Annual Report 2019

Alubaf Arab International Bank B.S.C. (c)
Alubaf Tower-Al Seef District-Kingdom of Bahrain
P. O Box 11529- Tel: 17517722- Fax: 17540094
www.alubafbank.com

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

VISION

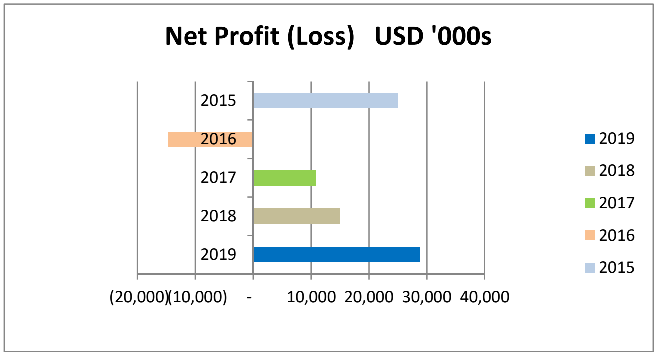
ALUBAF Arab International Bank visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients.

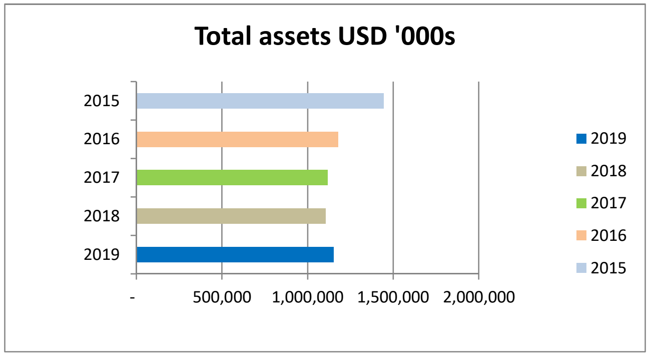
MISSION

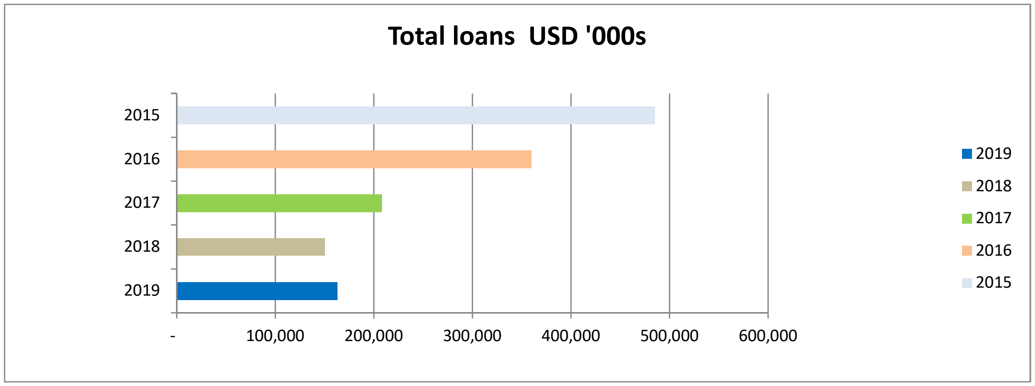
To augment shareholder value by maximizing profitability with prudent financial management and to entrench a disciplined risk and cost management culture.

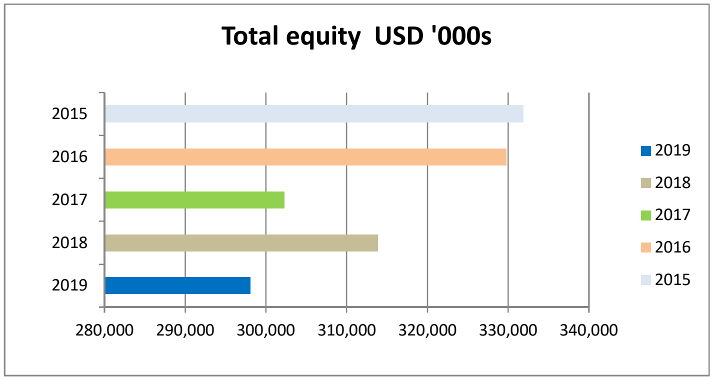
FINANCIAL HIGHLIGHTS

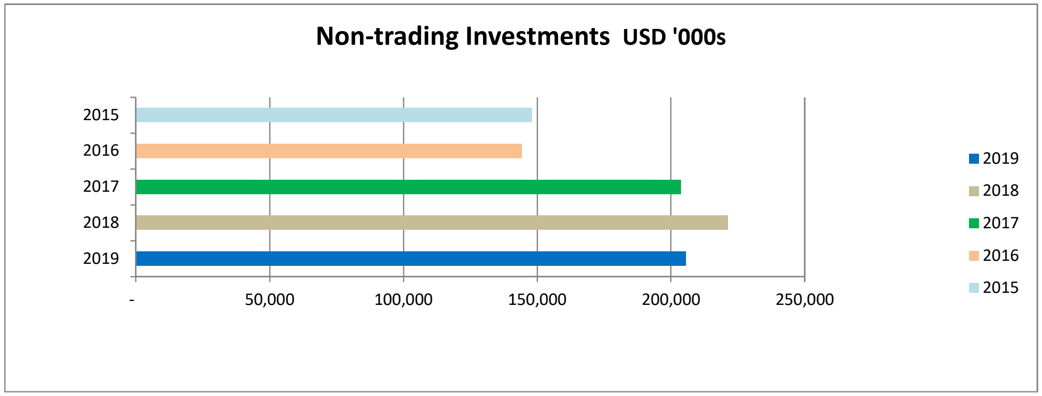
	2019	***2018***	***2017***	***2016***	***2015***
	USD '000s	***USD '000s***	***USD '000s***	***USD '000s***	***USD '000s***
Financial Position					
Net Profit (Loss) before appropriation	28,741	15,000	10,830	(14,685)	25,072
Total Assets	1,153,997	1,104,888	1,118,643	1,180,936	1,443,007
Investment Securities	234,930	205,597	221,374	203,767	144,289
Total Loans	92,740	163,338	150,256	208,041	360,176
Total Liablities	822,973	806,821	804,792	878,659	1,113,237
Total Equity	331,024	298,067	313,851	302,277	329,770
Ratios %					
Profitability					
ROAA -Return on Average Assets %	3%	1%	1%	-1%	2%
ROAE-Return on Average Equity %	9%	5%	4%	-5%	8%
Cost to Gross Income	39%	39%	38%	25%	21%
Capital					
Capital Adequacy Ratio	51%	43%	37%	40%	44%
Equity Assets Ratio	29%	27%	28%	26%	23%
Asset Quality					
Loans to Total Assets	8%	15%	13%	18%	25%
Investment Securities/ Total assets	20%	19%	20%	17%	10%
NPA/Gross loans	50%	38%	34%	30%	19%
Liquidity					
Liquid assets to Total Assets	71%	66%	66%	64%	64%
Liquid assets to Liabilities	99%	90%	91%	86%	83%


Net Profit (Loss) USD '000s
2015
2016
2017
2018
2019
(20,000)
(10,000)
-
10,000
20,000
30,000
40,000
2019
2018
2017
2016
2015


Total assets USD '000s
2015
2016
2017
2018
2019
-
500,000
1,000,000
1,500,000
2,000,000
2019
2018
2017
2016
2015


Total loans USD '000s
2015
2016
2017
2018
2019
-
100,000
200,000
300,000
400,000
500,000
600,000
2019
2018
2017
2016
2015


Total equity USD '000s
2015
2016
2017
2018
2019
280,000
290,000
300,000
310,000
320,000
330,000
340,000
2019
2018
2017
2016
2015


Non-trading Investments USD '000s
2015
2016
2017
2018
2019
-
50,000
100,000
150,000
200,000
250,000
2019
2018
2017
2016
2015

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. 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.

Abdulkarim Ahmed Bucheery
Director
Mr. Bucheery is a Bachelor in Economic science from Aleppo University –Syria in 1976, with over 43 years of Banking experience. Currently, he holds a position of Chairman in Bahrain Bourse, Bahrain Clear Company, Vice Chairman of Naseej Company and a member of Bahrain Banks Advisory Board, and EDB's Economic advisory Board.
Formerly, was a Group Chief Executive Officer of Bank of Bahrain and Kuwait from 2002 to 2016, and Executive Vice President of Institutional Banking Group at Gulf International Bank from 1980 to 2002.

Mr. Achour Abboud (up to 11 December 2019)
Director
Master's degree in economics from the University of Constantine, Algeria and Higher Degree in Banking Studies from the Institute of Financing and Development of the Arab Maghreb in Tunis, Tunisia, with over than 30 years of experience in the banking industry. Currently President and CEO of the National Bank of Algeria (Banque Nationale d'Algérie), Chairman of the Board of Directors of the Algerian Foreign Trade Bank in Zurich, Switzerland, since May 2016 and formerly, Managing Director of Crédit Populaire d'Algérie.

Mr. Talal Al Zain (up to 29 September 2019)
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.

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.

Dr. Nasreen Al Qaseer
Chief Risk Officer
Doctor of Philosophy (DBA), Risk Management & Operational Risk from Liverpool John Moores University, UK and MBA in Business Managerial Economics from University of Hull, UK. Member of PRIMA Global Nominated Committee, since December 2015 and MENA IIF CRO - Institute of International Finance, since June 2012. Dr. Nasreen has over 30 years of experience in Banking Industry in the region that spans over Conventional, Retail, Islamic and Investment Banks, licensed under Central Bank of Bahrain (CBB) and Central Bank of Kuwait (CBK). She has held various senior positions and held approved person status under CBB & CBK.

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 in Jordan, and former board member of several Companies. He holds, a 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.

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.

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

Mr. 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.

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.

Mazen Alghanem
Head of Trade Finance
Mazen joined ALUBAF in 2019. He has over 16 years of experience in the field of Trade Finance with Banks in Bahrain and GCC. Before joining ALUBAF, he was heading the Trade Finance department in Ahli Bank QCS Qatar. Mazen is a Certified Documentary Credit Specialist (CDCS) and holds a Certificate in International Trade and Finance (CITF). He also holds a B.Sc. in Business Management from the University of Bahrain.

CORPORATE GOVERNANCE DISCLOSURES

AS OF 31 DECEMBER 2019

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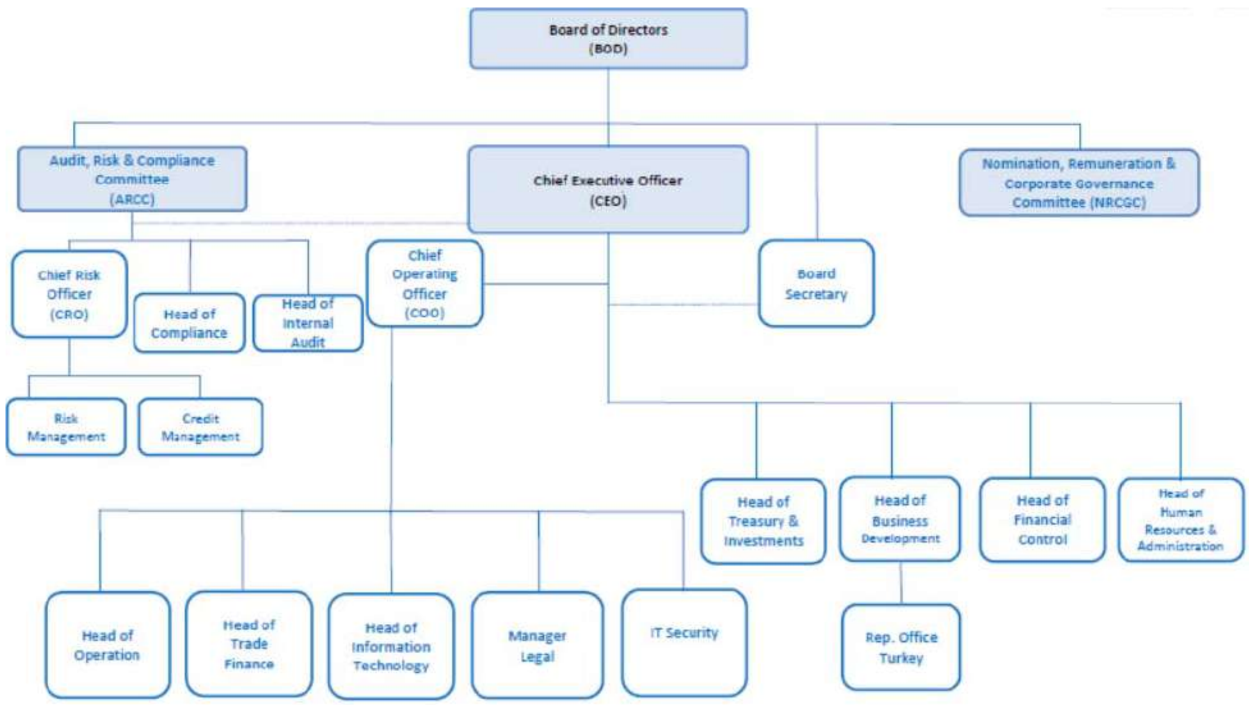
1. ALUBAF'S CORPORATE GOVERNANCE PHILOSPHY

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 is independent from the aforementioned functions and reports directly to the ARCC. It is responsible for establishing the risk management framework in line with the Bank's risk appetite and strategy. It performs reviews on the bank's exposures and monitors compliance of the same with the risk management framework and limits approved by the Board. The unit also performs stress testing on the various risks involved in the Bank's activities..
- The Bank sought the Central Bank of Bahrain approval to amend the Bank's organization structure and to integrate the Risk Management Department and Credit Management Department to be headed by a Chief Risk Officer ("CRO").
- The Bank has appointed the Head of Credit Management Department as a Chief Risk Officer

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 are 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 2019 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 2019, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2019, 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 five (5) directors and not more than nine (9) directors ("**Directors**"). As of 31 December 2019, the total number of Directors is four (4). The Board of Directors also elects by secret ballot from its Directors a chairman ("**Chairman**"), and a deputy chairman ("Deputy Chairman") for its tenure.

