



# Achieving growth in a challenging environment

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ANNUAL REPORT 2016



# Profile

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Established in 1957 as Bahrain's first locally owned Bank, NBB has grown steadily to become the country's leading provider of retail and commercial banking services.

With a major share of the total domestic commercial banking market and the largest network of 25 branches and 61 ATMs, the Bank plays a key role in the local economy.

At the same time, the Bank continues to diversify and develop capabilities to capture business opportunities in the Gulf region and international markets. Our branches in Abu Dhabi and Riyadh lead the way in this initiative.

Publicly listed on the Bahrain Bourse, the Bank is owned 44.94% by private and institutional shareholders, mainly Bahrainis, 44.18% by Bahrain Mumtalakat Holding Company, which is 100% owned by the Government of the Kingdom of Bahrain and 10.88% by Social Insurance organisation.

Market driven and customer led, the Bank harnesses the latest technology to people skills, enabling its 585 employees to deliver highly professional services for retail and corporate customers.



His Royal Highness  
**Prince Khalifa bin Salman  
Al Khalifa**  
Prime Minister



His Royal Majesty  
**King Hamad bin Isa  
Al Khalifa**  
King of The Kingdom of Bahrain



His Royal Highness  
**Prince Salman bin Hamad  
Al Khalifa**  
Crown Prince, Deputy  
Supreme Commander and  
First Deputy Prime Minister



# Contents

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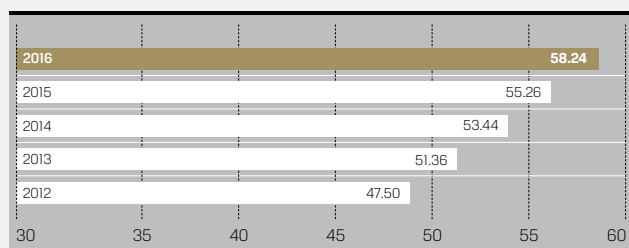
Financial Summary	04
Board of Directors	08
Board of Directors' Report	10
Statement of the Chief Executive Officer	12
Corporate Governance	14
Executive Management	24
Review of Operations	28
Financial Review	40
Risk Management	44
Remuneration Report	52
Financial Statements	
Independent Auditors' Report to the Shareholders	59
Statement of Financial Position	64
Statement of Profit or Loss	65
Statement of Comprehensive Income	66
Statement of Changes in Equity	67
Statement of Cash Flows	68
Notes to Financial Statements	69
Risk and Capital Management Disclosures	107
Composition of Capital Disclosure	121
Contact Directory	127

# Financial Summary

	2016	2015	2014	2013	2012
<b>Earnings (BD millions)</b>					
Net interest income	<b>65.99</b>	59.52	59.58	59.82	61.92
Other income	<b>30.88</b>	34.88	29.63	24.83	24.69
Operating expenses	<b>34.09</b>	30.10	29.19	27.45	27.34
Profit for the year	<b>58.24</b>	55.26	53.44	51.36	47.50
Cash Dividend	<b>28.99</b>	26.35	23.52	32.93	21.38
<b>Financial Positions (BD millions)</b>					
Total assets	<b>2,977.10</b>	2,999.71	2,738.46	2,749.23	2,654.56
Loans and advances	<b>1,031.93</b>	1,051.72	780.97	859.39	888.25
Investment securities	<b>1,092.92</b>	1,094.04	999.49	997.72	757.83
Earning Assets	<b>2,822.98</b>	2,837.94	2,580.92	2,596.84	2,515.83
Total deposits	<b>2,526.44</b>	2,588.16	2,321.34	2,366.25	2,321.85
Customers' deposits	<b>2,088.35</b>	2,247.02	2,154.85	2,083.54	2,077.90
Shareholders' equity	<b>414.70</b>	364.76	378.02	363.14	318.94
<b>Ratios</b>					
<b>Earnings</b>					
Return on average equity	<b>14.94%</b>	14.88%	14.42%	15.06%	16.00%
Return on average assets	<b>1.95%</b>	1.93%	1.95%	1.90%	1.88%
Earnings per share (fils)	<b>51</b>	49	47	45	41
Cost-to-income ratio	<b>35.19%</b>	31.89%	32.72%	32.43%	31.57%
Earnings per employee (BD 000's)	<b>100</b>	96	96	92	85
<b>Capital</b>					
Shareholders' equity as per cent of total assets	<b>13.93%</b>	12.16%	13.80%	13.21%	12.01%
Total liabilities to shareholders' equity (times)	<b>6.18</b>	7.22	6.24	6.57	7.32
Average total liabilities to average equity (times)	<b>6.67</b>	6.73	6.40	6.92	6.99
Capital adequacy 2015, 2016: Basel 3 (2012-2014: Basel 2)	<b>35.39%</b>	29.99%	34.29%	31.22%	27.86%

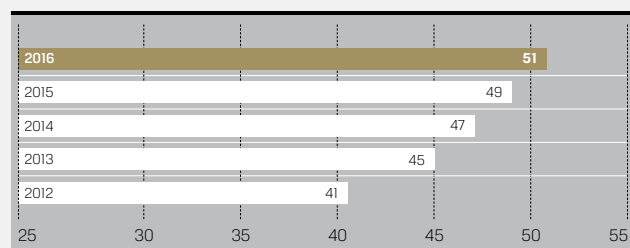
**PROFIT FOR THE YEAR**

BD millions



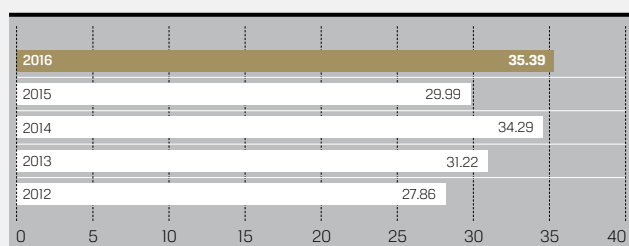
**EARNINGS PER SHARE**

Bahraini fils



**CAPITAL ADEQUACY**

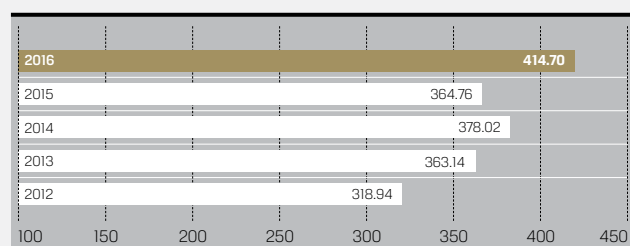
Per cent



Capital adequacy 2015, 2016: Basel 3 (2012-2014: Basel 2)

