. At 31 December 2018, the Bank had fiduciary assets under management of US$ 21,967 thousand (2017:US$ 35,059 thousand).

27 CAPITAL ADEQUACY

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

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

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

	2018	*2017*
	US$ 000	*US$ 000*
Capital base:		
Tier 1 capital	**296,278**	313,123
Tier 2 capital	**7,840**	3,737
Total capital base (a)	**304,118**	316,860
Risk weighted assets (b)	**709,897**	853,781
Capital adequacy (a/b * 100)	**42.84%**	37.11%
Minimum requirement	**12.50%**	12.50%

BASEL III PILLAR III DISCLOSURES

31 DECEMBER 2018

ALUBAF Arab International Bank B.S.C (c)
Basel III -Pillar III disclosures
As at 31 December 2018

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ALUBAF Arab International Bank B.S.C.(c)
BASEL III PILLAR III disclosures
31 December 2018

1. Introduction

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

The Basel II framework is based on three pillars:

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

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

2. Corporate Structure

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

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

3. Capital Structure

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

The Bank's issued and paid up capital was US$ 250 million as at 31 December 2018, comprising of 5 million equity shares of US$ 50 each.

Break down of Capital Base		
	US$ '000s	**US$ '000s**
	CET I	**Tier II**
Share Capital	250,000	-
Statutory reserve	22,757	-
Retained earnings	16,352	-
Current interim net profit	15000	-
Cumulative fair value changes on FVOCI Investments (Debt)	(6,668)	-
Total CET I capital prior to regulatory adjustments	**297,441**	-
Less: intangibles other than mortgage rights	**(1,163)**	-
Total CET I capital after regulatory adjustment	**296,278**	-
Expected credit losses (ECL) Stage 1 & 2	-	7,840
Total	**296,278**	**7,840**
Total available capital		**304,118**

ALUBAF recorded a net profit of US$ 15,000 thousand for the year ended 31 December 2018 and transferred 10% of net profit (US$ 1,500 thousand) to Statutory reserve.
The Bank proposed a dividend of US$ 5,000 thousand, i.e., US$ 1 per Ordinary share for the year 2018.

4. Capital Adequacy Ratio (CAR)

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

The Bank manages its capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of its activities.
Capital adequacy ratio calculation:
The Bank's capital adequacy ratio of 42.84% is well above the minimum regulatory requirement of 12.5%.

	US$ '000
Total Eligible Capital Base	**304,118**
Risk weighted assets (RWA)	
Credit risk	627,192
Market risk	150
Operational risk	82,555
	709,897
CET I ratio	**41.74%**
Capital adequacy ratio	**42.84%**

5. Profile of risk-weighted assets and capital charge

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

5.1 Credit risk

Definition of exposure classes per Standard Portfolio

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

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

(a) Claims on sovereigns

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

(b) Claims on banks

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

(c) Claims on corporate portfolio

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

(d) Past due exposure

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

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

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

(e) Equity portfolios
Investments in listed equities are risk weighted at 100%.

(f) Any exposure exceeding 15% of Total capital
Claims on Banks or Corporate and other sovereigns or equity exposure that exceed 15% of total capital are risk weighted at 800%.

(g) Other exposures
These are risk weighted at 100%.

5.1 Credit risk (continued)

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

	Funded exposures	Unfunded exposures	Gross credit exposures	Eligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	497,949	0	497,949		79,954	9,994
Claims on banks	507,159	102,216	609,375	5,254	435,018	54,377
Claims on corporate	94,232	20,911	115,143	4,102	98,859	12,357
Past due exposures	2,427	-	2,427	-	2,427	303
Equity portfolio	-	-	-	-	-	-
Other exposures	10,934	-	10,934	-	10,934	1,367
Total	**1,112,702**	**123,127**	**1,235,828**	**9,356**	**627,192**	**78,398**

Gross credit exposure before credit risk mitigation

US$ '000

	Gross credit exposure	Average monthly gross exposure
Claims from Sovereigns	497,949	494,170
Claims from Banks	507,159	537,732
Claims on Corporate	94,232	99,821
Past due exposures	2,427	-
Equity Portfolio	-	-
Other exposures	10,934	11,568
Total funded exposure	**1,112,701**	**1,143,291**
Unfunded exposures	**123,127**	**70,914**
Gross credit exposures	**1,235,828**	**1,214,205**

Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2018

5.2 Market risk

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

US$ '000

	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign exchange risk	150	19	163	88

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 10,319 thousand on operational risk weighted exposure of US$ 82,555 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous of three years' annual gross income,is multiplied by 12.5 operational capital charge; years with positive gross income are counted for computation of capital charge. This computation is as per CBB rulebook.