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

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 2019, 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	25
Independent / Non-Executive	3	75
TOTAL	**4**	**100**

For the financial year ending 31 December 2019, 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. Abdul Kareem Bucheery**	Director	Independent / Non-Executive	Bahraini

**Mr. Talal Al Zain has resigned from his position on 29th Sep 2019 via approval from the Chairman.*
*** Mr. Abdul Kareem Bucheery has been appointed as a board member via CBB approval on 7th Nov 2019.*
****Mr. Achour Abboud his membership has been relinquished via board resolution on 12th Dec 2019*

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 Commercial Company Law 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 Commercial Company Law 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 2019 and will end in April 2022.

The Directors are generally required to adhere to the Bank's Articles of Association, Commercial Company Law, 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 Commercial Company Law 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 Commercial Company Law 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 approved persons 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, Commercial Company Law, Corporate Governance Code, Labor Law and other applicable laws and regulations.
- Approve term borrowings bond

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 2019

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 2019. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year, *except Mr. Achour Abboud who did not attend 75% of the meeting held in the fiscal year*. With reference to HC-1.3.6, the Bank has notified the CBB via letter date 29th September 2019.

Dates of Board meetings held during the fiscal year 2019, as follows:

DIRECTOR	DATE OF FISRT APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	DATE OF RESIGNATION	1/2019 18-Feb-19	2/2019 28-Apr-19	3/2019 14-Jul-19	4/2019 15-Sep-19	5/2019 11-Nov-19	6/2019 12-Dec-19
Moraja Gaith Solaiman Buhlaiga	21-Apr-13	29-Jan-13	N/A	✓*	✓	✓	✓	✓	✓
Talal Al Zain	12-Apr-15	14-Apr-15	29-Sep-19	✓	✓	✓*	✓	N/A	N/A
Giuma Masaud Salem Kordi	19-Apr-16	21-Aug-15	N/A	✓	✓	✓	✓	✓	✓
Achour Abboud	18-Jun-17	6-Oct-16	12-Dec-19	✓	×	×	×	×	×
Anthony Mallis	18-Jun-17	9-Jul-17	N/A	✓	✓	✓	✓	✓	✓
Abdul Kareem Bucheery	11-Nov-19	11-Nov-19	N/A	N/A	N/A	N/A	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:

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

6.1 AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC)

6.1.1 COMPOSITION

As of 31 December 2019, the composition of the ARCC is as follows:

Member Name	Member Position	Status
Mr. Abdul Kareem Bucheery*	Chairman	Independent / Non-Executive
Mr. Anthony Mallis	Director	Independent / Non-Executive
Mr. Giuma Masaud Salem Kordi	Director	Non-Independent / Non-Executive

**Mr. Talal Al Zain has resigned from his position on 29th Sep 2019 via approval from the Chairman.*

Replaced Mr. Talal Al Zain effective 11th December 2019:

6.1.2 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.
- ARCC Chairman to attend the CBB's Annual Prudential Meeting

6.1.3 MEETINGS

The ARCC Charter stipulates that it shall meet at least four (4) times a year. During 2019, the ARCC has complied with this requirement. The dates and attendance details of the ARCC meetings are as follows:

DIRECTOR	1/2019 17-Feb-19	2/2019 27-Apr-19	3/2019 25-Jul-19	4/2019 11-Dec-19
Talal Al Zain	✓	✓ *	✓	N/a
Guima Masaud Salem Kordi	✓	✓	×	✓
Anthony Mallis	✓	✓	✓	✓
Abdul Kareem Bucheery	N/a	N/a	N/a	✓

** participated by phone / video link*

6.2 NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

6.2.1 COMPOSITION

As of 31 December 2019, the composition of the NRCGC is as follows:

Member Name	Member Position	Status
Mr. Moraja G. Solaiman	Chairman	Independent and Non-executive
Mr. Talal Al Zain*	Director	Resigned effective 29th September 2019; Independent and Non-executive.
Mr. Achour Abboud*	Director	Removed effective 12th December 2019; Independent and Non-executive.

*Replaced by following members, effective 10th February 2020:

Member Name	Member Position	Status
Mr. Guima Masaud Kordi	Director	Non -independent and Non-executive.
Mr. Abdulrazaq Tarhoni	Director	Independent and Non-executive.

6.2.2 RESPONSIBILITIES

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

Nomination, appointment and board composition

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

Succession planning and evaluation

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

Performance review and assessment

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

Remuneration

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

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

Policies and corporate governance

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

6.2.3 MEETINGS

The NRCGC charter stipulates that it shall meet at least twice (2) a year. During 2019, the NRCGC met only once and did not comply with the minimum required meeting two meetings, due to resignation of one member (Mr. Talal Al Zain) and non-attendance of another member (Mr. Achour Abboud). Subsequently, the Board of directors had terminated the membership of Mr Achour Abboud on 12th December 2019. Therefore, new members were nominated to NRCGC on 10th February 2020. The date and attendance details of the NRCGC meeting held in 2019 is as follows:

DIRECTOR	1/2019 17-Feb-19
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 2019 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 2019 are as follows:

Management Committees	Member Position	Committee Member Position
Asset and Liability Committee (ALCO)	Chief Executive Officer	Head/Chairman
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Chief Risk Officer	Member
	Head of Operations	Member
	Head of Risk Management	Member/Secretary
Management Risk Committee (MRC)	Chief Executive Officer	Head/Chairman
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury &Investments	Member
	Chief Risk Officer	Member
	Head of Operations	Member
	Head of Risk Management	Member/Secretary
Human Resource Committee (HRC)	Chief Executive Officer	Head
	Head of Financial Control	Member

Management Committees	Member Position	Committee Member Position
	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 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
Tariff and Commission Committee (TCC)	Chief Executive Officer	Head
	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	Head/Chairman
	Head of Operations	Member
	Chief Risk Officer	Member
	Head of Credit Management	Member/Secretary
	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:

- Active management of the balance sheet;
- Monitor asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates;
- Review the liquidity pricing framework on a periodic basis;
- Effectively manage the Bank's liquidity requirements (including reviewing the adequacy of liquidity cushion) to meet business needs during normal conditions and during times of stress;
- Review changes in regulatory and economic environments, in terms of their impact on liquidity and capital ratios and recommend appropriate actions or changes in liquidity strategy, systems and internal controls;
- Review the hedging guidelines proposed by the TID as well as hedging instruments, in line with applicable accounting standards;
- Approve currencies in which the TID will deal for undertaking FX transactions;
- Management of foreign exchange risks;
- Within Board approved parameters, develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies in general;
- Ensure that approved limits including, mismatch limits, inter-bank and country limits are reviewed on a regular basis, at least quarterly;
- Review and approve / reject breaches of treasury limits, in accordance with the Delegation of Authority (DoA);
- Review and monitor all aspects of liquidity risk management policy including liquidity risk management metrics, early warning indicators and contingency planning and limits to ensure management of liquidity crisis and CFP;
- Review the Bank's Contingency Funding Plan (CFP) and undertake the operational responsibilities as covered under the CFP.
- Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective;
- Review and approve or reject breaches of ALCO limits
- Review hedging strategy and products such as loan swaps and others as per Bank's DoA;
- Reviewing the various reports such as portfolio performance, Nostro accounts, etc; and;
- Approve assumptions pertaining to IFRS 9 ECL calculations;
- Review the interest rate risk of the Bank and devise strategies to minimize the impact of interest rate risk on the Bank's net worth and earnings;
- Review of reports submitted by TID, RMD, OPD, FCD and other departments and provide guidance as appropriate.

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 appetite and limits of the Bank;
- Review the Bank's mitigation strategy for all material risks;
- Review and recommend for approval the Bank's risk management framework;
- Review and monitor the capital adequacy of the Bank;
- Evaluate the level and trend of material risks and their impact on capital levels;
- 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;
- Approve Operational Risk Framework and monitor the operational risk on ongoing basis;
- Review and approve the stress test scenarios of the Bank and ensure that they cover all material risks faced by the Bank, review stress testing results and recommend action plan to ARCC and Board to manage stress events;
- Assess future capital requirements based on the bank's risk profile and strategic plan and recommend changes to strategic plan to Board;
- Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks;
- Review and approve entities deemed to be material to the Bank and review Step-In risk assessment for such entities.
- Approve assumptions pertaining to IFRS 9 ECL calculations.
- Review other major risk concentration as deemed appropriate.

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 and follow-up on collateral realization procedures where approved;
- Responsible for developing strategies for handling the classified assets in order to prevent losses and maximize recovery, and to ensure their implementation.
- Liaising with other departments in gathering the required data for formulating remedial strategy for NPA cases.
- 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.
- Providing recommendations to the CIC on provisioning for NPAs.
- Reviewing the list of NPAs which are eligible for moving off-balance sheet (off-loading)
- Reviewing the list of facilities which are being proposed for write-off

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 as well as the Delegation of Authority. 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 advice in this regard if required. During 2019 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.

The Bank has a whistle-blowing manual with designated officials whom the employee can approach.

The policy provides adequate protection for the employees for any reports made in good faith. The Bank's Audit, Risk and Compliance Committee oversees this policy.

The whistle-blowing manual is published on the Bank's share drive.

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. 2019 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:

- Since one of the Board of Directors did not attend (four out of six) Board meetings held during the year 2019, the Bank is not in compliance with HC-1.3.4. This regulation requires that individual board members must attend at least 75% of all board meetings in a given financial year to enable the Board to discharge its responsibilities effectively.
- The Bank's Audit, Risk and Compliance Committee ("**ARCC**") consist of three board members of which one is non-independent director. HC-6.6.14 requires the board risk committee to be composed of at least three independent directors and accordingly, the Bank is not in compliance with HC-6.6.14.

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 2019.

15. REMUNERATION OF EXTERNAL AUDITORS

In 2019, the Bank has paid its external auditors, Messers Ernst & Young, a total of USD 141,000 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 2019. 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 15th March 2020.

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

TYPE OF SERVICE	**2019**	**2018**
	USD'000	**USD'000**
Audit and other audit related service fees	141	139
Non-audit service fees	-	25
Total	**141**	**164**

Sound Remuneration Disclosures

2019

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 which was approved by shareholders at the Annual General Meeting held on 12 April 2015. Subsequently, in 2017, the Remuneration policy was enhanced and revised to align them with market and best practices. This revised and updated "Remuneration Policy" was reviewed and approved by the Bank's Nomination, Remuneration and Corporate Governance Committee (NRCGC), as well as the 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

As of 31 December 2019, the composition of the NRCGC is as follows:

Member Name	Position	Status
Mr. Moraja G. Solaiman	Chairman	Independent and Non-executive
Mr. Talal Al Zain*	Member	Resigned effective 29th September 2019; Independent and Non-executive.
Mr. Achour Abboud*	Member	Removed effective 12th December 2019; Independent and Non-executive.

*Replaced by following members, effective 10th February 2020:

Member Name	Position	Status
Mr. Guima Masaud Kordi	Member	Non -independent and Non-executive.
Mr. Abdulrazaq Tarhoni	Member	Independent and Non-executive.

4. CORE REMUNERATION POLICY

4.1 Overall Approach to Remuneration

The major components of this overall approach are:

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

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

- *Market environment*

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

- *Operating Costs*

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

- *Internal Equity*

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

- *Salary Ranges*

  The Bank uses a structure of salary ranges against which salaries are 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

The Bank has reviewed and revised the Bank's Remuneration Policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants, which was approved by the NRCGC, Central Bank of Bahrain and shareholders on 8th April 2018.

5.1 Governance

The composition of the NRCGC as of 31 December 2019, required to be aligned as per the CBB remuneration guidelines and approved NRCGC charter, which required two directors to be nominated to replace directors who resigned and terminated during second half of 2019. This nomination of two directors to NRCGC was resolved and approved by the Board on 10th February 2020. Please refer table of composition in 3.1.