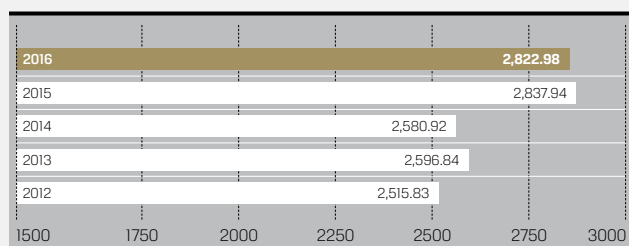
**EQUITY**

BD millions



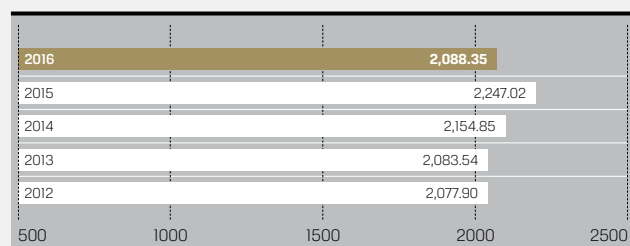
**EARNINGS ASSETS**

BD millions



**CUSTOMERS' DEPOSITS**

BD millions



**RATINGS**

Moody's		Bank Deposits-Long Term	Bank Deposits-Short Term	Baseline Credit Assessment	
	Foreign Currency	<b>Ba3</b>	<b>NP</b>	<b>Ba2</b>	
	Domestic Currency	<b>Ba2</b>	<b>NP</b>		
Fitch		Long Term IDR	Short Term IDR	Viability Rating	Support
		<b>BB+</b>	<b>B</b>	<b>BB+</b>	<b>3</b>
Capital Intelligence		FCY-Long Term	FCY- Short Term	Financial Strength	Support
		<b>BB+</b>	<b>B</b>	<b>BBB+</b>	<b>2</b>



Applying our strategic  
vision to ensure growth in  
a challenging environment





# Board of Directors



1. **FAROUK YOUSUF KHALIL ALMOAYYED**  
Chairman
2. **Dr. ESSAM ABDULLA FAKHRO**  
Deputy Chairman
3. **ABDULLA YOUSIF AKBAR ALIREZA**  
Deputy Chairman
4. **ALI HUSSAIN YATEEM**  
Director
5. **HUSSAIN SULTAN AL GHANEM**  
Director
6. **SH. RASHID BIN SALMAN MOHAMED AL KHALIFA**  
Director
7. **KHALID YOUSIF ABDUL RAHMAN**  
Director
8. **ABDUL RAZAK ABDULLA HASSAN AL QASSIM**  
Director
9. **FAWZI AHMED KANOO**  
Director
10. **MIR ZULFEKAR ALI**  
Director
11. **KHALID OMAR AL ROMAIHI**  
Director

**FAROUK YOUSUF KHALIL ALMOAYYED****Chairman**

Non-executive

Appointed to the Board in 1997

Chairman : Nomination & Remuneration Committee

Chairman: Y. K. Al Moayyed & Sons; Al Moayyed International Group; Ashrafs; Bahrain Duty Free; Bahrain Hotels Company; Ahlia University; National Finance House; Bahrain Insurance Holding Company.

Director: Investcorp Bank B.S.C.

**DR. ESSAM ABDULLA FAKHRO****Deputy Chairman**

Non-executive

Appointed to the Board in 2008

Chairman: Executive Committee

Member: Nomination & Remuneration Committee

Chairman: Bahrain Cinema Company, Abdulla Yousif Fakhro & Sons Group and Bahrain Islamic Bank.

**KHALID YOUSIF ABDUL RAHMAN****Director**

Independent

Appointed to the Board in 2001

Deputy Chairman: Audit Committee

Chairman: The Food Supply Company Limited (Fosco)

Deputy Chairman: Awal Dairy Company.

Director and Member of the Executive Committee: Bahrain Ship Repair and Engineering Company.

Director: Bahrain Saudi Transport Company.

**FAWZI AHMED KANOO****Director**

Independent

Appointed to the Board in 2010

Member: Executive Committee

Chairman: Abdulrahman Jassim Kanoo Co WLL.

Deputy Chairman: Yusuf Bin Ahmed Kanoo Group, Bahrain.

Executive Director: Bahrain Ship Repairing & Engineering Co BSC.

Director: Bahrain Hotels Company.

**ABDULLA YOUSIF AKBAR ALIREZA****Deputy Chairman**

Independent

Appointed to the Board in 1984

Chairman: Audit Committee

Member: Nomination & Remuneration Committee

Chairman: Yousuf Akbar Alireza and Sons.

Director: Bahrain Ship Repair and Engineering Company Co BSC.

**HUSSAIN SULTAN AL GHANEM****Director**

Non-executive

Appointed to the Board in 2004

Member: Audit Committee

Undersecretary, Human Resources; Prime Minister's Court

**KHALID OMAR AL ROMAIHI****Director**

Non-executive

Appointed to the Board in 2014

Director and CEO: Economic Development Board (EDB).

**ALI HUSSAIN YATEEM****Director**

Independent

Appointed to the Board in 1985

Deputy Chairman: Executive Committee

Member: Nomination & Remuneration Committee

Chairman: Ali & Mohamed Yateem Group of Companies W.L.L.

**ABDUL RAZAK ABDULLA HASSAN AL QASSIM****Director**

Non-Executive

Appointed to the Board in 2009

Member: Executive Committee

Deputy Chairman, Chairman of Executive Committee and Member of Nomination & Remuneration Committee: Bahrain Telecommunication Company (Batelco)  
Deputy Chairman: Umniah Mobile Company (Jordan); Qualitynet (Kuwait); Sure Guernsey Limited; Sure Jersey Limited; Sure Isle of Man Limited.

Holder of Master's Degree in Management Sciences and a Sloan Fellowship from Massachusetts Institute of Technology (MIT), Boston, U.S.A.

**MIR ZULFEKAR ALI****Director**

Non-executive

Appointed to the Board in 2014

Member: Executive Committee

Chief Investment Officer, Bahrain Mumtalakat Holding Company BSC (c).

Director: GEMS MENASA Holding Ltd, Asturiana De Aleaciones S. A. Company, Cranemere LLC.

**SH. RASHID BIN SALMAN MOHAMED AL KHALIFA****Director**

Non-executive

Appointed to the Board in 2014

Member: Executive Committee

Retired Banker and Independent Consultant for Investment and Banking Services.

# Board of Directors' Report



**FAROUK YOUSUF KHALIL ALMOAYYED**  
Chairman

NBB's has consistently endeavoured to support the development and prosperity of the Kingdom and its citizens.

## BOARD OF DIRECTORS' REPORT

The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 60th Annual Report of the Bank together with the financial statements for the year ended 31 December 2016.

## GENERAL OPERATING ENVIRONMENT

Global economy slowed down further during 2016 reflecting a more subdued performance for advanced economies following weaker than expected growth in United States and uncertainties surrounding Brexit. These developments have put further downward pressure on interest rates during most part of 2016, although there are now expectations of a faster pace of interest rate increase and inflation fears under the new administration in the United States. Market sentiment towards emerging market economies has improved somewhat with reduced concern about China's near-term prospects.

GCC growth rate is expected to slow down sharply to 1.7 per cent in 2016 compared to 3.4 per cent achieved in 2015. Lower oil prices leading to substantial public spending cuts, tighter liquidity conditions and widespread investor uncertainty have contributed to this slowdown. In many ways, 2016 has been a watershed year for the GCC with most of the governments taking several initiatives to curtail spending, cutting subsidies, increasing fuel and utility prices to manage the overall fiscal position. In addition, most of the GCC governments resorted to borrowings, both local and international, to manage their deficit. Liquidity has tightened in the region with interest rates inching upwards during the year.