6. Risk Management

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

Board of Directors

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

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

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

6.1 Credit risk concentrations and thresholds

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

As at 31 December 2018, 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 *	356,384	Nil	356,384
Counterparty B *	46,242	Nil	46,242

* Comprise of exempted large exposure to sovereign.

Risk mitigation –collateral

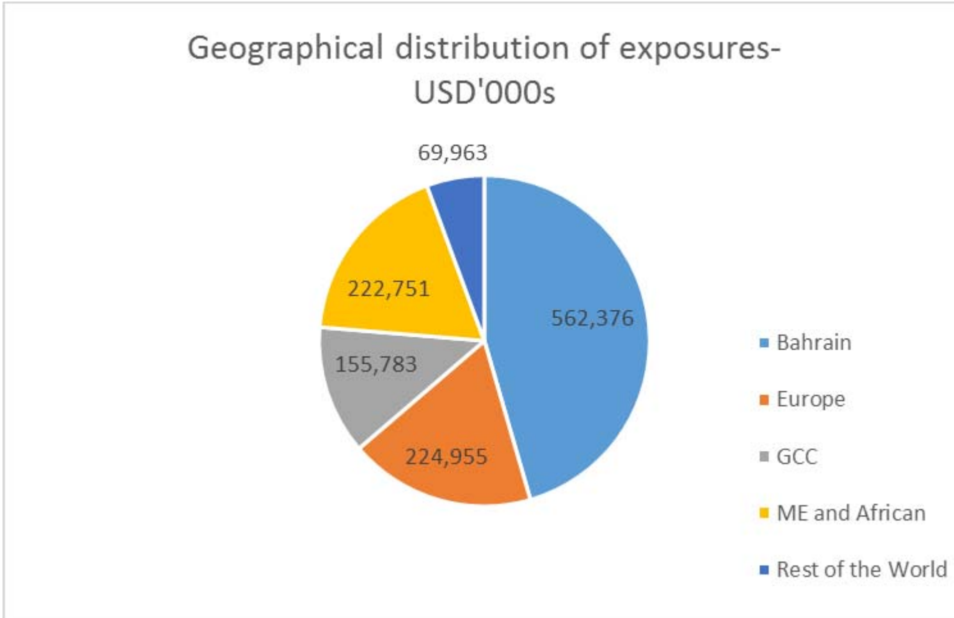
The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. However, the impact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

Majority of the collateral taken by the Bank is in cash; therefore, concentration risk is not significant. For further details on refer note 23.2 of the annual audited financial statements for the year ended 31 December 2018.

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

US$'000

	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	562,376	562,376	-
Other GCC Countries	155,783	134,872	20,911
Other Middle east & Africa	222,751	120,829	101,922
Europe	224,955	224,945	10
Rest of the world	69,963	69,679	284
Total	**1,235,828**	**1,112,701**	**123,127**