5.2 CBB Remuneration Guidelines

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

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

6. VARIABLE PAY

6.1 CEO, Senior Management and Business Units

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

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

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

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

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

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

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

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

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

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

6.2 Control and Support Units

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

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

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

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

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

6.3 Malus and Claw Back Framework

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

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

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

6.4 Summary of Variable Pay

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

7. BOARD REMUNERATION

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

8. DETAILS OF REMUNERATION PAID

The NRCGC meeting held on 10th February, 2020, approved the variable pay for the year ended 2019, in line with approved "Remuneration policy". This provisional variable pay for the year 2019, which is computed and recorded, will be disbursed in the year 2020.

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	2019 USD '000	2018 USD '000
Sitting fee, accommodation and travel allowance*	296	374
Remuneration	540	480

8.2 Employee Remuneration

All deferred and long-term awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's share incentive scheme.

Details of Remuneration for the year ended 31 December 2019																(USD in '000)
Categories	**No.**	**Fixed Remuneration**						**Variable Remuneration**								
		Salaries for 2019	Other Benefits/ Allowance for 2019	Total fixed remuneration for 2019	Performance Bonuses for 2019 (in cash)	Deferred Performance Bonus in Cash for 2019 [**Refer Note 2**]	Deferred Performance Bonus in shares for 2019 **[Refer Note 3]**	Vested and release of Deferred Cash and Shares for 2015, 2017 and 2018 in 2019	Deferred cash compensation paid -related to 2018 (Release of vested 2018)	Deferred shares Compensation paid (Release first Portion 2017)	Deferred shares Compensation paid (Release final Portion 2015)	Deferred cash compensation paid (Release first Portion 2017)	Deferred cash compensation paid (Release final Portion 2015)	**Total**	**Total**
2. Approved persons (Business Lines) (not incl in 1,3 to 7.)	**5**	**1,125**	**540**	**1,665**	**381**	**82**	**410**	**170**	**-**	**(84)**	**(56)**	**(18)**	**(12)**	**873**	**2,538**
3. Approved persons (Control & Support) in risk management, internal audit, operations, financial controls, AML and Compliance Functions	**14**	**1,210**	**402**	**1,612**	**495**	**18**	**72**	**24**	**(8)**	**(16)**	**-**	**-**	**-**	**585**	**2,197**
4. Employees engaged in risk taking activities (Business Lines)	**8**	**454**	**213**	**667**	**206**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**206**	**873**
5. Employees, other Than approved persons, engaged in functions under 3. (Control & Support)	**23**	**971**	**505**	**1,476**	**442**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**442**	**1,918**
6. Other employees	**5**	**257**	**82**	**339**	**107**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**107**	**446**
7. Outsourced Empl./Service providers (engaged in risk taking activities)	**1**	**22**	**-**	**22**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22**
TOTAL	**56**	**4,039**	**1,742**	**5,781**	**1,631**	**100**	**482**	**194**	**(8)**	**(100)**	**(56)**	**(18)**	**(12)**	**2,213**	**7,994**

Details of Remuneration Paid :

Note 1: Members of Board remenuration includes, sitting fee, allowances and Provisional bonus , which is subject to Shareholder and regulatory approval.

Note 2: Deferred remuneration in cash on fully vested phantom shares for 2019, amounts to USD 100 thousand , relates to five approved persons.

Note 3: Deferred remuneration (phantom shares) for 2019, amounts to USD 482 thousand , fully unvested as of 31.12.2019, relates to five approved persons.

Total Outstanding deferred remuneration (Cash and Shares) at 31.12.2019

In USD'000s

	2017			2018			
Category	**10% deferred cash o/s**	**50% deferred shares o/s**	**40% deferred shares o/s**	**10% deferred cash o/s**	**50% deferred shares o/s**	**40% deferred shares o/s**	**Final Total of Outstanding**
Approved persons in Business line	35	177	-	61	306	-	579
Approved persons in Control & support	-	-	34	-	-	33	67
Total	**35**	**177**	**34**	**61**	**306**	**33**	**646**

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

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

31 DECEMBER 2019

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 2019.

Amid challenging and uncertain macro -economic factors and increasing regulatory requirements, the Bank emerged resilient and achieved a Net profit of US$ 28.7 million for the year ended 31 December 2019, as compared to a net profit of US$ 15 million last year 2018, which is an increase of 92%, year on year.

Net profit for the quarter ended 31 December 2019 was US$ 18 million, as compared to US$ 2.9 million for the same period, last year 2018. This spurt in net results of fourth quarter 2019, was mainly due to write back of provisions, despite maintaining adequate provision for expected credit losses under IFRS.

Interest income was US$ 44.2 million for the year ended 31 December 2019, with a marginal growth of 3.2% over US$ 42.9 million in 2018. However, interest expenses for 2019 increased to US$ 17.4 million from US$ 14 million in 2018, thus witnessed an increase in cost of funding by 23.6%, which reduced the net interest income for the year ended 31 December 2019 to US$ 26.8 million compared to US$ 28.8 million in previous year, resulting in a reduction of 6.8%.

Fee and commission income for the year ended 2019 was US$ 3.6 million, as compared to US$ 4.9 million in 2018, due to contraction in volume of trade finance business.

As for Other operating income, the Bank made significant gains on sale of investment securities and foreign exchange in current year.

Therefore, operating income achieved for 2019 was US$ 33 million, compared to US$ 34.3 million in 2018, resulting in an overall reduction of 4.1% in current year.

However, the Bank performed phenomenally well, in collection of past dues, which enabled to reversal of provision of credit losses, after maintaining 100% provision coverage for other non-performing facilities and creating adequate levels of provision for expected credit loss under IFRS.

Operating expenses for 2019, resulted in a reasonable savings of 6.3% compared to previous year 2018, which reduced the Cost to income ratio marginally to 38.5% in 2019, compared to 39% in 2018.

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

برج اليوباف، ضاحية السيف
ص.ب: ١١٥٢٩، مملكة البحرين
Swift: ALUBBHBM، س.ت: ١٢٨١٩
تلفون: ٥١٧٧٢٢ ١٧ ٩٧٣+
فاكس: ٥٤٠٠٩٤ ١٧ ٩٧٣+

Total assets grew by 4% in 2019, over 2018 figures, although Loans portfolio contracted in 2019 to 8% of total assets, investment securities increased in 2019 and stood at 20.4% of total assets, as against 18.6% in 2018.

The Bank achieved a Return on average equity of 9.1% for the year ended 2019, as compared to 4.9% for last year 2018. Bank's Capital adequacy and liquidity, liquid assets to total assets ratios grew stronger to 51% and 70% respectively.

In recognition of the importance and support of its valued shareholders, the Board of directors are pleased to propose a dividend of US$ 3 per share, amounting to US$ 15 million, representing 6% of paid up share capital for the year 2019, after due appropriation of US$ 2.9 million from Net profit for the year 2019, towards transfer to Statutory reserve. This Proposed dividend for the year 2019, is subject to regulatory and shareholders' approval in Annual general meeting.

Outlook for 2020, is positive and encouraging, given our strong capital and the concerted effort of management to dynamically address to the changes in regulatory requirements and other market challenges, to better position and sustain a year on year growth to our shareholders.

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.

Chairman
Moraja G. Solaiman

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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 - 1

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 2019, and the statements of profit or loss, comprehensive income, cash flows and changes in equity 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 2019, 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 (Consolidated) Financial Statements section of our report. We are independent of the Company/ (Group) in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, 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 of 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.

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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)

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 the 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 2019 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

Auditor's Registration No. 244
10 February 2020
Manama, Kingdom of Bahrain

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	*2019 US$ '000*	*2018 US$ '000*
ASSETS			
Cash and balances with central bank and other banks	4	428,235	364,769
Deposits with banks and other financial institutions	5	378,891	339,105
Investments classified as fair value through profit and loss	6	3,028	14,517
Investment securities	7	234,930	205,597
Loans and advances	8	92,740	163,338
Property, equipment and software	9	8,987	9,758
Interest receivable		6,237	6,628
Other assets		949	1,176
TOTAL ASSETS		1,153,997	1,104,888
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	10	646,770	644,570
Due to banks and other financial institutions	10	89,196	87,783
Due to customers	11	75,504	65,642
Interest payable		2,188	1,634
Other liabilities	12	9,315	7,192
Total liabilities		822,973	806,821
Equity			
Share capital	13	250,000	250,000
Statutory reserve	13	25,631	22,757
Retained earnings		37,219	26,352
Fair value reserve		3,174	(6,042)
Proposed dividend	14	15,000	5,000
Total equity		331,024	298,067
TOTAL LIABILITIES AND EQUITY		1,153,997	1,104,888

Anthony C. Mallis
Deputy Chairman

Moraja G. Solaiman
Chairman

The attached notes 1 to 26 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 2019

	Notes	2019 US$ '000	2018 US$ '000
Interest and similar income	15	44,226	42,861
Interest expense	16	(17,386)	(14,068)
Net interest and similar income		26,840	28,793
Fee and commission income	17	3,669	4,856
Gain (loss) on investments classified as FVTPL	18	535	(383)
Gain on investment securities - net		481	270
Foreign exchange gain - net		1,421	752
Other income		119	99
OPERATING INCOME		32,965	34,387
Reversal (charge) of provision for expected credit losses	19	8,469	(5,838)
NET OPERATING INCOME		41,434	28,549
Staff costs		8,736	7,798
Depreciation	9	881	1,004
Other operating expenses	20	3,076	4,747
OPERATING EXPENSES		12,693	13,549
NET PROFIT FOR THE YEAR		28,741	15,000

Anthony C. Mallis
Deputy Chairman

Moraja G. Solaiman
Chairman

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 *US$ '000*	*2018* *US$ '000*
NET PROFIT FOR THE YEAR	**28,741**	15,000
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Fair value change in cash flow hedge	**(442)**	-
Unrealised fair value gain (loss) on investments classified as fair value through other comprehensive income (FVOCI)	**8,455**	(4,321)
Charge (reversal) for expected credit loss on FVOCI for the year	**1,203**	(1,847)
Other comprehensive income (loss) for the year	**9,216**	(6,168)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**37,957**	8,832

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 US$ '000	2018 US$ '000
OPERATING ACTIVITIES			
Net profit for the year		**28,741**	15,000
Adjustments for:			
(Reversal) charge of provision for expected credit losses	19	**(8,469)**	5,838
Depreciation	9	**881**	1,004
Amortisation of investments carried at amortised cost		**326**	536
Gain on investment securities - net		**(481)**	(270)
Unrealised (gain) loss on investments classified as FVTPL		**(488)**	325
Gain on disposal of property, equipment and software		**-**	(7)
Amortisation of assets classified as loans and advances		**(924)**	(848)
Operating profit before changes in operating assets and liabilities		**19,586**	21,578
Changes in operating assets and liabilities:			
Balances with central bank		**(127,002)**	-
Deposits with banks and other financial institutions		**(126,884)**	15,400
Investments classified as fair value through profit and loss		**11,977**	4,558
Investment securities		**(220)**	(2,769)
Loans and advances		**82,234**	(35,895)
Interest receivable		**391**	116
Other assets		**227**	415
Deposits from banks and other financial institutions		**2,200**	75,013
Due to banks and other financial institutions		**1,413**	(45,634)
Due to customers		**9,862**	(28,163)
Interest payable		**554**	548
Other liabilities		**2,174**	258
Net cash flows (used in) from operating activities		**(123,488)**	5,425
INVESTING ACTIVITIES			
Purchase of investment securities		**(54,190)**	(4,644)
Proceeds from disposal/redemption of investment securities		**32,190**	16,123
Purchase of property, equipment and software	9	**(110)**	(391)
Proceeds from sale of property and equipment		**-**	7
Net cash flows (used in) from investing activities		**(22,110)**	11,095
FINANCING ACTIVITY			
Dividends paid		**(5,000)**	(5,000)
Cash flows used in financing activity		**(5,000)**	(5,000)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(150,598)**	11,520
Cash and cash equivalents at 1 January		**689,354**	677,834
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**538,756**	689,354

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 2019		**250,000**	**22,757**	**26,352**	**(6,042)**	**5,000**	**298,067**
Net profit for the year		-	-	28,741	-	-	28,741
Other comprehensive income		-	-	-	9,216	-	9,216
Dividends paid		-	-	-	-	(5,000)	(5,000)
Proposed dividend for 2019	14	-	-	(15,000)	-	15,000	-
Transfer to Statutory reserve		-	2,874	(2,874)	-	-	-
Balance as of 31 December 2019		**250,000**	**25,631**	**37,219**	**3,174**	**15,000**	**331,024**
Balance as at 1 January 2018		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		-	-	-	-	(5,000)	(5,000)
Proposed dividend for 2018		-	-	(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

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

1 ACTIVITIES

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

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

The financial statements of the Bank for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 10 February 2020.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in conformity with the Bahrain Commercial Companies Law ("BCCL"), the 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 at fair value through profit or loss ("FVTPL") and investment classified as at fair value through other comprehensive income ("FVOCI") 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 expected credit losses ("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

The Bank 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 are 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 operating income as 'Gain (loss) on investments classified as FVTPL' in the period in which it arises, unless it arises from debt instruments that were neither designated at fair value nor which are not held for trading, in which case they are presented separately within 'operating income' as a 'Gain on investment securities - net'. 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 within operating income as 'Gain (loss) on investments classified as FVTPL' in the statement of profit or loss.