According to the Economic Development Board, Bahrain's economic growth for 2016 is expected to improve due to rapid build-up in infrastructure investments. The annual pace of headline GDP growth for full year 2016 is estimated at 3.4 percent, better than the 2.9 percent achieved in 2015. While growth in non-oil sector is estimated to marginally improve from 3.6 percent in 2015 to 3.7 percent in 2016, the hydrocarbon sector is estimated to grow by 1.9 per cent in 2016 compared to a contraction of 0.1 per cent in 2015.

## OVERALL PERFORMANCE

Against this background, 2016 was another successful year for National Bank of Bahrain recording a Net Profit of BD 58.24 million (US\$ 154.88 million) compared to BD 55.26 million (US\$ 146.97 million) for the previous year, an increase of 5.4 percent. Key Performance Indicators continue to improve with a Return on Average Equity of 14.94 per cent (2015: 14.88 per cent) and Earnings Per Share of 50.9 fils (2015: 48.5 fils). These results reflect the Bank's continued focus on improving revenue streams while maintaining prudent risk management.

The difficult external business environment had an impact on the Bank's ability to grow the business. As a result, total Assets stood at BD 2,977.10 million (US\$ 7,917.83 million) as at 31 December 2016 compared to BD 2,999.71 million (US\$ 7,977.94 million) as at 31 December 2015. Customer Deposits stood at BD 2,088.35 million (US\$ 5,554.12 million) as at 31 December 2016 compared to BD 2,247.02 million (US\$ 5,976.13 million) as at 31 December 2015. The Bank has a strong capital base with a Capital Adequacy Ratio of 35.4 % (before proposed appropriations) as at 31 December 2016.

NBB's has consistently endeavoured to support the development and prosperity of the Kingdom and its citizens. The Personal Banking division continued its efforts to further enhance the Bank's digital presence along with undertaking several new marketing initiatives. Business Banking played a lead role and participated in several projects which were of significant importance to the Kingdom. Progress at the Bank's branches in Abu Dhabi and Riyadh has been slow given the difficult economic conditions in these countries on the back of low oil prices. Treasury & Investment Group played a major role during the year in enhancing the overall yield by effective deployment of surplus liquidity in several domestic and regional initiatives.

The prospects for 2017 is cautiously optimistic, though growth will remain restrained in the medium term as the regional economies adjust to the new norm of lower levels of oil prices for a protracted period of time. The Board will continuously review the Bank's business priorities in line with the changes in the external business environment. The Board of Directors take this opportunity to reaffirm their commitment to meet the expectations of all stakeholders while maintaining the highest standards of corporate governance in all its business dealings.

Details of the Bank's financial position and performance are further elaborated in the Financial Review section and the Financial Statements.

**TOTAL ASSETS**

BD millions

Year	Total Assets (BD millions)
2016	2,977.10
2015	2,999.71
2014	2,738.46
2013	2,749.23
2012	2,654.56

**RECOMMENDED APPROPRIATIONS**

Based on the results, the Board of Directors has recommended for approval by the shareholders the following appropriations:

	BD '000
Retained earnings as at 1 January 2016	154,683
2015 appropriations	(45,882)
2016 Net income	58,235
Other changes in Retained Earnings	523
<b>Total</b>	<b>167,559</b>
Cash Dividend (25%)	28,988
Transfer to Donations and contributions	2,912
Transfer to general reserve	17,393
Retained earnings carried forward after 2016 appropriations	118,266
<b>Total</b>	<b>167,559</b>

The Board has also proposed to the shareholders a bonus issue of BD 11.60 million at the rate of one additional share for every ten shares held (10%). The bonus share issue is proposed to be made through utilisation of BD 11.60 million from the General Reserve, which is subject to regulatory approvals. Total cash and stock dividend pay outs for 2016 amounts to 35%.

**DONATIONS AND CONTRIBUTIONS**

The Board is recommending the allocation of BD 2.91 million to the Donations and Contributions programme, representing 5 per cent of 2016 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 42.68 million.

Details of the Bank's Donations & Contribution programme are contained in the Corporate Social Responsibility section of the Annual Report.

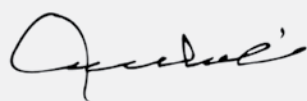
**CORPORATE GOVERNANCE**

The Board recognizes that good governance is a vital ingredient in the success of any organization and is fully committed to protect the interest of all its stakeholders. The Bank is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry, Commerce and Tourism and the CBB's Rulebook. A detailed report on the Bank's compliance with the Corporate Governance Code is elaborated in the Corporate Governance Report section of the Annual Report. The number of shares held as at 31 December 2016 and trading in the Bank's shares during the year by Directors, senior management, approved persons and their related parties is disclosed in the Corporate Governance Report.

**ACKNOWLEDGEMENTS**

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa - the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Government ministries and institutions - especially the Ministry of Finance and the Central Bank of Bahrain, for their guidance, kind consideration and support.

The Board of Directors would like to thank Mr. Abdul Razak Abdulla Hassan Al Qassim, who retired from the position of Chief Executive Officer during the year and places on record his exemplary stewardship of the Bank and his contribution over the years in making NBB a premier financial institution in the region. The Directors would like to take this opportunity to welcome Mr. Jean-Christophe Durand as the new Chief Executive Officer of the Bank and are confident that the Bank will continue to prosper and grow under his astute leadership.


**FAROUK YOUSUF KHALIL ALMOAYYED**

Chairman

30 January 2017

The Directors also extend their thanks and appreciation to all our valued customers and stakeholders for their continuous support and the confidence reposed by them in National Bank of Bahrain and to the staff of the Bank whose dedicated service and commitment has played a vital role in the achievements of the Bank over the years.

# Statement of the Chief Executive Officer



**JEAN-CHRISTOPHE DURAND**  
Chief Executive Officer

Our strong capital base, adequate liquidity, the largest distribution network in the Kingdom will provide the filip to pursue our growth objectives through active deployment in the local economy as well as attracting new clients and starting new business activities.

The overall business conditions remained challenging during 2016, particularly in the GCC with growth rates significantly slowing down due to lower oil prices and its resultant impact on public spending and overall sentiment. Against this background, National Bank of Bahrain achieved encouraging growth in profitability. We are pleased to report a Net Profit of BD 58.24 million (US\$ 154.88 million) compared to BD 55.26 million (US\$ 146.97 million) for the previous year, an increase of 5.4 per cent. Key Performance Indicators improved with a Return on Average Equity of 14.94 per cent (2015: 14.88 per cent), Return on Average Assets of 1.95 per cent (2015: 1.93 per cent) and Earnings Per Share of 50.9 fils (2015: 48.5 fils). Cost to Income Ratio increased to 35.19 per cent (2015: 31.88 per cent) as the Bank invested in people and technology to meet the ever changing customer needs. The results for 2016 are the outcome of the Bank's focus on generating revenue through efficient balance sheet management while prudentially managing risk.

The tough external environment had an impact on our ability to grow the business without compromising on the Bank's risk standards. Accordingly, the Total Balance Sheet of the Bank stood at to BD 2,977.10 million (US\$ 7,917.83 million) as at 31st December 2016 compared to BD 2,999.71 million (US\$ 7,977.94 million) as at 31st December 2015. Total Earning Assets stood at BD 2,822.98 million (US\$ 7,507.92 million) in a well-diversified portfolio of loans, investments, Treasury Bills and Bank placements. Liquidity position remains comfortable with Liquid Assets (Cash and balances with central banks, Treasury Bills and Placements) representing 25.2 percent of Total Assets. Capital Adequacy Ratio at 35.4 per cent before the proposed appropriations is among the strongest and well above the regulatory requirements.