6.2 Geographical distribution of exposures

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

US$ '000

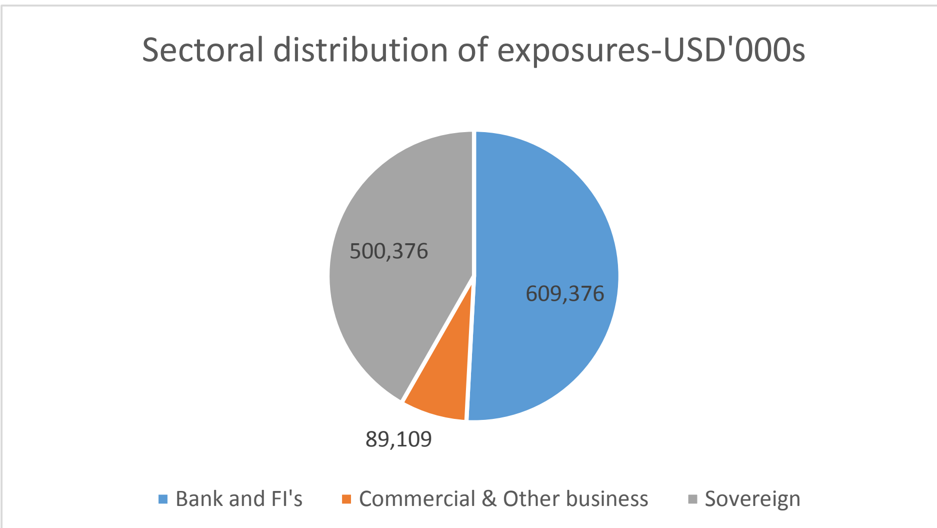
	Bahrain	**Other GCC Countries**	**Other Middle East and Africa**	**Europe**	**Rest Of the world**	**Total**
Claims from Sovereigns	397,147	32,866	67,936	-	-	**497,949**
Claims from Banks	149,426	87,713	50,292	150,050	69,679	**507,159**
Claims on Corporate	5,043	14,293	-	74,895	-	**94,231**
Past due exposures	-	-	2,427	-	-	**2,427**
Other exposures	10,760	-	174	-	-	**10,934**
Total funded exposure	**562,376**	**134,872**	**120,829**	**224,945**	**69,679**	**1,112,701**
Unfunded exposures	**-**	**20,911**	**101,922**	**10**	**284**	**123,127**
Gross credit exposures	**562,376**	**155,783**	**222,751**	**224,955**	**69,964**	**1,235,828**

6. Risk Management (continued)

6.3 Industry sector analysis of exposures is summarized below:

US$ '000

	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	500,376	500,376	
Banks & financial institutions	609,376	507,160	102,216
Commercial &other business	126,076	105,165	20,911
Total	**1,235,828**	**1,112,701**	**123,127**



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

USD '000s

	Banks & financial institutions	Sovereign	Commercial & other businesses	Total
Claims from Sovereigns		497,949		**497,949**
Claims from Banks	507,160			**507,160**
Claims on Corporate			94,231	**94,231**
Past due exposures		2,427		**2,427**
Other exposures			10,934	**10,934**
Total funded exposure	**507,160**	**500,376**	**105,165**	**1,112,701**
Unfunded exposures	102,216		20,911	**123,127**
Gross credit exposures	**609,376**	**500,376**	**126,076**	**1,235,828**

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. TheBank uses the highest risk weight associated, in case of two or more eligible ECAI are chosen. The breakdown of the Bank's exposure into rated and unrated categories is as follows:

US$ '000

	Funded exposure	**Unfunded exposure**	**Rated-High standard grade exposure**	**Rated-Standard grade exposure**	**Unrated exposure**
Claims on Sovereigns	497,949	-	2,514	468,511	26,924
Claims on Banks	507,160	102,216	98,462	329,649	181,265
Claims on Corporate	94,231	20,911	11,170	34,477	69,495
Past due exposures	2,427	-	-	-	2,427
Other exposures	10,934	-	-	-	10,934
Total	**1,112,701**	**123,127**	**112,146**	**832,637**	**291,045**

6.5 Maturity analysis of funded exposures

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

US$ '000

	Within 1 month	***1-3 months***	***3-12 months***	***Total within 1 year***	***1-10 years***	***Over10 Years***	***Undated***	***Total***
Claims on Sovereigns	122,113	185,729	7,043	**314,885**	183,064		-	**497,949**
Claims on Banks	400,688	16,373	54,763	**471,825**	35,336		-	**507,160**
Claims on Corporate	7,389	7,762	23,263	**38,413**	51,609	4,209	-	**94,231**
Past due exposures	-	-	-	-	2,427	-	-	**2,427**
Other exposures	34	655	13	**702**	10,232	-	-	**10,934**
Total	**530,224**	**210,518**	**85,082**	**825,824**	**282,668**	**4,209**	**-**	**1,112,701**

6. Risk Management (continued)

6.5 Maturity analysis of unfunded exposures

US$ '000

	Notional principal	*Within 1 month*	*1-3 months*	*3-12 months*	*Total within 1 year*	*Over one year*	*Total*
Claims from Banks	102,216	21,981	31,396	26,156	**79,533**	22,683	**102,216**
Claims from Corporate	20,911	-	20,911		**20,911**	-	**20,911**
Total	**123,127**	**21,981**	**52,307**	**26,156**	**100,444**	**22,683**	**123,127**

Credit-related contingent items:

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

6.7 Impairment of assets

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

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

The Bank provides sufficiently by specific provision for any impairment and additionally, makes a collective provision of the net loans portfolio higher than 1% as required by the regulator.
Refer Disclosures made under 8 for details of impaired loans and relative specific provision made during 2018.