Dividends are recognised in the statement of profit or loss within 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 ("SICR") 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
All financial liabilities of the Bank 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 issuer's credit risk, which is determined as the amount that is not attributable to changes in the 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 issuer's credit risk 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 an ECL provision.

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

Undrawn loan commitments and letters of credit 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, 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Share capital, statutory reserve and dividend (continued)

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 reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are detailed in note 22.5.

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

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

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

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

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

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

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

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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 reporting date. 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 profit or loss.

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 2019
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 2019. The adoption of these standards and interpretations did not have any effect on the Bank's financial position, financial performance or disclosures.

IFRS 16 Leases (IFRS 16)
IFRS 16 supersedes IAS 17 Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4), SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Prior to the adoption of IFRS 16, the Bank accounted for and classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease in accordance with IAS 17.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Bank recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Bank adopted IFRS 16 using a modified retrospective method of adoption with the date of initial application of 1 January 2019, and accordingly, the comparative information is not restated. Under this method, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Bank has assessed the impact of the new lease standard to be immaterial as the lease period is less than 12 months for the majority of the lease contracts.

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. These amendments had no impact on the financial statements of the Bank.

Annual improvements 2015-2017 cycle
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 had no impact on the financial statements of the Bank as there was no transaction where joint control was obtained.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

i) New and amended standards and interpretations effective as of 1 January 2019 (continued)

Annual improvements 2015-2017 cycle (continued)

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.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application 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, they had no impact on the financial statements of the Bank.

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.

The entity applies the 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, they had no impact on the financial statements of the Bank.

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. The Bank intends to adopt these standards, if applicable, when they become effective.

Amendments to IFRS 3: Definition of a Business effective for annual periods beginning on or after 1 January 2020
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material effective for annual periods beginning on or after 1 January 2020
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

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)

Interest Rate Benchmark Reform (Amendments to IFRS 9 and IFRS 7) - effective for annual periods beginning on or after 1 January 2020

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments to the definition of material is not expected to have an impact on the Bank's 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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements 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.

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 '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;
- Management's evaluation of the performance of the portfolio;
- 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2019 *US$ '000*	*2018* *US$ '000*
Cash	**9**	3
Money at call and short notice with other banks	**76,584**	63,255
Treasury bills - balances with Central Bank	**351,647**	301,521
Provision for expected credit losses (note 4.1)	**(5)**	(10)
Cash and balances with central bank and other banks	**428,235**	364,769
Treasury bills - balances with Central Bank with original maturities of more than 3 months	**(127,002)**	-
Deposits with banks and other financial institutions with original maturities of 3 months or less (note 5)	**237,523**	324,585
Cash and cash equivalents	**538,756**	689,354

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS (continued)

Note 4.1

Movement in provision for expected credit losses were as follows:

	2019			*2018*
	Stage 1 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Total US$ '000*	*Stage 1 12-month ECL US$ '000*
Balance at 1 January	10	-	10	11
Transfer to stage 2	(1)	1	-	(1)
Provided during the year	-	1	1	-
Write-backs	(6)	-	(6)	-
At 31 December	3	2	5	10

5 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	2019 US$ '000	*2018 US$ '000*
Deposits with original maturities of 3 months or less (note 4)	237,523	324,585
Deposits with original maturities of over 3 months	141,603	14,714
	379,126	339,299
Provision for expected credit losses (note 5.1)	(235)	(194)
	378,891	339,105

Note 5.1

Movement in provision for expected credit losses were as follows:

	2019 Stage 1 12-month ECL US$ '000	*2018 Stage 1 12-month ECL US$ '000*
Balance at 1 January	194	80
Provided during the year	41	114
At 31 December	235	194

6 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT AND LOSS

	2019 US$ '000	*2018 US$ '000*
Quoted Debt securities	3,028	14,517

7 INVESTMENT SECURITIES

	31 December 2019 (Audited)			31 December 2018 (Audited)		
	FVOCI US$'000	Amortised cost US$'000	Total US$'000	FVOCI US$'000	Amortised cost US$'000	Total US$'000
Quoted investments						
- Sovereign debt securities	112,885	51,028	163,913	96,722	49,374	146,096
- Banks and Corporate debt securities	45,511	28,328	73,839	16,281	44,545	60,826
Total quoted investments	158,396	79,356	237,752	113,003	93,919	206,922
Provision for expected credit losses (note 7.1)	(1,829)	(2,822)	(4,651)	(626)	(1,325)	(1,951)
Reclassifying provision relating to FVOCI to OCI	1,829	-	1,829	626	-	626
Total investment securities	158,396	76,534	234,930	113,003	92,594	205,597

As at 31 December 2019, investments classified in stage 2 amounted to US$ 48,448 thousand (2018: US$ 54,186 thousand) for FVOCI and US$ 45,573 thousand (2018: US$ 37,434 thousand) for amortised cost respectively.

Note 7.1

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

	31 December 2019 (FVOCI)			31 December 2018 (FVOCI)		
	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Total ECL US$ '000	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	US$ '000
Balance at 1 January	318	308	626	332	2,141	2,473
Transfer to stage 2	(54)	54	-	(10)	10	-
Provided during the year	232	1,447	1,679	-	-	-
Write-backs	(205)	(271)	(476)	(4)	(1,843)	(1,847)
At 31 December	291	1,538	1,829	318	308	626

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

	31 December 2019 (Amortised cost)			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	Stage 1: 12-month ECL US$ '000	Stage 2: Lifetime ECL not credit-impaired US$ '000	Total ECL US$ '000
Balance at 1 January	145	1,180	1,325	272	1,658	1,930
Transfer to stage 1 from stage 2	-	-	-	1,331	(1,331)	-
Transfer to stage 2 from stage 1	-	-	-	(81)	81	-
Provided during the year	1	1,794	1,795	-	772	772
Write-backs	(118)	(180)	(298)	(1,377)	-	(1,377)
At 31 December	28	2,794	2,822	145	1,180	1,325

8 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$ 30,361 thousand as of 31 December 2019 (2018: US$ 21,299 thousand).

	31 December 2019				
	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 2018 US$ 000*
Letters of credit - financing and discounting	5,839	-	63,459	69,298	94,028
Sovereign loans	47,166	-	2,804	49,970	78,556
Commercial loans	41,670	-	6,326	47,996	76,328
Factoring	-	-	20,418	20,418	20,184
	94,675	-	93,007	187,682	269,096
Provision for expected credit losses (note 8.1)	(1,935)	-	(93,007)	(94,942)	(105,758)
	92,740	-	-	92,740	163,338

Note 8.1
Movements in provision for expected credit losses were as follows:

	31 December 2019			
	Stage 1: 12-month ECL US$ '000	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Stage 3: Lifetime ECL credit-impaired US$ '000*	*US$ '000*
Balance at 1 January 2019	3,651	2,636	99,471	105,758
Transfer to stage 1 from stage 2	1	(1)	-	-
Transfer to stage 3 from stage 2	-	(2,635)	2,635	-
Provided during the year	303	-	18,133	18,436
Recoveries and write-backs	(2,020)	-	(27,128)	(29,148)
Exchange differences	-	-	(104)	(104)
At 31 December 2019	**1,935**	**-**	**93,007**	**94,942**

	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*	*US$ '000*
Balance at 1 January 2018	2,856	18,610	76,984	98,450
Transfer to stage 2 from stage 1	(42)	42	-	-
Transfer to stage 3 from stage 2	-	(18,610)	18,610	-
Provided during the year	837	2,594	4,149	7,580
Exchange differences	-	-	(272)	(272)
At 31 December 2018	3,651	2,636	99,471	105,758

The total value of collateral held by the Bank against its loans and advances exposure amounts to US$ 1,343 thousand as at 31 December 2019 (31 December 2018: US$ 1,500 thousand) with no cash collateral.

Facilities renegotiated during the year
During the year, no facilities were renegotiated by the Bank (2018: same).

9 PROPERTY, EQUIPMENT AND SOFTWARE

	Land US$ '000	*Building* US$ '000	*Furniture, equipment and motor vehicles* US$ '000	*Software* US$ '000	*Capital work in progress* US$ '000	*Total* US$ '000
Cost:						
At 1 January 2019	4,233	7,652	3,675	1,454	30	17,044
Additions	-	-	100	30	-	130
Disposal	-	-	-	-	(30)	(30)
Exchange difference	10	-	-	-	-	10
At 31 December 2019	**4,243**	**7,652**	**3,775**	**1,484**	-	**17,154**
Depreciation:						
At 1 January 2019	-	3,037	3,240	1,009	-	7,286
Charge for the year	-	508	201	172	-	881
At 31 December 2019	-	**3,545**	**3,441**	**1,181**	-	**8,167**
Net book value:						
At 31 December 2019	**4,243**	**4,107**	**334**	**303**	-	**8,987**

	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
Disposal	-	-	139	240	12	391
Exchange difference	-	-	(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

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

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

10.1 Deposits from banks and other financial institutions

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

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

10.2 Due to banks and other financial institutions

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

	2019 US$ '000	*2018 US$ '000*
Current account balances	**56,186**	56,598
Cash collateral held	**33,010**	31,185
	89,196	87,783

11 DUE TO CUSTOMERS

Due to customers represent current account balances, interest bearing money market deposits and cash collateral of corporate customers held with the Bank in relation to the facilities of letters of credit and letters of guarantee as at the reporting date.

	2019 US$ '000	*2018 US$ '000*
Current account balances and deposits	**75,504**	61,531
Cash collateral held	**-**	4,111
	75,504	65,642

12 OTHER LIABILITIES

	2019 US$ '000	*2018 US$ '000*
Accrued expenses and payables	**8,803**	5,752
Due to directors and employees	**335**	370
Provision expected credit losses against off balance sheet exposures (note 12.1)	**111**	604
Unearned fee income	**24**	57
Agency fee payable	**3**	104
Others	**39**	305
	9,315	7,192

Note 12.1

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

	2019 Stage 1 12-month ECL US$ '000	*2018 Stage 1 12-month ECL US$ '000*
Balance at 1 January	**604**	7
Provided during the year	**107**	597
Write-backs	**(600)**	-
At 31 December	**111**	604

Accrued expenses include US$ 692 thousand (2018: US$ 446 thousand) of liability relating to cash settled share based payments.

12 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 profit or loss with a corresponding liability being recognised. The liability is remeasured to its net-book-value per share of the Bank at each reporting date up to the date of settlement with changes in fair value recognised in the statement of profit or loss.

13 SHARE CAPITAL

	2019 US$ '000	*2018* US$ '000
Authorised:		
10,000,000 (2018: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

	2019 US$ '000	*2018* US$ '000
Issued and fully paid up :		
5,000,000 (2018: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

Shareholders

	2019		*2018*	
	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. The Bank has transferred US$ 2,874 thousand (2018: US$ 1,500 thousand) to statutory reserve in the current year.

14 PROPOSED DIVIDEND

The dividend for the year ended 31 December 2019 amounting to US$ 15 million i.e. US$ 3 per share (31 December 2018: US$ 5 million i.e. US$ 1 per share), is proposed subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting.

15 INTEREST AND SIMILAR INCOME

	2019 US$ '000	*2018 US$ '000*
Interest on:		
- Deposits with banks, other financial institutions and balance with central bank	**20,713**	17,666
- Loans and advances	**11,802**	13,373
- Investments classified as fair value through profit and loss	**389**	786
- Investment securities	**11,322**	11,036
	44,226	42,861

16 INTEREST EXPENSE

	2019 US$ '000	*2018 US$ '000*
Interest on:		
- Deposits from and due to banks and other financial institutions	**16,866**	13,743
- Due to customers	**520**	325
	17,386	14,068

17 FEE AND COMMISSION INCOME

	2019 US$ '000	*2018 US$ '000*
Commission income on letters of credit	**2,680**	3,565
Agency and factoring income	**845**	1,241
Commission income on letters of guarantee	**7**	35
Bank charges and other income	**37**	15
	3,569	4,856

18 GAIN (LOSS) ON INVESTMENTS CLASSIFIED AS FVTPL

	2019 US$ '000	*2018 US$ '000*
Changes in fair value of investments classified as FVTPL	**488**	(325)
Realised gain (loss) during the year - net	**47**	(58)
	535	(383)

19 REVERSAL (CHARGE) OF PROVISION FOR EXPECTED CREDIT LOSSES FOR THE YEAR

	2019 US$'000	*2018 US$'000*
Reversal of provision against nostros (note 4.1)	**(5)**	(1)
Charge of provision against money market (note 5.1)	**41**	114
Charge / (reversal) of provision against investment securities (note 7.1)	**2,700**	(2,452)
(Reversal) / charge of provision against loans and advances (note 8.1)	**(10,712)**	7,580
(Reversal) / charge of provision against off balance sheet (note 12.1)	**(493)**	597
	(8,469)	5,838

20 OTHER OPERATING EXPENSES

	2019 *US$ '000*	*2018* *US$ '000*
Professional services	**384**	2,314
Administration and marketing expenses	**1,592**	1,515
Board of Directors' remuneration and expenses (note 24)	**836**	854
Fees and other charges	**264**	64
	3,076	4,747

21 COMMITMENTS AND CONTINGENT LIABILITIES

	2019 *US$ '000*	*2018* *US$ '000*
Credit related contingencies		
Letters of credit	**78,694**	121,029
Letters of guarantee	**177**	2,098
Provision for expected credit losses (note 12)	**(111)**	(604)
	78,760	122,523
Other (note 23)		
Interest rate swap (cash flow hedge)	**125,000**	-
Forward foreign exchange contracts	**362**	4
	204,122	122,527

22 RISK MANAGEMENT

22.1 Introduction

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

a) Risk management structure

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

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

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

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

22 RISK MANAGEMENT (continued)

22.1 Introduction (continued)

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.