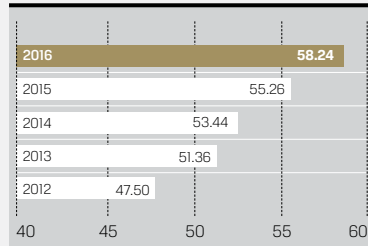
The Bank continues to maintain a dominant position in the domestic market and is taking several initiatives to meet its customer expectations.

Personal Banking Division undertook several targeted marketing campaigns and continues to be the leader in this business segment. The focus during the year was on further enhancing electronic and direct delivery channels to enhance customer access and convenience. The 2<sup>nd</sup> phase of mobile banking was launched during the year with more features and products to meet the changing preferences of its customers. The ATM network was expanded during the year and plans are in final stages to open a new branch at Tubli.

Supporting the domestic economy was the primary focus for the Business Banking Division. NBB played a lead role with two other banks in the successful closure of financing for ALBA's line 6 expansion. Also NBB played Arranger's role in the syndicated facility for National Oil & Gas Authority (NOGA) to finance the new oil pipeline project. In addition, the Division was successful in consolidating its business with several of its customers besides acquiring new customers in the preferred sectors of the local economy.

### PROFIT FOR THE YEAR

BD millions



The Bank's continues its selective regional expansion, though progress has been slow during the year at the overseas branches due to the prevalent economic conditions. In Abu Dhabi, the focus is on developing bilateral relationship with strong local corporates. In Riyadh, the Bank's focus is on developing business with the middle market segment that meets our risk appetite. The Bank also participated in several syndications and bilateral deals to top tier financial institutions, sovereign and quasi-sovereign entities in the region.

The Treasury and Investment Group's primary focus was on enhancing the overall yield while efficiently managing the Bank's liquidity in the backdrop of historically low interest rates, market volatility and tightening liquidity during the year. This resulted in the Division successfully increasing the Bank's net interest spread from 2.07 per cent in 2015 to 2.21 per cent in 2016.

Investment in Associates, viz. Bahrain Islamic Bank and Benefit Company continue to contribute positively to the Bank's results. During the year, the Bank along with four other investors, participated in Bahrain Liquidity Fund, an open ended funded licenced by the Central Bank of Bahrain. The objective of the fund is to add liquidity to the Bahrain Bourse and enhance investors' confidence.

The Bank has always stressed on the importance of grooming Bahraini talent and providing them opportunities to grow in the organization. To this effect the Bank tool several initiatives, viz career planning program, leadership development programs at international business schools, executive training program and talent management framework. Additionally, numerous training programs were conducted during the year in order to build competencies, resulting in the training of 4.8 man days per employee covering 88 per cent of eligible Bahraini staff under training. With the conscious efforts to focus on Bahraini recruitment, the Bank has improved its level of Bahrainization to 93.7% during 2016.

**JEAN CHRISTOPHE DURAND**  
Chief Executive Officer

Looking ahead, 2017 will offer challenges as regional economies grapple with the level of oil prices and banks come to grips with regulatory constraints and newer norms for doing business. However, there are signs that Bahrain's pursuance of infrastructure development and implementation of several projects of national importance will largely mitigate the negative effects of a weak global and regional economic outlook. We are confident that NBB will be able to take advantage of these plans with our concerted effort on innovative and novel approach to existing as well as new business enterprise. Our strong capital base, adequate liquidity, the largest distribution network in the Kingdom will provide the filip to pursue our growth objectives through active deployment in the local economy as well as attracting new clients and starting new business activities. We are certain that with our renewed focus and distinctive approach, we will continue to meet the expectations of our customers, both existing and new, while offering shareholders the promise of sustained progress in the years ahead.

# Corporate Governance

The Board of Directors is responsible for the overall governance of National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain (CBB) regulations regarding corporate governance. The Board recognizes that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders.

Maintaining the best standards of corporate governance has provided the Bank's customers, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short-term objectives; created a sound portfolio of assets, a stable customer base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the Bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

#### BOARD OF DIRECTORS:

The Board comprises of eleven members and its composition is governed by the Bank's Memorandum and Articles of Association. Four members of the Board of Directors are appointed by Bahrain Mumtalakat Holding Company, which holds 44.18% of the Bank's share capital and one member by Social Insurance Organization, which holds 10.88% of the Bank's Share Capital. The remaining six members of the Board of Directors are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The six members of the Board of Directors elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board of Directors was elected at the Annual General Meeting in 2015 and their term expires at the Annual General Meeting to be held in 2018.

On joining NBB's Board, all Directors are provided with a "Directors Kit" which includes the Bank's Memorandum and Articles of Association, key policies, terms of reference of the Board and its sub-committees and Corporate Governance guidelines. Induction sessions are also held with the Chairman and Chief Executive Officer which focuses on business profile, opportunities, challenges and risks faced by the Bank

In accordance with the definitions stipulated by the CBB, Directors are categorized as independent, executive and non-executive. The Board currently comprises of four independent directors and seven non-executive directors. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The Board's primary responsibility is to deliver sustainable value to all stakeholders by charting the strategic direction of the Bank as well as setting the risk appetite and the overall capital structure of the Bank. The Board is also responsible for monitoring Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. Accordingly, the main functions of the Board are:

- Maintain an appropriate Board Structure.
- Maintain an appropriate management and organization structure in line with the Bank's business requirements.
- Plan the strategic future of the Bank, approve annual business plans, approve and monitor major initiatives.
- Monitor the operations framework of the Bank and the integrity of internal controls.
- Ensure compliance with laws and regulations.
- Monitor the Bank's performance and approve financial results, ensure transparency and integrity in stakeholders reporting including financial statements.
- Evaluate periodically the Board's own performance including that of Board sub-committees.
- Assure equitable treatment of all shareholders including minority shareholders.



The Chairman is mainly responsible for the leadership of the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. As per its terms of reference, the Board shall meet at least once every calendar quarter.

In its role as the primary governing body, the Board of Directors provides oversight for the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board of Directors has unlimited authority within the overall regulatory framework. The Board has delegated approval authorities to its sub-committees and members of Management; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget, risk strategy and operating limits for various activities of the Bank.

#### **COMMITTEE OF THE BOARD OF DIRECTORS:**

The Board has set up several sub-committees which provide effective support to the full Board in carrying out its responsibilities. These include the Executive Committee, the Audit Committee and the Nomination & Remuneration Committee.

#### **EXECUTIVE COMMITTEE:**

The Executive Committee comprises of not more than six Board members selected and appointed by the Board, with at least two of the members being independent directors. The Committee shall meet at least four times a year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities with regard to lending, investment, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Committee is empowered to approve specific credit and investment proposals, review budgets, plans, major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.

#### **AUDIT COMMITTEE:**

The Audit Committee comprises of three non-executive Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. In addition, the Committee is also responsible for reviewing and recommending changes to the Bank's corporate governance policy framework based on regulatory requirements or industry best practices. The Audit Committee is responsible for overseeing the selection of the external auditors for appointment and approval at the shareholders' meeting, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Audit Committee is supported by the Internal Audit Department, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising therefrom are reported to the Audit Committee on a regular basis.