6.8 Market Risk

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

6. Risk Management (continued)

Interest rate risk on the Banking book arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates. The Bank's interest rate sensitivity position as of 31 December 2018 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 778 thousand for US$ denominated and US$ 270 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 2018, the Bank depended mainly on its own capital and assets were managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and deposits with banks.

6.9 Operational Risk

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

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

5. 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 42.84% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

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

7 Other Disclosures

7.1 Related Party transactions

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

	31-Dec-18
	US$ '000
Interest & similar income	214
Interest expense	13,081
Fee and commission income	149
Assets	
Cash and balances with banks	5,907
Deposit with banks and financial institutions	9,714
Loans and advances	4,629
Interest receivable	44
Other assets	50
Liabilities	
Deposits from banks and other financial institutions	474,719
Due to banks and other financial institutions	3,780
Interest payable	1,458
Other liabilities	396
Contingent liabilities	
Letters of credit and letters of guarantee	5,696
Assets under management	21,967

7.2 Impaired loans and relative provision (stage 3):

USD'000s	up to 1 year	1 to 3 years	Total
Gross impaired loans (stage 3)	32,314	69,584	**101,898**
Less: Specific Provision (stage 3)	29,887	69,584	**99,471**
Net outstanding 31 December 2018	**2,427**	**-**	**2,427**

Movement in impairment provision including Expected credit losses- Loans and advances

USD'000s	Stage 1	Stage 2	Stage 3	Total
Loans				
At beginning of the year	2,856	18,610	76,984	**98,450**
Transfer to Stage 1			-	**-**
Transfer to Stage 2	(42)	42	-	**-**
Transfer to Stage 3		(18,610)	18,610	**-**
Net re-measurement loss allowance	837	2,594	4,149	**7,580**
Write back/ recoveries				
Write off during the period				
Exchange difference			(272)	**(272)**
Balance as at 31 December 2018	**3,651**	**2,636**	**99,471**	**105,758**

Movement in Expected credit losses :

USD'000s	Stage 1	Stage 2	Stage 3	Total
Investments				
At beginning of the year	604	3,799	-	**4,403**
Transfer to Stage 1	1,331	(1,331)		**-**
Transfer to Stage 2	(91)	91		**-**
Transfer to Stage 3				
Net re-measurement loss allowance	(1,381)	(1,071)		**(2,452)**
Write back/ recoveries				
Write off during the period				
Exchange difference				
Balance as at 31 December 2018	**463**	**1,488**		**1,951**

Movement in Expected credit losses :

USD'000s	Stage 1	Stage 2	Stage 3	Total
Other Financial assets and off Balance sheet items				
At beginning of the year	94	4	-	**98**
Transfer to Stage 1	4	(4)		
Transfer to Stage 2				
Transfer to Stage 3				
Net re-measurement loss allowance	711			**711**
Write back/ recoveries				
Write off during the period				
Exchange difference				
Balance as at 31 December 2018	**809**	**-**		**809**

Specific Provision by Geographic and Sector (Stage 3):

USD '000s	**Other Middle East and Africa**
Banks & Financial Institutions	41,772
Sovereigns	29,888
Corporate	27,811
Total	**99,471**

Expected Credit loss (Stage 1 & 2) provision of US$ 9,047 thousand as at 31 December 2018 is not for any specific geographic region.

7.3 Restructured facilities:

	31 December 2018 US$ '000
Balance of any restructured credit facilities as at 31 December 2018	36,616
Loans restructured during the Year	Nil

The facilities restructured prior to year 2018 have been categorized as per IFRS -9 requirement and required Expected credit loss provision (ECL) has been considered during the year.

7.4 Assets sold under recourse agreements: The Bank did not enter into any recourse agreements during the year ended 31 December 2018.

7.5 Equity positions in the banking book : Nil