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

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

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

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

a. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements. The net exposure represents gross exposure net of cash collateral against letters of credit.

	Gross maximum exposure 2019 US$ '000	*Net maximum exposure 2019 US$ '000*	*Gross maximum exposure 2018 US$ '000*	*Net maximum exposure 2018 US$ '000*
Balances with banks	**428,226**	**428,226**	364,766	364,766
Deposits with banks and other financial institutions	**378,891**	**378,891**	339,105	339,105
Investments classified as fair value through profit and loss	**3,028**	**3,028**	14,517	14,517
Investment securities	**234,930**	**234,930**	205,597	205,597
Loans and advances	**92,740**	**92,740**	163,338	163,338
Interest receivable	**6,237**	**6,237**	6,628	6,628
Other assets	**499**	**499**	738	738
Total funded credit risk exposure	**1,144,551**	**1,144,551**	1,094,689	1,094,689
Unfunded exposure on credit related contingencies	**78,760**	**54,748**	122,523	95,087
Total funded and unfunded credit risk exposures	**1,223,311**	**1,199,299**	1,217,212	1,189,776

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

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

b. Credit quality per class of financial assets

The table below presents an analysis of the financial assets exposed to credit risk and external rating designation at 31 December 2019 and 31 December 2018. 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 not impaired - Where interest or principal sum is overdue for less than 90 days.
(v) Past due and impaired - Where interest or principal sum is overdue 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 losses US$ '000*	*Total US$ '000*
At 31 December 2019						
Balances with banks	67,453	360,778	-	-	(5)	428,226
Deposits with banks and other financial institutions	86,812	292,314	-	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	-	3,028
Investment securities *	11,007	226,745	-	-	(2,822)	234,930
Loans and advances	-	94,675	-	93,007	(94,942)	92,740
Interest receivable	205	6,032	-	-	-	6,237
Other assets	-	499	-	-	-	499
Funded exposures	165,477	984,071	-	93,007	(98,004)	1,144,551
Credit related contingencies	2,552	76,319	-	-	(111)	78,760
Unfunded exposures	2,552	76,319	-	-	(111)	78,760
Funded and unfunded exposures	168,029	1,060,390	-	93,007	(98,115)	1,223,311

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

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

	Neither past due nor impaired					
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due but not impaired US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 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 exposure	111,862	967,797	20,419	101,898	(107,287)	1,094,689
Credit related contingencies	285	122,842	-	-	(604)	122,523
Unfunded exposures	285	122,842	-	-	(604)	122,523
Funded and unfunded exposures	112,147	1,090,639	20,419	101,898	(107,891)	1,217,212

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

Aging analysis of past due but not impaired financial assets

	Less than 30 days 2019 US$ '000	***31 to 60 days 2019 US$ '000***	***61 to 90 days 2019 US$ '000***	***More than 90 days 2019 US$ '000***	***Total 2019 US$ '000***
Loans and advances	-	-	-	-	-

	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

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk

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

At 31 December 2019

	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle-East and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Provision for expected credit losses US$ '000	Total US$ '000
Balances with banks	351,924	8,809	749	14,404	52,345	(5)	428,226
Deposits with banks and other financial institutions	133,806	136,074	27,000	82,246	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	-	-	3,028
Investment securities *	104,611	80,032	20,272	32,837	-	(2,822)	234,930
Loans and advances	-	4,774	128,355	50,888	3,665	(94,942)	92,740
Interest receivable	2,649	1,112	1,890	565	21	-	6,237
Other assets	499	-	-	-	-	-	499
Gross funded exposures	**593,489**	**233,829**	**178,266**	**180,940**	**56,031**	**(98,004)**	**1,144,551**
Credit related contingencies	-	2,434	54,811	20,910	716	(111)	78,760
Gross unfunded exposures	**-**	**2,434**	**54,811**	**20,910**	**716**	**(111)**	**78,760**
Gross funded and unfunded exposures	**593,489**	**236,263**	**233,077**	**201,850**	**56,747**	**(98,115)**	**1,223,311**

At 31 December 2018

	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle-East and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Provision for expected credit losses US$ '000	Total 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

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

22 RISK MANAGEMENT (continued)

22.2 Credit risk (continued)

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

At 31 December 2019	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision expected credit losses US$ '000*	*Total US$ '000*
Balances with banks	351,647	76,584	-	(5)	428,226
Deposits with banks and other financial institutions	-	379,126	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	3,028
Investment securities *	163,913	43,046	30,793	(2,822)	234,930
Loans and advances	49,970	55,708	82,004	(94,942)	92,740
Interest receivable	4,322	1,445	470	-	6,237
Other assets	-	-	499	-	499
Gross funded exposures	569,852	558,937	113,766	(98,004)	1,144,551
Credit related contingencies	-	78,871	-	(111)	78,760
Gross unfunded exposures	-	78,871	-	(111)	78,760
Gross funded and unfunded exposures	569,852	637,808	113,766	(98,115)	1,223,311

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 of funded and unfunded exposures	527,750	667,413	129,940	(107,891)	1,217,212

* ECL held against FVOCI investments have not been included here as it does not affect the carrying value of investments.

22.3 Market risk

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

22 RISK MANAGEMENT (continued)

22.3 Market risk (continued)

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

Sensitivity analysis - interest rate risk

	Impact on statement profit or loss	
	2019	***2018***
	US$ '000	***US$ '000***
25 bps increase/decrease		
US Dollar	± 403	± 222
AED	± 83	± 105
SAR	± 5	± 55
Euro	± 1	± 12
GBP	± 1	± 1

* An equal decrease in interest rate of the above mentioned amount would have an equal and opposite impact on the statement of profit or loss for the year.

22.3.2 Currency risk
Currency risk arises 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*	
		2019	***2018***
		US$ '000	***US$ '000***
Euro	± 5%	**66**	8
GBP	± 5%	**1**	1

* An equal decrease in exchange rate of the above mentioned amount would have an equal and opposite impact on the statement of profit or loss for the year.

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

22.3.3 Equity price risk
Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. For the year ended 31 December 2019, there is no effect on the Bank's profit and equity as the investment portfolio does not contain any equity investments (2018: same).

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

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

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

At 31 December 2019	*Up to 1 year*						*Provision for*	
	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	150,642	194,383	83,215	428,240	-	-	(5)	428,235
Deposits with banks and other financial institutions	257,513	86,613	35,000	379,126	-	-	(235)	378,891
Investments classified as fair value through profit and loss	3,028	-	-	3,028	-	-	-	3,028
Investment securities	5,008	-	28,364	33,372	204,380	-	(2,822)	234,930
Loans and advances	270	5,150	14,981	20,401	167,281	-	(94,942)	92,740
Property, equipment and software	-	-	-	-	-	8,987	-	8,987
Interest receivable	4,047	1,667	523	6,237	-	-	-	6,237
Other assets	46	501	10	557	392	-	-	949
Total assets	420,554	288,314	162,093	870,961	372,053	8,987	(98,004)	1,153,997
LIABILITIES								
Deposits from banks and other financial institutions	196,246	93,672	356,852	646,770	-	-	-	646,770
Due to banks and other financial institutions	89,196	-	-	89,196	-	-	-	89,196
Due to customers	75,504	-	-	75,504	-	-	-	75,504
Interest payable	1,077	247	864	2,188	-	-	-	2,188
Other liabilities	336	7,081	8	7,425	1,779	-	111	9,315
Total liabilities	362,359	101,000	357,724	821,083	1,779	-	111	822,973
Net liquidity gap	58,195	187,314	(195,631)	49,878	370,274	8,987	(98,115)	331,024
Cumulative liquidity gap	58,195	245,509	49,878	-	420,152	429,139	331,024	-

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

At 31 December 2018	Up to 1 month US$ '000	Up to 1 year: 1 to 3 months US$ '000	Up to 1 year: 3 to 12 months US$ '000	Up to 1 year: Total US$ '000	More than 1 year US$ '000	No specific maturity US$ '000	Provision for 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	-

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

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

At 31 December 2019	*Up to 1 year*						*Provision for*	
	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*
Liabilities								
Deposits from banks and financial institutions	196,396	93,952	362,937	653,285	-	-	-	653,285
Due to banks and other financial institutions	89,200	-	-	89,200	-	-	-	89,200
Due to customers	75,524	-	-	75,524	-	-	-	75,524
Total undiscounted liabilities	361,120	93,952	362,937	818,009	-	-	-	818,009
Derivatives:								
Interest rate swap (cash flow hedge)	2	-	-	2	-	-	-	2
Forward foreign exchange contracts	362	-	-	362	-	-	-	362
	364	-	-	364	-	-	-	364
Commitments and contingent liabilities								
Letters of credit	468	20,721	57,505	78,694	-	-	(110)	78,584
Letters of guarantee	117	-	60	177	-	-	(1)	176
	585	20,721	57,565	78,871	-	-	(111)	78,760

22 RISK MANAGEMENT (continued)

22.4 Liquidity risk (continued)

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	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

22 RISK MANAGEMENT (continued)

22.5 Fair value of financial instruments

Fair value hierarchy - financial instruments measured at fair value

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

At 31 December 2019

	Level 1 US$ '000	*Level 2* US$ '000	*Total* US$ '000
Investments classified as fair value through profit and loss	3,028	-	3,028
Investments classified as fair value through other comprehensive income	158,396	-	158,396
Derivative financial instruments	-	(442)	(442)
	161,424	(442)	160,982

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

The Bank had no investments measured at fair value qualifying for level 3 of the fair value hierarchy as at 31 December 2019 and as at 31 December 2018.

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2019, 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 (2018: 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 2019

	Fair value US$ '000	*Carrying value* US$ '000
Amortised cost investments	81,772	76,534
Loans and advances	53,991	47,166
	135,763	123,700

At 31 December 2018

	Fair value US$ '000	*Carrying value* US$ '000
Amortised cost investments	91,263	92,594
Loans and advances	49,571	46,242
	140,834	138,836

22 RISK MANAGEMENT (continued)

22.5 Fair value of financial instruments (continued)

Balances with banks, deposits with banks and other financial institutions, loans and advances (other than those disclosed in the table above), interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 December 2019 and 31 December 2018.

23 DERIVATIVE FINANCIAL INSTRUMENTS

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

These include forward exchange contracts which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. 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 favorable or unfavorable.

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:

	2019		*2018*	
	Notional amount US$ '000	***Gain / (loss) US$ '000***	*Notional amount US$ '000*	*Gain / (loss) US$ '000*
Interest rate swap (cash flow hedge)	125,000	(442)	-	-
Forward foreign exchange contracts	362	-	4	4
	125,362	**(442)**	4	4

The fair values of derivative instruments are set out below:

31 December 2019	***Negative fair value US$ '000***	***Notional amount total US$ '000***	***Notional amounts by term to maturity within 3 months US$ '000***
Derivatives held as hedges			
Interest rate swap	(442)	125,000	125,000
	(442)	**125,000**	**125,000**

24 RELATED PARTY BALANCES AND TRANSACTIONS

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

Transactions with related parties included in the statement of profit or loss and statement of financial position are as follows:

	31 December 2019				31 December 2018			
	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	4	-	168	172	2	-	212	214
Interest expense	15,138	-	682	15,820	12,526	-	555	13,081
Fee and commission income	912	-	142	1,054	1,114	-	97	1,211
Statement of financial position								
Assets								
Cash and balances with banks	746	-	6,645	7,391	324	-	5,583	5,907
Deposit with banks and financial institutions	-	-	-	-	-	-	9,714	9,714
Loans and advances	-	-	4,561	4,561	-	-	4,629	4,629
Interest receivable	-	-	38	38	-	-	44	44
Other assets	-	45	-	45	-	50	-	50
Liabilities								
Deposits from banks and other financial institutions	494,918	-	25,000	519,918	449,719	-	25,000	474,719
Due to banks and other financial institutions	19,572	-	1,063	20,635	1,676	-	2,104	3,780
Interest payable	1,649	-	43	1,692	1,440	-	18	1,458
Other liabilities	3	333	-	336	104	292	-	396
Assets under management (note 25)	21,535	-	-	21,535	21,967	-	-	21,967
Contingent liabilities								
Letters of credit and letters of guarantee	115	-	23,288	23,403	1,840	-	3,856	5,696

24 TRANSACTIONS WITH RELATED PARTIES (continued)

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

	2019 *US$ 000*	*2018* *US$ 000*
Short term benefits	**4,499**	3,788
End of term benefits	**303**	217
Total compensation	**4,802**	4,005

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US$ 726 thousand (2018: US$ 705 thousand) and reimbursement of travel, accommodation and other expenses amounting to US$ 110 thousand (2018: US$ 149 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

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

25 ASSETS UNDER MANAGEMENT

The Bank provides trade finance services to certain customers, which involve the Bank acting as an agent for those assets in a fiduciary capacity. Assets that are held in financing capacity are not included in these financial statements. At 31 December 2019, the Bank had fiduciary assets under management of US$ 21,535 thousand (2018: US$ 21,967 thousand).