# Corporate Governance

## NOMINATION & REMUNERATION COMMITTEE:

The Nomination & Remuneration Committee comprises of four Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least twice a year. The role of the Committee is to assist the Board in fulfilling its responsibilities with regard to the nomination and remuneration policy of the Bank. The Nomination & Remuneration Committee has the mandate for identifying persons qualified to become members of the Board, CEO, CFO, corporate secretary, and any other officers as considered appropriate by the Board and recommending them to the Board. The Committee also has the responsibility of reviewing and recommending the remuneration policies for the board of directors and senior management.

## BOARD MEETINGS AND ATTENDANCE:

The Board of Directors and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings. A summary of the Board meetings and sub-committee meetings held during the year 2016 and attendance are detailed below:

Name of the Director	Board		Executive Committee		Audit Committee		N & RC		Total		
	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	% of Meetings attended
Farouk Y K Almoayyed Chairman	7	7					3	3	10	10	100%
Dr. Essam A Fakhro Deputy Chairman	7	7	4	4			3	3	14	14	100%
Abdulla Y Akbar Alireza Deputy Chairman	7	4			5	3	3	2	15	9	60%
Ali Hussain Yateem Director	7	7	4	4			3	3	14	14	100%
Khalid Y Abdul Rahman Director	7	7			5	5			12	12	100%
Hussain S Al Ghanem Director	7	7			5	5			12	12	100%
Abdul Razak Al Qassim CEO & Director	7	7	4	4					11	11	100%
Fawzi Ahmed Kanoo Director	7	6	4	4					11	10	91%
Mir Zulfekar Ali Director	7	7	4	4					11	11	100%
Khalid Omar Al Romaihi Director	7	6							7	6	86%
Sh.Rashid Bin Salman Mohamed Al Khalifa Director	7	7	4	4					11	11	100%

Includes attendance through conference calls

**DATES OF MEETINGS AND ATTENDANCE DETAILS:****Board Meeting: Total number of meetings held: 7**

Members	Meeting Dates						
	25/1/2016	9/3/2016	18/4/2016	20/7/2016	25/9/2016	19/10/2016	23/11/2016
<b>Farouk Y K Almoayyed</b> Chairman	✓	✓	✓	✓	✓	✓	✓
<b>Dr. Essam A Fakhro</b> Deputy Chairman	✓	✓	✓	✓	✓	✓	✓
<b>Abdulla Y Akbar Alireza</b> Deputy Chairman	✓	✓	✓	X	✓	X	X
<b>Ali Hussain Yateem</b> Director	✓	✓	✓	✓	✓	✓	✓
<b>Khalid Y Abdul Rahman</b> Director	✓	✓	✓	✓	✓	✓	✓
<b>Hussain S Al Ghanem</b> Director	✓	✓	✓	✓	✓	✓	✓
<b>Abdul Razak Al Qassim</b> Chief Executive Officer & Director	✓	✓	✓	✓	✓	✓	✓
<b>Fawzi Ahmed Kanoo</b> Director	✓	✓	✓	X	✓	✓	✓
<b>Mir Zulfekar Ali</b> Director	✓	✓	✓	✓	✓	✓	✓
<b>Khalid Omar Al Romaihi</b> Director	✓	✓	✓	✓	✓	✓	X
<b>Sh.Rashid Bin Salman Mohamed Al Khalifa</b> Director	✓	✓	✓	✓	✓	✓	✓

Includes attendance through conference calls

# Corporate Governance

## EXECUTIVE COMMITTEE MEETINGS

Total number of meetings held: 4

Members	Meeting Dates			
	17/2/2016	8/6/2016	25/9/2016	12/12/2016
<b>Dr. Essam A Fakhro,</b> Deputy Chairman & Chairman of Executive Committee	✓	✓	✓	✓
<b>Ali Hussain Yateem,</b> Director & Deputy Chairman	✓	✓	✓	✓
<b>Abdul Razak Al Qassim,</b> CEO & Director	✓	✓	✓	✓
<b>Fawzi Ahmed Kanoo,</b> Director	✓	✓	✓	✓
<b>Mir Zulfekar Ali,</b> Director	✓	✓	✓	✓
<b>Sh. Rashid Bin Salman Al Khalifa,</b> Director	✓	✓	✓	✓

## AUDIT COMMITTEE MEETINGS

Total number of meetings held: 5

Members	Meeting Dates				
	24/1/2016	18/4/2016	13/6/2016	19/7/2016	18/10/2016
<b>Abdulla Yousif Akbar Alireza,</b> Deputy Chairman & Chairman of Audit Committee	✓	✓	✓	X	X
<b>Khalid Yousif Abdul Rahman,</b> Director & Deputy Chairman of Audit Committee	✓	✓	✓	✓	✓
<b>Hussain Sultan Al Ghanem,</b> Director	✓	✓	✓	✓	✓

Includes attendance through conference calls

## NOMINATION & REMUNERATION COMMITTEE MEETINGS

Total number of meetings held: 3

Members	Meeting Dates		
	13/1/2016	25/1/2016	23/11/2016
<b>Farouk Yousuf Khalil Almoayyed,</b> Chairman of the Board and Chairman of the NRC	✓	✓	✓
<b>Dr. Essam Abdulla Fakhro,</b> Deputy Chairman	✓	✓	✓
<b>Abdulla Yousif Akbar Alireza,</b> Deputy Chairman	✓	✓	X
<b>Ali Hussain Yateem,</b> Director	✓	✓	✓

**MANAGEMENT STRUCTURE:**

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are annexed to this report.

Within the management structure there are separate committees responsible for Business Review, Development and Planning; Credit; Asset/Liability Management; Human Resources; Operational Risk Management and Business Continuity Planning. These committees, comprising of members of the senior management, meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

The Compliance Officer reports directly to the CEO and has direct access to the Board of Directors through the Audit Committee. The Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

**PERFORMANCE EVALUATION OF BOARD AND SUB-COMMITTEES:**

The Board of Directors has conducted a self evaluation of the performance of the Board and its sub-committees for the year 2016. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The Nomination and Remuneration Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in Jan 2017 which confirms that NBB's Board and its sub-committees continue to operate with a high level of effectiveness.

**RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST:**

Directors have a duty under CBB regulations as well as the Bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the Bank, unless they are specifically authorized by the Board of Directors. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank.

The Bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions are disclosed in Note 27 of the financial statements.

As per the Bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest. Having reviewed all such transactions during 2016, it was concluded that there were no transactions involving potential conflict of interest which need to be brought to the attention of the shareholders.

**CODE OF CONDUCT:**

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

**WHISTLE BLOWER POLICY:**

The Board has adopted a Whistle Blower policy which provides all employees with the opportunity to report in good faith, any instances they observe regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank. The policy is available on the website of the Bank.

# Corporate Governance

## COMMUNICATION STRATEGY:

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements set out in the rules and regulations of the CBB and the Bahrain Bourse as well as other applicable laws, to facilitate efficient capital market activities. The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. The external auditors review the system of internal controls considered necessary for them to form an opinion on the financial statements. In addition to the annual audit, the external auditors conduct reviews on the Bank's quarterly financial statements. These statements are subsequently published in the newspapers and posted on the Bank's website in accordance with regulatory requirements. The annual report including the complete financial statements for the current financial year and a minimum of three preceding financial years are provided on the Bank's website.

## DIRECTORS AND SENIOR MANAGEMENT INTERESTS

The number of shares held by directors and their related parties and trading during the year is as follows:

Name	Type of shares	31 Dec 2016*	Sales during 2016	Purchases During 2016	31 Dec 2015
Farouk Yousuf Khalil Almoayyed, Chairman	Ordinary	18,719,779	-	-	17,017,982
Dr. Essam Abdulla Fakhro, Deputy Chairman	Ordinary	8,155,111	-	-	7,413,739
Abdulla Yousif Akbar Alireza, Deputy Chairman	Ordinary	12,091,564	-	-	10,992,335
Ali Hussain Yateem, Director**	Ordinary	10,335,330	-	-	35,980,425
Khalid Yousif Abdul Rahman, Director***	Ordinary	17,287,693	(25,000)	200,000	15,897,211
Hussain Sultan Al Ghanem, Director	Ordinary	-	-	-	-
Abdul Razak Abdulla Hassan Al Qassim, Director and Chief Executive Officer	Ordinary	427,194	-	****258,794	153,091
Fawzi Ahmed Kanoo, Director	Ordinary	72,531	-	-	65,938
Khalid Omar Al Romaihi, Director	Ordinary	-	-	-	-
Mir Zulfekar Ali, Director	Ordinary	-	-	-	-
Sh. Rashid Salman Mohamed Al Khalifa, Director	Ordinary	-	-	-	-
<b>Total</b>		<b>67,089,202</b>	<b>(25,000)</b>	<b>458,794</b>	<b>87,520,721</b>
<b>As a % of the total number of shares</b>		<b>5.8%</b>			<b>8.3%</b>

\* Shares as at 31 December 2016 includes bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held.

\*\* Shares as at 31 December 2016 exclude 26,584,667 shares held as at 31 December 2015 since he currently does not exercise control over these shares.

\*\*\* Shares as at 31 December 2016 exclude 349,307 shares held as at 31 December 2015 since he currently does not exercise control over these shares.

\*\*\*\* Represents shares transferred during the year as part of the Employee Share Incentive Scheme.

The number of shares held by senior management and their related parties and trading during the year is as follows:

Name	Type of shares	31 Dec 2016*	Sales during 2016	Purchases During 2016	31 Dec 2015
Jean-Christophe Durand, CEO	Ordinary	-	-	-	-
Hussain Al Hussaini, General Manager Treasury, Overseas & Operations Group	Ordinary	-	(52,589)	** 52,589	-
Khalid Ali Juma, General Manager Support & Administration	Ordinary	30,550	-	** 30,550	-
Abdulaziz Al Ahmed, General Manager Domestic Banking Group	Ordinary	31,966	-	** 31,966	-
Bruce Wade, General Manager, Risk Group	Ordinary	13,501	-	** 13,501	-
Moschonas Panagiotis, Asst General Manager, Internal Audit	Ordinary	-	-	-	-
V S M Raju, Asst General Manager Finance & Strategy	Ordinary	31,668	-	** 22,344	8,477
Hassan Hussain Hamad, Asst General Manager - Head of Legal Department & Company's Secretary	Ordinary	38,237	-	** 25,571	11,515
<b>Total</b>		<b>145,922</b>	<b>(52,589)</b>	<b>176,521</b>	19,992

\* Shares as at 31 December 2016 includes bonus shares issued during the year (where applicable) at the rate of one additional share for every ten shares held.

\*\* Represents shares transferred during the year as part of the Employee Share Incentive Scheme.

#### APPROVED PERSONS INTERESTS:

The total interest in the shares held by approved persons and their related parties is as follows:

	Type of shares	31 Dec 2016	31 Dec 2015
Total number of shares held	Ordinary	67,682,187	87,778,558
As a % of the total number of shares		5.8%	8.3%

#### REMUNERATION:

##### Board of Directors Remuneration Policy:

The Board of Directors is paid an annual remuneration as approved by the shareholders at the Annual General Meeting. While the amount of remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the directors to the Bank, are considered for determining the total remuneration. Directors remuneration is accounted as an expense as per International Accounting Standards and CBB regulations, the payment of which is subject to approval by the shareholders at the Annual General Meeting. In addition, the members are paid sitting fees for the various sub-committees of the Board of Directors.

##### Employees Remuneration Policy:

The employees of the Bank are critical for the Bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. In order to achieve this objective, the Bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices. In addition to fixed monthly salary and allowances, employees are provided with several other benefits like variable remuneration in the form of bonus, medical, life insurance cover, retirement benefits and employee savings scheme. While doing so, the Bank gives paramount importance to the interests of the shareholders and to this end, the Bank has recently implemented the Sound Remuneration

# Corporate Governance

## **Employees Remuneration Policy: (continued)**

Practices mandated by the Central Bank of Bahrain. While aligning the compensation of the employees with the risk outcomes and performance levels of the Bank, the revised policies for Variable Remuneration i.e. the Bonus and Share Incentive Scheme also endeavor to align senior management's interest with shareholders' interests. The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 10% to 10.5% of the net profit before the bonus and the variable remuneration of senior management is reviewed and approved by the Nomination & Remuneration Committee of the Bank. The approaches under the revised compensation policies will be beneficial to all stakeholders of the Bank, including the shareholders, as they resolve to achieve a balance between the performance and risk outcomes.

## **Remuneration of Board Members, Senior Management and Fees Paid to External Auditors:**

The aggregate remuneration paid to board members and senior management personnel are disclosed in Note 27 of the Financial Statements.

KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2016. The details of Audit fee paid to the auditors during the year 2016 as well as the details of non-audit services and fees paid are held at the Bank's premises, which is available to eligible shareholders upon specific request.

## **Status of compliance with CBB's Corporate Governance guidelines (High Level Controls Module)**

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook, the HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and to the CBB.