26 CAPITAL ADEQUACY, NET STABLE FUNDING AND LIQUIDITY COVERAGE RATIOS

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:

	2019 *US$ 000*	*2018* *US$ 000*
Capital base:		
Tier 1 capital	**328,615**	296,278
Tier 2 capital	**6,937**	7,840
Total capital base (a)	**335,552**	304,118
Risk weighted assets (b)	**658,036**	709,897
Capital adequacy (a/b * 100)	**50.99%**	42.84%
Minimum requirement	**12.50%**	12.50%

In accordance with the Liquidity Risk Management Module issued by the CBB, the Bank computes the Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) and maintain these ratios greater than 100%, respectively. As of 31 December 2019, the Bank's NSFR is 196%, LCR is 572% and simple average LCR is 493%.

BASEL III PILLAR 3 DISCLOSURES

At 31 DECEMBER 2019

Table of Contents

1. Executive Summary

This document provides the disclosures pertaining to risk and capital management for Alubaf Arab International Bank B.S.C. (c) ("the Bank") as of 31 December 2019. The purpose of the document is to enhance the financial transparency through better public disclosure (as required by CBB public disclosure module) and facilitate the market discipline to align with Basel III accord.

Central Bank of Bahrain ("CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain has issued the directives relating to public disclosures. The disclosure requirements in PD module of CBB rulebook follow the requirements of Basel III Pillar 3 and are in addition to, or in some cases serve to clarify, the disclosure requirements of IFRS. This document gathers all the elements of the disclosures required under Pillar III and complies with the public disclosure module of CBB (including companies law), in order to enhance corporate governance and financial transparency. The Pillar 3 disclosures are to be read in conjunction with the financial statements of the Bank presented in accordance with International Financial Reporting Standards (IFRS) as of 31 December 2019 as well as the capital disclosures and liquidity disclosures published separately on the Bank's website.

For regulatory reporting purposes, the Bank has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk to determine the capital requirements under Pillar 1.

The Bank's total risk-weighted assets as of 31 December 2019 amounted to US$ 658.0 million (2018: US$ 709.9 million), comprising 89.6% credit risk, 0.3% market risk and 10.1% operational risk. The total capital adequacy ratio was 50.99% (2018: 42.84%), compared to the minimum regulatory requirement of 12.5%.

Figures in $ 000s	FYE 2019	FYE 2018
Tier 1 capital	328,615	296,278
Tier 2 capital	6,937	7,840
Total Capital	**335,552**	**304,118**
Credit risk weighted assets	589,831	627,192
Market risk weighted assets	1,675	150
Operational risk weighted assets	66,528	82,555
Total Risk Weighted assets	**658,034**	**709,897**
Tier 1 Capital Ratio	**49.94%**	**41.74%**
Total Capital Ratio	**50.99%**	**42.84%**

2. Basel III Framework

The CBB's Basel III framework is based on three pillars, consistent with framework developed by the Basel Committee, as follows: -

- Pillar 1: the calculation of risk-weighted assets (RWAs) and capital requirements for credit, market and operational risks.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: the disclosure of risk management and capital adequacy information.

2.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs. As at 31st December 2019, all banks incorporated in Bahrain are required to maintain a minimum capital adequacy ratio of 12.5 per cent and a tier 1 ratio of 10.5 per cent. In the event that the capital adequacy ratio falls below 12.5 per cent, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarizes the Bank's approach for calculating RWAs and capital requirements for each risk type in accordance with the CBB's Basel 3 capital adequacy framework: -

Approaches for determining regulatory capital requirements		
Credit risk	Market risk	Operational risk
Standardized approach	Standardized approach	Basic indicator approach

a) Credit Risk

For regulatory reporting purposes, the Bank applies the standardized approach for credit risk. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

b) Market Risk

For the regulatory market risk capital requirement, the Bank applies the standardized approach based on net open position of foreign currencies as per CA module of the CBB rule book.

c) Operational Risk

Under the CBB's Basel 3 capital adequacy framework, all banks incorporated in Bahrain are required to apply the basic indicator approach for operational risk unless approval is granted by the CBB to use the standardized approach. Currently, the Bank uses the Basic Indicator Approach for calculating its capital requirement for operational risk.

2.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk and capital management framework and, ultimately, its capital adequacy. Under the Pillar 2 guidelines, each Bank is required to internally assess its capital requirements taking into consideration all material risks through the ICAAP assessment process and establish internal minimum capital limits.

Pillar 2 comprises of two processes: -
- An Internal Capital Adequacy Assessment Process (ICAAP), and
- A supervisory review and evaluation process.

Internal Capital Adequacy Assessment Process (ICAAP):

The Bank has a capital management and planning framework which ensures adequate capital is available for any expected/unexpected loss and to support its strategic growth opportunities. The capital planning of the Bank is carried out through Internal Capital Adequacy Assessment Process (ICAAP) which covers inter-alia:

- Forecast of the strategic and business growth plan of the Bank over the next 3 years
- Quantitative and qualitative assessment of various external and internal risk factors
- Assessment of capital adequacy under normal and stress scenarios
- Planning of capital action, if any, required to accomplish the strategic and financial objectives of the Bank.

The Bank has a comprehensive internal capital adequacy assessment process (ICAAP) that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book, reputational risk and strategic risks. The ICAAP also keeps in perspective the Bank's strategic plans, credit and investment growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine the capital requirement and planning to ensure that the Bank is adequately capitalized in line with the overall risk profile.

The Bank has complied with regulatory capital requirements throughout the year. The Bank's capital adequacy ratio of 50.99% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process (SREP):

The supervisory review and evaluation process represent the CBB's review of the Bank's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that Banks identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar 1 framework. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include:-

- Liquidity risk
- Concentration risk
- Interest rate risk in the banking book (IRRBB)
- Reputational risk
- Strategic risk

These are covered either by capital, or risk management and mitigation processes under Pillar 2.

2.3 Pillar 3

In the CBB's Basel 3 framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management. Under the current regulations, partial disclosures consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting. In this report, the Bank disclosures are beyond the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on- and off-balance sheet. The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS). These disclosures should be read in conjunction with the Bank's audited financial statements for the year ended December 31, 2019.

3. Organizational structure, Risk and Capital Management

3.1 Organization structure

The Bank operates under a wholesale banking license issued by Central Bank of Bahrain, to provide Treasury, Loan and Trade finance banking solutions. The Bank's customer base includes primarily Corporate, Banks, Investment Companies, Governments and Semi-government Entities, Public Sector Companies in the GCC and MENA markets as well select other countries across the world.

The Bank's largest single shareholder is Libyan Foreign Bank (99.50%); other shareholders comprise of National Bank of Yemen (0.28%) and Yemen Bank for Reconstruction and Development (0.22%). Libyan Foreign Bank (LFB) is 100% owned by the Central Bank of Libya.

The Bank's financial statements are prepared and published in accordance with IFRS. Regulatory capital is reported to the CBB on a regular basis (at least on quarterly basis by way of submitting the Prudential Information Return report) in accordance with CBB capital adequacy guidelines.

3.2 Risk and Capital Management

The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Bank's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risk it faces.

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board defines the risk appetite and risk tolerance standards and oversees that adequate risk management standards are in place. The Board also approves appropriate risk policies that form part of its risk management framework, based on the recommendation of management. The Board is supported by the Audit, Risk and Compliance Committee (ARCC) which oversees the risk management, compliance and internal audit activities as well as ensuring integrity of the financial statements.

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, interbank limits, and general credit policy matters, which are reviewed and approved by the Board of Directors. The Bank has established various management committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk and the same is codified in the Delegations of Authority (DOA) document approved by the Board.

The Risk Management Department of the Bank provides the necessary support to senior management and the business units in all areas of risk management. The risk management function under the Chief Risk Officer is independent of the business units of the Bank, reporting to the Board Audit, Risk and Compliance Committee and administratively to the Chief Executive Officer. The Financial Control Department is responsible for the capital planning process.

Independent internal audit of the risk management process is conducted and its findings are presented to the Audit, Risk and Compliance Committee.

Following is the governance structure for Risk and Capital Management in the Bank:

Board of Directors			
Board Audit Risk and Compliance Committee (ARCC)*			
Chief Executive Officer (CEO)			
Assets and Liabilities Committee (ALCO)	**Management Risk Committee (MRC)**	**Credit Investment Committee (CIC)**	**<u>Special Asset Management Committee (SAMC)</u>**

* Chief Risk Officer (CRO) is an independent function which reports to the ARCC, and administratively to the CEO.

The risk, liquidity and capital management responsibilities are set out in the table below:-

Chief Executive Officer	
Head of Financial Control	Chief Risk Officer (CRO)
Capital management framework Regulatory Reporting	Risk management framework and policies Credit Management Credit risk Market risk Operational risk Liquidity and Other risks

The Bank's capital management policies aim to ensure that the Bank complies with regulatory capital requirements as well as to ensure adequate availability of capital to meet the Bank’s strategic growth requirements and maximize shareholder value.

3.3 Risk Types

The major risks associated with the Bank’s business activities are credit, market and operational risks. Additionally, other material risks that the Bank is exposed to include – liquidity, concentration, interest rate, reputational and strategic risks. These risks are continuously monitored and mitigated through effective process of ongoing identification, measurement, controlling and monitoring throughout the year. The following section provides the way these risks are managed and controlled.

3.4 Risks in Pillar I

Basel 3 Pillar 1, which forms the basis for the calculation of the regulatory capital requirement, addresses three specific risk types: credit, market and operational risk:

a) Credit risk

The credit risk is the main financial risk relative to the other risks for the Bank because of its nature of business to finance and invest. Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank measures and manages Credit Risk by adhering to the following principles:

- Consistent standards are applied across all customers in the Risk-evaluation process using a rating system. The Bank has in place a systematic rating system which provides a framework for objective risk assessment.
- The exposure should be reasonable in relation to the customer's creditworthiness, capital position or Networth components, and the customer should be able to substantiate its repayment ability
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level
- The Bank regularly follows up on developments in the customer's financial position in order to assess whether the basis for the granting of credit has changed.
- The Bank assumes risks within the limits guided under its risk management framework and other rules prescribed by the CBB from time to time.

The Bank has in place a credit risk management framework comprising of detailed credit risk management policies and procedures, regular credit assessments and monitoring, internal rating grades, credit administration activities, collateral management and early warning indicator monitoring. Regular reviews are carried out for each exposure and risks identified are mitigated in a number of ways, which include obtaining collaterals or guarantees. The counterparty credit risks are continuously monitored for changes in external environments and other economic challenges that may impact the counterparty's credit profile as part of early warning indicator monitoring. Similarly, prudent norms have been implemented to govern the Bank's investment activities, which specify to the Bank's treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features and other relevant factors.

The business units of the Bank are responsible for business generation and initial credit review of proposals in accordance with the stipulated policy requirements. The Bank has an independent Credit Management unit which is responsible to perform a rigorous independent credit analysis for the counterparty and assign an internal rating reflecting the level of credit risk. In addition, the independent credit administration unit ensures that adherence to the terms and conditions of all credit facilities are strictly implemented and collateral coverage is monitored. The Bank has an internal grading system and review process ensures identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 16-point scale (AAA to D), which considers the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed on at least an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile.

b) Market Risk

Market risk is the potential impact of adverse price movements such as benchmark interest rates, foreign exchange prices, equity prices and commodity prices on the Bank's earnings and capital. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and value of an asset.

The categories of market risk to which the Bank is exposed are as follows:

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads. This Interest rate risk on the banking book arises due to the re-pricing mismatch in the assets and liabilities due to the tenure mismatch.

Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. The principal foreign exchange risk arises from the Bank's foreign exchange positions in the banking book including its proprietary positions as well as positions arising from client servicing.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices. The Bank does not maintain any equity exposures as at reporting date and therefore is not exposed to equity price risks.

The Bank does not have material exposure to market risk on account of its limited trading activities. The Bank's market risk management framework comprises of a various concentration limits to diversify its market risk exposures as well as stop loss limits to minimize losses. The main market risk exposures arise from its forex risk exposures, wherein the Bank maintains net open position limits for each active currency which are monitored on a daily basis.

c) 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.