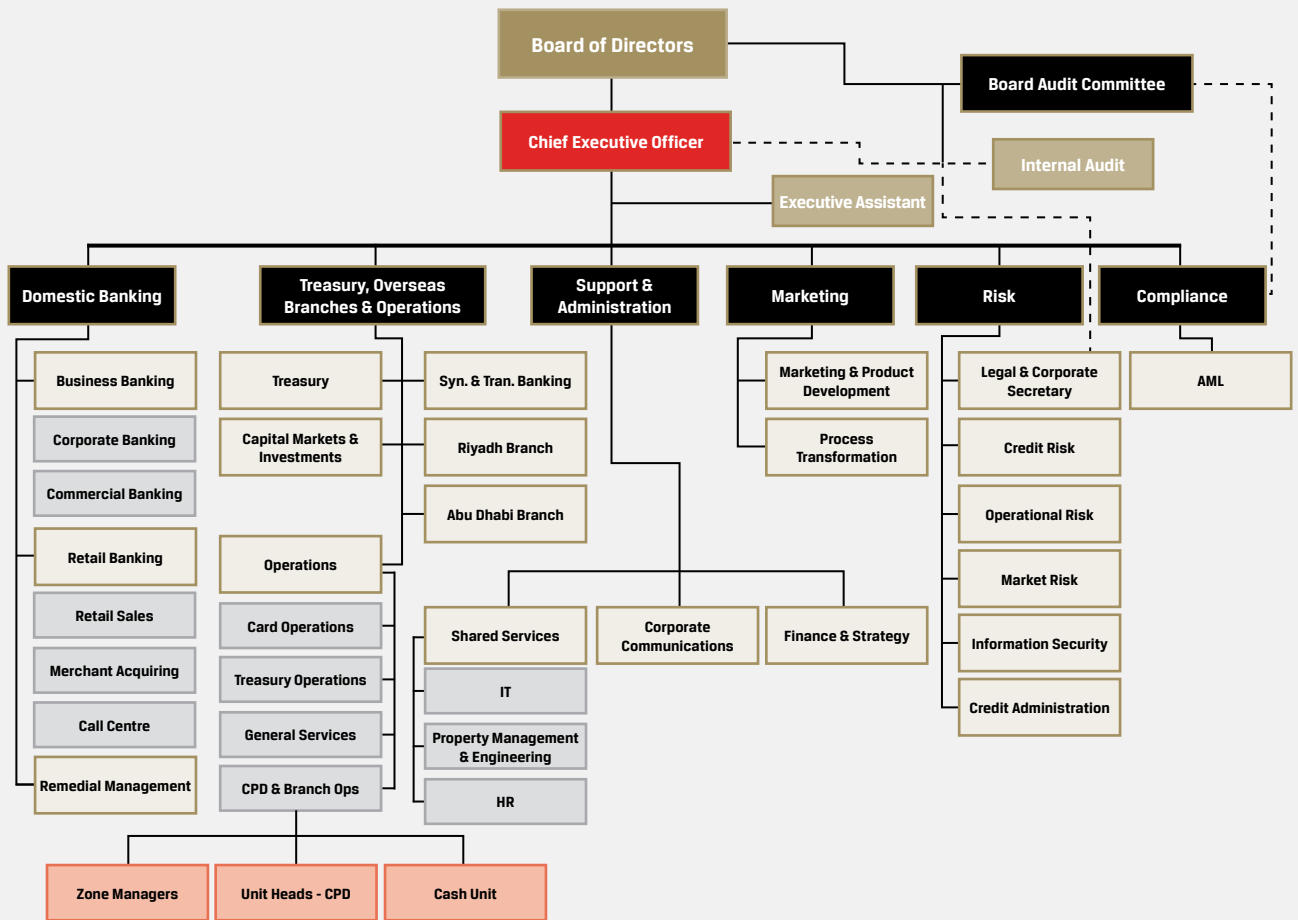
The Bank is in compliance with the requirements of the HC Module except for the following Guidance:

### **Guidance**

1. HC 1.3.13 states that no director of a bank should hold more than 3 directorships in public companies in Kingdom of Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. One of the Bank's Directors, Mr. Farouk Almoayyed holds more than 3 directorships in public companies in Bahrain. However, the Board is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the Director concerned provides adequate attention to his responsibilities as Director of the Bank, and there are no conflicts of interest between his other directorships and that of the Bank.
2. HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director, taking into account the business transactions that the Bank has with the Almoayyed Group controlled by Mr. Farouk Almoayyed. The Board is of the view that this does not compromise the high standards of corporate governance that the Bank maintains as (i) the business transactions are entered into on 'arms length' basis following transparent tendering and approval processes (ii) the Bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the Bank do not participate in decisions related to such proposals.
3. HC 1.8.2 states that the Board should establish a Corporate Governance Committee of at least three independent members and HC 1.8.5 allows combination of committees. The Bank has combined the responsibility of the Corporate Governance Committee with that of the Audit Committee, which has three members two of whom are independent. The Board is of the view that this does not compromise the high standards of corporate governance as the Audit committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfill its responsibilities.



**NBB** ORGANISATION STRUCTURE



# Executive Management

## JEAN-CHRISTOPHE DURAND Chief Executive Officer

Graduated from ESSEC (Ecole Supérieure des Sciences Economiques et Commerciales), French Business School in Paris. He has over 36 years of Banking & Finance experience. Mr. Durand was the Global Head of the BNP MEA (Middle East & Africa) region for Corporate and Institutional Banking and Asset Management for over 15 years before taking up his last assignment as Advisor to the CEO of Mumtalakat. Mr. Durand has spent a significant number of years in Bahrain working with Banque Indosuez and BNP to grow their business locally and regionally and is credited with establishing BNP as one of the key financial institutions in the region and opening branches in several GCC countries and Africa. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Operational Risk Management Committee, Credit Committee and Human Resources Committee. Mr. Jean-Christophe Durand has been serving on the Board of several professional committees in Bahrain and is a Board Member of a retail Bank of the BNP Paribas Group. He is a recipient of the "Legion d'Honneur (Grade of Officer)" from the Government of France.

## KHALID ALI JUMA General Manager – Support & Administration Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Juma joined NBB in 1972. Chairman of Operations Risk Management Committee and Business Continuity Planning Committee, member of Asset/Liability Committee, Business Review, Development and Planning Committee and Human Resources Committee. Board Director of Benefit Company. He assumed his present position in 2014.

## ABDUL AZIZ ABDULLA AL AHMED General Manager Domestic Banking Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Abdul Aziz joined NBB in 1974 and he has over 43 years of banking experience. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Credit Committee B.S.C.. Board Member of Bahrain Commercial Facilities Company (BCFC) and Vice Chairman of National Motor Company W.L.L., Bahrain. He assumed his present position in 2011.

## HUSSAIN SAYED ALI AL HUSSAINI General Manager – Treasury & Overseas Branches & Operations Group

MBA in Marketing and Management, DePaul University, USA; PMD (Programme for Management Development) from Harvard Business School, Boston, USA; B.A. in Economics, Concordia University, Canada. Mr. Al Hussaini joined NBB in 1982. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Credit Committee. Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of the Securities and Investment Company (SICO), Board Member and Executive Committee Chairman of Esterad Investment Company, Chairman of Nomination & Remuneration Committee of Esterad. Member of Delta Mu Delta - Chicago USA, Interarab Cambist Associations, International Securities Market Association, Harvard Business School – Alumni Club, USA, Bahrain Financial Market Association. He assumed his present position in 2014.

## BRUCE CHARLES WADE General Manager Risk Group

MBA and Bachelor of Applied Science from Queensland University of Technology, Australia and Graduate Diploma, Applied Finance and Investment, Securities Institute of Australia. Mr. Wade joined NBB in 2014 after more than 30 years banking experience including Saudi Hollandi Bank, Riyad Bank, Citibank and Bank of Tokyo Group. Chairman of Operational Risk Management Committee, Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee, and Credit Committee. Fellow Australian Institute of Company Directors, Fellow Financial Services Institute of Australasia, Member Finance and Treasury Association Limited and Senior Certified Treasury Professional. He assumed his present position in 2014.

## ABDULLA ABDUL RAHMAN HUSSAIN Executive Assistant General Manager Shared Services

Harvard Business School Graduate of Advanced Management Programme, USA; Master of Business Administration in Marketing from University of Bahrain, Post Graduate Diploma in Finance from University of Bahrain, Bachelor of Science in Computer Sciences from USA. Mr. Hussain joined NBB in 2008 after more than 23 years of experience

in Banking, professional services, technology, program management and e-Business. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee, Operational Risk Management Committee and Human Resources Committee. Board member and Chairman of Executive Committee of Benefit Company. Chairman of Sinnad Company. He assumed his present position in 2014.