The operational risk management framework (ORMF) is codified in the Bank's Operational risk management policy and broadly comprises of the following:

- Well defined governance framework and delegation of authorities
- Detailed policies and procedures for all activities of the Bank
- Segregation of duties and internal controls
- Risk and Controls Self-assessments
- Identifying and monitoring of Key Risk Indicators
- Incident reporting and collection of losses from operational incidents, including near misses.

Risk and Control Self-Assessment (“RCSA”) is performed on a periodic basis, by obtaining senior management inputs to enhance the control environment of the Bank. Heads of departments and functions throughout the Bank are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data. Operational incidents are monitored on an ongoing basis through the Bank’s operational risk management system, and the same are reported to management on a monthly basis and to the Board on a quarterly basis. Moreover, the operational incident reports are reviewed jointly by risk management and the respective department for root cause analysis and to introduce additional controls to minimize chances of similar incident recurring.

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 as well support line is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the Bank policy, and to develop internal procedures that comply with these policies. Operational risk is also managed through effective staff training and frequent review and enhancement of internal controls of the various activities of the Bank. Further, the Bank has in place the Business Continuity and Disaster Recovery Policy (BCP/DRP) to ensure that the Bank is prepared and has contingency plans in place in the event of a disaster so that business is minimally impacted in such situations.

3.5 Risk in Pillar II

a) Liquidity Risk

Liquidity risk is defined as the risk to the Bank’s earnings and capital arising from its inability to meet timely obligations as and when they come due without incurring unacceptable losses. The Bank follows a conservative liquidity risk management strategy aligned with its business model. The strategy aims to address:

- Funding liquidity risk and
- Market liquidity risk

The Bank utilizes the liquidity management tools in line with Basel 3 and revised CBB guidelines on liquidity risk management. The Liquidity Coverage Ratio (LCR) addresses the sufficiency of a stock of high quality liquid assets to meet short-term liquidity needs under specified scenarios. Under LCR, the objective is to ensure that Bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs, under specific prescribed cash inflows and outflows scenarios, for a 30 day time horizon.

The Net Stable Funding Ratio (NSFR) addresses longer-term structural liquidity mismatches. Under NSFR, the objective is to promote more medium and long-term funding of assets through the establishment of a minimum acceptable amount of stable funding over a one year horizon. The Bank maintains its liquidity standards with stable long term and short term liquidity ratios (NSFR, LCR, Liquidity Ratio etc.) above the regulatory limits.

The Bank has in place a liquidity risk management framework comprising of liquidity and funding strategy, liquidity risk limits, procedures for monitoring and reporting liquidity risks, liquidity stress testing and contingency planning. The liquidity risk management framework is codified in the Bank's Liquidity Risk Policy approved by the Board.

The Bank performs periodic stress testing of its liquidity risk profile to assess its impact on capital and liquidity position.

b) Credit concentration risk

Credit Concentration Risk is the risk that the Bank's exposures are concentrated to a sector/industry, geography, product, single party and customer groups, or countries which impacts the Bank's capital position. It is the risk of exposure to a single counterparty and group of related counterparties, as well as the exposure to selected economic sectors that has the potential to produce losses large enough (relative to the Bank's size) to undermine the health of the Bank. The existence of exposure concentration can lead to underestimation of Pillar I risks. The Bank monitors counterparty, sector and geographic concentration risks and manages the same through limits on the same. Regular reports are prepared and analyzed to ensure that undesired concentrations are avoided.

Concentration risk is captured in the Bank's Pillar 2 capital framework which considers single-name concentrations, Geographical and Industry concentrations in the credit portfolio and capital requirements to cover concentration risks are assessed.

c) Interest rate risk in the Banking book

Interest rate risk is the exposure of a bank's financial condition to adverse movements in Interest rates. Changes in Interest rates affect a bank's earnings by changing its net Interest income and the level of other Interest-sensitive income and operating expenses. Changes in Interest rates also affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows change when Interest rates change.

The Bank monitors the re-pricing gap and the market value of Asset and Liabilities as part of Interest Rate Risk management and also assesses the impact of a shift in market Interest rates on the expected net profit income of the Bank.

The Bank assesses the Earnings at Risk due to a shift of 200 bps in benchmark interest rates for allocating capital to cover its interest rate risk in the banking book.

d) Reputational Risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Bank, its brand and relationship by its various stakeholders that is caused by a variety of internal and external factors. The Bank has developed a reputational risk management framework that ensures reputational risk is managed and mitigated and the same is codified in the Reputational risk management policy of the Bank.

e) Strategic Risk

Strategic risks refer to the risk that the Bank would be exposed in the event of business strategy and plan not materializing. It is the risk to earnings and profitability arising from strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, a strategic risk arises due to adopting wrong strategies and choices that can cause loss to the bank in the form of a reduction in shareholder value and loss of earnings.

The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Bank's performance and alignment with the strategic plan.

4. Regulatory capital requirements and the capital base

4.1 Capital base

The Bank's Capital base comprise of Tier I capital, which includes share capital, statutory reserve, retained earnings and fair value changes FVOCI investments and Tier II capital, which includes expected credit loss, stage 1 and 2 (ECL Stage 1 & 2) provision.

The Bank's issued and paid up capital was US$ 250 million as at 31 December 2019, comprising of 5 million equity shares of US$ 50 each.

The regulatory capital base is set out in the table below: -

Break down of Capital Base	US$ '000s	US$ '000s
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	25,631	-
Retained earnings	23,478	-
Current interim net profit	28,741	-
Cumulative fair value changes on FVOCI Investments (Debt)	1,787	-
Total CET I capital prior to regulatory adjustments	**329,637**	-
Less: intangibles other than mortgage rights	**(1,464)**	-
Add: cash flow hedge reserve	**442**	-
Total CET I capital after regulatory adjustment	**328,615**	-
Expected credit losses (ECL) Stage 1 & 2	-	6,937
Total	**328,615**	**6,937**
Total available capital		**335,552**

Common equity tier 1 (CET 1) comprises of share capital, statutory reserve and retained earnings, adjusted with regulatory adjustments of revaluation gain or loss arising on the measurement to fair value of derivative cash flow hedging amortization and includes unrealized gains or losses arising on the measurement to fair value of investment securities. The Bank does not maintain any additional-Tier 1 (AT1) capital.

Tier II capital includes expected credit loss, stage 1 and 2 (ECL Stage 1 & 2) provision.

4.2 Regulatory capital requirements

For regulatory reporting purposes, the Bank calculates the capital requirements as per follows:

- **Credit Risk -** Credit risk capital requirements are based on the standardized approach. Under the standardized approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel 3 capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk-weightings. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. The Bank uses ratings assigned by Standard & Poor's, Moody's and Fitch.
- **Market Risk –** The Bank uses a Standardized approach to calculate the regulatory capital requirements relating to market risk.

- **Operational Risk -** The capital requirement for operational risk is calculated in accordance with the basic indicator approach. Under this approach, the Bank's average gross income over the preceding three financial years is multiplied by alpha coefficients of 15% as prescribed in the CBB's Basel 3 capital adequacy framework.

- **Capital adequacy ratio calculation:**

The Bank's capital adequacy ratio of 50.99% is well above the minimum regulatory requirement of 12.5%.

	US$ '000
Credit risk weighted assets	589,831
Market risk weighted assets	1,675
Operational risk weighted assets	66,528
Total Risk weighted assets (RWA)	**658,034**
Total Eligible Capital Base (refer 4.1)	**335,552**
CET I ratio	**49.94%**
Capital adequacy ratio	**50.99%**

5. Credit risk-Pillar 3 disclosures

This section describes the Group's exposure to credit risk and provides detailed disclosures on credit risk in accordance with the CBB's Basel 3 framework in relation to Pillar 3 disclosure requirements.

5.1 Definition of exposure classes per Standard Portfolio

The Bank has a diversified on- and off-balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel 3 capital adequacy framework for the standardized approach for credit risk. A high-level description of the counterparty exposure classes and 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 respective central banks. Claims on Bahrain and GCC governments are risk weighted at 0%. Foreign currency claims on other sovereign exposures are risk-weighted based on their external credit ratings or if unrated at 100%.

(b) Claims on PSE

Public sector entities (PSEs) are risk-weighted according to their external ratings with the exception of Bahrain PSEs, and domestic currency claims on other PSEs which are assigned a 0 per cent risk weight by their respective country regulator.

(c) 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.

(d) 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.

(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%.

(h) 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.

5.2 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	567,048	-	**567,048**	**-**	**72,220**	**9,028**
Claims on banks	517,164	78,871	**596,035**	**4,807**	**432,698**	**54,087**
Claims on corporate	64,837	-	**64,837**	**-**	**74,977**	**9,372**
Other exposures	9,936	-	**9,936**	**-**	**9,936**	**1,242**
Total	**1,158,985**	**78,871**	**1,237,856**	**4,807**	**589,831**	**73,729**

*Balances are gross up of ECL

5.2 (a). Gross credit exposure before credit risk mitigation

US$ '000	Gross credit exposure	Average monthly gross exposure*
Claims from Sovereigns	567,048	521,819
Claims from Banks	517,164	554,154
Claims on Corporate	64,837	59,488
Other exposures	9,936	2,405
Total funded exposure	**1,158,985**	**1,137,866**
Unfunded exposures	**78,781**	**81,318**
Gross credit exposures	**1,237,856**	**1,219,184**

* Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2019.

5.3 Exposure by external credit rating

The Bank uses external credit ratings from Standard & Poor's, Moody's and Fitch, which are accredited External Credit Assessment Institutions (ECAI). The Bank assigns risk weights through the mapping process provided by CBB to the rating grades. The Bank uses the highest risk weight associated, in case of two or more eligible ECAI are chosen.

The breakdown of the Bank's exposure into rated and unrated categories is as follows:

US$ '000	Funded exposure	Unfunded exposure	Rated High standard grade exposure	Rated Standard grade exposure	Unrated exposure	Eligible collateral	Risk weighted assets	Capital charge
Claims on Banks	517,164	78,871	156,862	329,883	109,290	4,807	432,698	54,087
Claims on Sovereigns	567,048	-	11,167	548,070	7,811	-	72,220	9,028
Claims on Corporate	64,837	-	-	41,208	23,629	-	74,977	9,372
Other exposures	9,936	-	-	-	9,936	-	9,936	1,242
Total	**1,158,985**	**78,871**	**168,029**	**919,161**	**150,666**	**4,807**	**589,831**	**73,729**

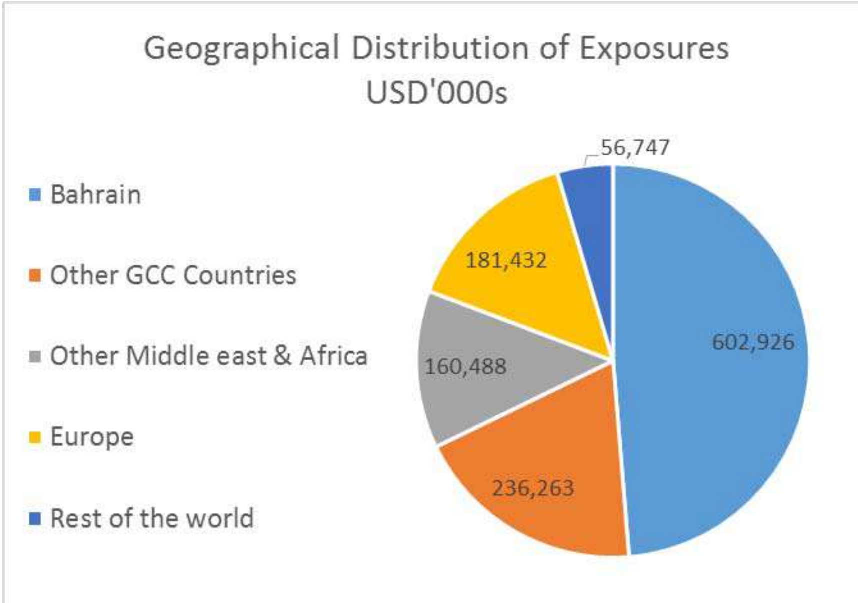
5.4 Geographical distribution of exposures

Geographical distribution of exposures based on residence is summarized below:

US$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	602,926	602,926	-
Other GCC Countries	236,263	233,829	2,434
Other Middle east & Africa	160,488	105,677	54,811
Europe	181,432	160,522	20,910
Rest of the world	56,747	56,031	716
Total	**1,237,856**	**1,158,985**	**78,871**

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

US$ '000	Bahrain	Europe	Other GCC Countries	Other Middle East and Africa	Rest of the world	Total
Claims from Banks	139,703	119,591	165,299	36,540	56,031	**517,164**
Claims from Sovereigns	448,251	-	49,660	69,137	-	567,048
Claims on Corporate	5,036	40,931	18,870	-	-	64,837
Other exposures	9,936	-	-	-	-	9,936
Total funded exposure	**602,926**	**160,522**	**233,829**	**107,346**	**56,031**	**1,158,985**
Unfunded exposures	-	**20,910**	**2,434**	**54,811**	**716**	**78,871**
Gross credit exposures	**602,926**	**181,432**	**236,263**	**160,488**	**56,747**	**1,237,856**

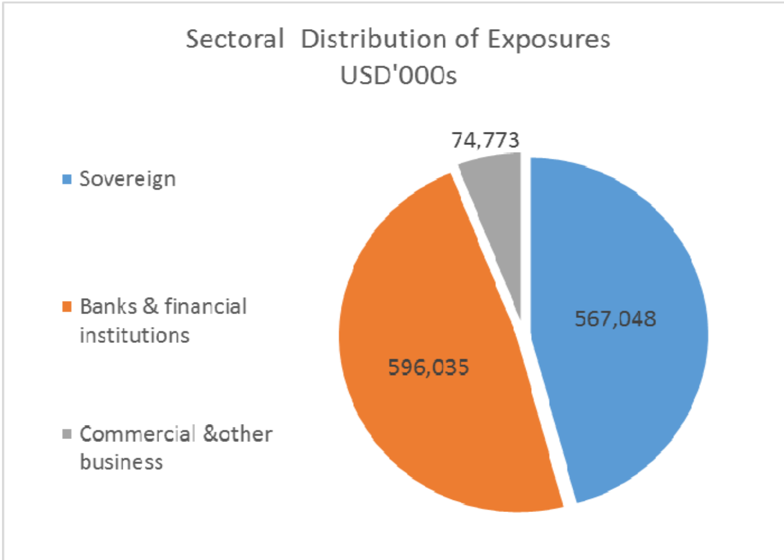


5.5 Industry sector analysis of exposures

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	567,048	567,048	-
Banks & financial institutions	596,035	517,164	78,871
Commercial & other business	74,773	74,773	-
Total	**1,237,856**	**1,158,985**	**78,871**

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

USD '000s	Banks & financial institutions	Commercial & other businesses	Sovereign	Total
Claims from Banks	517,164	-	-	**517,164**
Claims from Sovereigns	-	-	567,048	**567,048**
Claims on Corporate	-	64,837	-	**64,837**
Other exposures	-	9,936	-	**9,936**
Total funded exposure	**517,164**	**74,773**	**567,048**	**1,158,985**
Unfunded exposures	**78,871**	**-**	**-**	**78,871**
Gross credit exposures	**596,035**	**74,773**	**567,048**	**1,237,856**



5.6 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	Total
Claims on Sovereigns	77,234	195,316	106,782	**379,332**	187,716	**567,048**
Claims on Banks	343,174	87,228	38,724	**469,126**	48,038	**517,164**
Claims on Corporate	91	5,267	16,579	**21,937**	42,900	**64,837**
Other exposures	46	500	10	**556**	9,380	**9,936**
Total	**420,545**	**288,311**	**162,095**	**870,951**	**288,034**	**1,158,985**

5.7 Maturity analysis of unfunded exposures

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	Total
Claims on Banks	585	20,721	57,565	**78,871**	**78,871**
Total	**585**	**20,721**	**57,565**	**78,871**	**78,871**

5.8 Off- Balance sheet exposures

i. 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 factors range from 20 per cent to 100 per cent depending on the type of contingent item, and is intended to convert off-balance sheet notional amounts into equivalent on balance sheet exposures.

Credit commitments and unutilized approved credit facilities represent commitments that have not been drawn down or utilized. The notional amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0 per cent and 100 per cent depending on the approach, product type and whether the unutilized amounts are unconditionally cancellable or irrevocable. The Bank has no obligation toward unutilized credit facilities as of Dec 31, 2019.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities.

At 31st December 2019, the Bank held cash credit-related contingent items amounting to US$ 78.8 million.

ii. Derivatives and Foreign exchange instruments:

Derivatives including futures, forwards, swaps and options in the interest rate and foreign exchange. The Bank's derivative and foreign exchange activities are predominantly short-term in nature.

Derivatives and foreign exchanges exposures are exposed to market risk and settled on net basis. Due currency movement or interest rate changes, the contract may result into net asset or liability. Refer to Audited financial statements for the year ended 31 December 2019, Note 23 for material outstanding contracts.

5.9 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.

For further details on refer note 22.2 of the annual audited financial statements for the year ended 31 December 2019.

5.10 Impairment of assets

The Bank had adopted IFRS 9 methodology of recording impairment of assets, effective 1 January 2018. IFRS 9 adoption fundamentally changes to a forward looking and expected credit loss (ECL) approach. The Bank records 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. Refer Disclosures made under Section 7 of Audited Financial Statement for the year ended December 2019, for details of impaired loans and relative specific provision made during 2019.

i. Impaired loans and related provisions (stage 3):

USD'000s	1 to 3 year	over 3 years	Total
Gross impaired loans (stage 3)	26,057	66,950	**93,007**
Less: Specific Provision (stage 3)	(26,057)	(66,950)	**(93,007)**
Net outstanding 31 December 2019	**-**	**-**	**-**

ii. 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	3,651	2,636	99,471	**105,758**
Transfer to Stage 1	1	(1)	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	(2,635)	2,635	**-**
Net re-measurement loss allowance	303	-	18,133	**18,436**
(Write back)/(Recoveries)/Write off	(2,020)	-	(27,128)	**(29,148)**
Exchange difference	-	-	(104)	**(104)**
Balance as at 31 December 2019	**1,935**	**-**	**93,007**	**94,942**

iii. Movement in expected credit losses – Investments

USD'000s	Stage 1	Stage 2	Total
Investments			
At beginning of the year	463	1,488	**1,951**
Transfer to Stage 1	-	-	**-**
Transfer to Stage 2	(54)	54	**-**
Transfer to Stage 3	-	-	**-**
Net re-measurement loss allowance	(90)	2,790	**2,700**
(Write back)/(Recoveries)/Write off	-	-	**-**
Balance as at 31 December 2019	**319**	**4,332**	**4,651**

iv. Movement in expected credit losses - Other Financial Assets and Off-Balance Sheet Items:

USD'000s	Stage 1	Stage 2	Total
At beginning of the year	808	-	**808**
Transfer to Stage 1	-	-	**-**
Transfer to Stage 2	(1)	1	**-**
Transfer to Stage 3	-	-	**-**
Net re-measurement loss allowance	(458)	1	**(457)**
(Write back)/(Recoveries)/Write off	-	-	**-**
Balance as at 31 December 2019	**349**	**2**	**351**

v. Specific Provision by Geographic and Sector (Stage 3):

USD '000s	Europe	Other Middle East and Africa
Banks & Financial Institutions	-	41,772
Sovereigns	-	2,804
Corporate	20,418	28,013
Total	**20.418**	**72,589**

Expected Credit loss (Stage 1 & 2) provision of US$ 6,937 thousand as at 31 December 2019 is not for any specific geographic region.

5.11 Restructured facilities

	US$ '000
Gross balance of any restructured credit facilities as at 31 December 2019	5,908
Total	***5,908***

During the year ended 31 December 2019, no loans were restructured. The facilities restructured prior to year 2019 have been categorized as per IFRS -9 requirement and required Expected credit loss provision (ECL) has been considered during the year under IFRS 9.

6. Market risk - Pillar 3 disclosures

For allocating capital to market risks, the Bank uses the Standardized Measurement Method (SMM) for the measurement of market risk and capital allocation based on net open position of foreign currencies as defined under the CA module of CBB Rulebook:

US$ '000	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign Exchange Risk	1,675	209	2,375	100

Currency risk arises 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, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Bank manages this risk through net open position limits established for each currency and monitoring net open currency positions on a daily basis. Refer to Audited financial statements for year ended 31 December 2019, note 22.3.2 for further details.

7. Operational risk- Pillar 3 disclosures

Whilst operational risk cannot be eliminated in its entirety, the Bank endeavours to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

The Bank has in place an Operational Risk Management Framework (ORMF) to manage and control its operational risk in a cost-effective manner within targeted levels of operational risk consistent with the

Bank's risk appetite. The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal controls.

The Bank adopted the Basic indicator approach in line with CBB regulation to compute total capital charge in respect of operational risk was US$ 8,316 thousand on operational risk weighted exposure of US$ 66,528 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.

8. Pillar 2 Risk Disclosures

a. Credit concentration risk

Concentration risk is the credit risk stemming from not having a well-diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. The Bank has calculated the exposure concentration risk under Bank Pillar 2 capital framework using Herfindahl–Hirschman Index (HHI).

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 2019, the Bank's exposure in excess of 15% of the obligor limits to individual counterparties is shown below:

US $ '000	On Balance sheet exposure	Off-Balance sheet exposure	
Counterparty A *	414,168	Nil	414,168
Counterparty B *	52,345	Nil	52,345

* Comprise of exempted large exposure to sovereign and bank.

The Bank has already put in place credit risk management policies as well as and monitoring tools to proactively assess Exposure Concentration risk. The Bank has internal limits to monitor and control concentration in sectors, geography and counterparty. Regular reports are prepared and analyzed to ensure that undesired concentrations are avoided.

b. Liquidity Risk

The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Bank monitors the maturity profile of its assets and liabilities so that adequate liquidity is maintained at all times. The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in maintaining a stable funding base. The Bank monitors the stability of its funding base on an ongoing basis by ensuring maintaining strong relationship with its key depositors. The

Asset Liability Committee (ALCO) reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity risk.

Refer Liquidity risk disclosures made under Section 22.4 of Audited Financial Statement for the year ended December 2019. In accordance with Liquidity Risk Management module of CBB, the Bank computes the Net Stable Funding ratio (NSFR) and Liquidity Coverage ratio (LCR) and maintain these ratio greater than 100% respectively.
As of December 31, 2019, the Bank's NSFR is 196% and LCR is 572% (Refer Leverage and Liquidity Disclosures -31 December 2019).

c. Interest rate risk in Banking Book

The Bank is exposed to interest rate risk because of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates. The Bank measures its interest rate sensitivity by measuring the earnings at risk due to a 200 bps parallel shock in interest rates. The ALCO regularly reviews the interest rate gap and sensitivity profile and takes decisions to ensure stability of interest income stream over time.

The following table demonstrates the sensitivity to 200 basis points increase in interest rates, with all other variables held constant, of the Bank's statement of income for the year ended 31 December 2019.

US$ '000	31-Dec-19	
Currency	Sensitivity of net Interest income	
USD	+/-	3,223
AED	+/-	662
Other currencies	+/-	46

The decrease in the basis points will have an opposite impact on the net interest income.

The details of interest rate sensitive assets and liabilities are as follows:

US$ '000	Less than 3 months	Three months to one year	Over one year	Total
Assets				
Balances and deposits with banks and other financial institutions	689,141	118,216	-	807,357
Loans & advances	5,420	14,981	74,275	94,676
Total	**694,561**	**133,197**	**74,275**	**902,033**
Liabilities				
Deposits from banks and other financial institutions	289,917	356,853	-	646,770
Due to Banks and other financial institutions	89,196	-	-	89,196
Due to Customers	75,504	-	-	75,504
Total	**454,617**	**356,853**	**-**	**811,470**
On Balance sheet gap	**239,944**	**(223,656)**	**74,275**	**90,563**

d. Reputational Risk

Bank relies upon a reputation for integrity in order to maintain its existing business and to pursue its strategies for growth and new business. The Bank has no risk appetite for reputational risk and a number of initiatives are dedicated to the avoidance of reputational damage, including controls relating to maintaining regulatory compliance, anti-money laundering controls and data security.

Bank has prepared a scorecard to evaluate Reputational risk score based on guidance provided by CBB and bank's internal as well external operating environment. The score derived from the scorecard is used to assess the capital requirements for reputational risk.

e. Strategic risk

Business / strategic risk primarily arises out of either wrong strategic direction and or wrong strategy/ business plan implementation that could have an adverse impact on the Bank's profitability and capital Positions. The Bank has various monitoring mechanism including Key Performance Indicator, Performance Reports etc. and on a periodic basis to assess any deviation from the approved business plans that could impact the bank's performance in terms of its profitability, asset growth, financial health etc. The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Bank's performance and alignment with the strategic plan.

9. Other disclosures:

a. Related Party 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.

US$ '000	31-Dec-19
Statement of profit or loss	
Interest & similar income	172
Interest expense	15,820
Fee and commission income	1,054
Assets	
Cash and balances with banks	7,391
Deposit with banks and financial institutions	-
Loans and advances	4,561
Interest receivable	38
Other assets	45
Liabilities	
Deposits from banks and other financial institutions	519,918
Due to banks and other financial institutions	20,635
Interest payable	1,692
Other liabilities	336
Contingent liabilities	
Letters of credit and letters of guarantee	23,403
Assets under management	21,535

b. Assets sold under recourse agreements: The Bank did not enter into any recourse agreement during the year ended 31 December 2019.

c. Equity positions in the banking book : Nil

d. Leverage Ratio

US$ '000	31-Dec-19
Total exposure on-balance sheet (all unweighted)	1,138,017
Total Off Balance Sheet items - with relevant Credit Conversion Factors	15,827
Total	**1,153,844**
Tier One Capital	**328,615**
Leverage Ratio	**28.48%**