## ABDUL MONEM YOUSIF AL BANNA Executive Assistant General Manager Marketing

Harvard Business School Graduate of Advanced Management Program, USA; CPA from Illinois, USA; BS in Accounting, University of Bahrain. Mr. Al Banna joined NBB in 1989. Member of Board of Directors and Member of the Audit and Risk Committee of Oasis Capital B.S.C (closed) He assumed his present position in 2016.

## JASSIM MOHAMED AL HAMMADI Executive Assistant General Manager Operations

MBA from University of Glamorgan, UK, Executive Diploma from University of Bahrain, Advance and Intermediate Diploma from BIBF. Mr. Al Hammadi joined NBB in 1974. He has several years of experience in Financial Control, Customer Services, Card Business, Retail Banking, Operations and Anti-money laundering. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Member of the Bankers Society of Bahrain- ATM Security Committee. He assumed his present position in 2014.

## AHMED JASIM MURAD Executive Assistant General Manager Business Banking

Executive Diploma from University of Virginia, Bachelor of Business Marketing, St. Edward's University – Austin, Texas, USA, Associate Diploma in Commercial Studies, University of Bahrain. Moreover, he attended number of training courses inside the Kingdom of Bahrain and abroad. Mr. Murad joined NBB in 1997 and has acquired working experience in different departments such as Retail, Commercial, and Corporate Banking. Member of the NBB Credit Committee. He assumed his present position in 2014.

**FAROUK ABDULLA KHALAF**

Executive Assistant General Manager -  
Riyadh Branch, KSA

Member of the Chartered Institute of Management Accountants, U.K. Mr. Farouk joined NBB in 1986 after several years experience with Gulf International Bank, Aluminum Bahrain (ALBA) and British Bank of the Middle East, Bahrain. Member of the Credit Committee. He assumed his present position in 2012.

**RICHARD GARETH HICKS**

Executive Assistant General Manager  
Chief Marketing Officer

BA (Hons) degree in Economics from De Montfort University in UK. Long standing member of the Chartered Institute of Marketing. Mr Hicks has more than 30 years of banking and marketing experience with Nat West, RBS and HSBC where he was part of the Global Marketing Team based in the London Head Office working across all business lines and geographies. His specialist areas are digital marketing, customer experience and digital transformation. Member of Business Review, Development and Planning Committee. He assumed his current position in 2016.

**NADER KARIM AL MASKATI**

Assistant General Manager -  
Syndications & Transactional Banking

Executive Diploma from University of Virginia, USA. Master Degree in Finance and Post Graduate Diploma in Marketing from Bahrain University. B.Sc in Economics & Political Sciences from Cairo University. Mr. Al Maskati joined NBB in 1993 after several years of experience with National Bank of Abu Dhabi. Member of the Credit Committee. He assumed his present position in 2015.

**REYAD NASSER AL NASSER**

Assistant General Manager - Central  
Processing & Branch Operations

MBA from Dublin University, USA, Accounting Diploma from University of Bahrain and Advance Diploma in Banking from BIBF. Mr. Al Nasser joined NBB in 1981 and worked extensively managing various operational functionalities. Mr. Reyad gained tremendous banking experience which was earned through his various roles in the banking industry. He assumed his present position in 2014.

**FATIMA ABDULLA BUDHAISH**

Assistant General Manager  
Credit Risk

Certified Public Accountant (CPA) from USA with Executive MBA, Bachelor in Accounting (University of Bahrain) and an Executive Management

Leadership Diploma from Darden Graduate School of Business, University of Virginia (USA). Mrs. Budhaish joined NBB in 2004, after several years of experience with BBK and has over 17 years of professional experience. Member of Asset/Liability Committee, Business Continuity Planning Committee and Credit Committee. She assumed her present position in 2013.

**KHALIFA MOHAMED AL ANSARI**

Assistant General Manager  
Information Technology

Executive Diploma from University of Virginia, USA, MSc in Management Information Technology from University of Sunderland, UK. Mr. Al Ansari joined NBB in 1997 after several years of experience with Reuters and Gulf Air and has over 25 years of professional experience. Member of Business Continuity Planning Committee and Operational Risk Management Committee. He assumed his present position in 2014.

**VENKATA SUBRAMANIAM RAJU**

Assistant General Manager  
Finance & Strategy

Chartered Accountant from the Institute of Chartered Accounts of India. Mr. Raju joined NBB in 2008 after several years of experience with Oman International Bank (Oman), and has over 30 years of professional experience. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Operational Risk Management Committee. He assumed his present position in 2014.

**HASSAN HUSSAIN HAMAD**

Assistant General Manager - Legal  
Department and Corporate Secretary

LLB, University of Khartoum, Legal Profession Certificate (Bar Examination) Mr. Hamad joined NBB in 2003 as legal advisor and head of Legal Department after working with Trowers & Hamlins (Oman), and National Bank of Umm Al Qaiwain, UAE. He has over 33 years' experience covering all major legal disciplines including but not limited to corporate, commercial and banking laws. He assumed his present position in 2014.

**GHANEYA MOHSIN AL DERAZI**

Assistant General Manager  
Commercial Banking

Doctorate of Business Administration, from Durham University, UK, MBA from University of Wales, UK and an Executive Diploma from University of Virginia, USA and bachelor's from St. Edward's University, USA. Ms. Al Derazi joined NBB in 1994. She has several

years of experience in Trade Finance, Financial Institutions, Corporate Banking and Commercial Banking. She assumed her present position in 2014.

**THOMAS MICHAEL MULLIGAN**

Assistant General Manager  
Capital Markets and Investments

Master of Science from State University Of New York Plattsburgh, Master of Business Administration from Pace Lubin Graduate School of Business, New York. Mr. Mulligan joined NBB in 2008 after spending the majority of his career with Merrill Lynch and PaineWebber. He has over twenty five years of experience in the Global Financial Markets. He assumed his present position in 2015.

**NADIM ZAMAN**

Assistant General Manager  
Syndications & Transactional Banking

Senior Executive Management Program from Harvard Business School, USA, MBA from CASS Business School, BSc Electrical Engineering at University of Bahrain. Mr. Zaman joined NBB in 2015 after several years' experience with MISYS UK, Bankers Trust Company of New York, Deutsche Bank, CBB, HSBC and NATIXIS. He assumed his present position in 2015.

**MOSCHONAS PANAGIOTIS**

Assistant General Manager  
Internal Audit

Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Quality Assessor of Internal Audit, Certification in Risk management Assurance (CRMA), BS in Administrative Management and Marketing (Concordia University, Canada). Mr. Moschonas joined NBB in 2016. He has over that 25 years of experience in Internal Audit both as a consultant as well as Chief Audit Executive in Commercial, Industrial and Banking Organizations with multinational operations. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Secretary of the Audit Committee of NBB's Board of Directors.

**TARIQ I. SIDDIQUI**

Senior Manager  
Abu Dhabi Branch, UAE

Master of Business Administration "MBA" in Finance from University of Stirling, Mr. Siddiqui joined NBB in 1982. He has over 22 years of Gulf Banking experience with assignments in UAE, Qatar and Bahrain. He assumed his present position in December 2014.



Building on our deep-rooted local knowledge, we are able to position ourselves to out perform our customers expectations.



# Review of Operations



**KHALID ALI JUMA**  
General Manager  
Support & Administration Group

The Bank has always stressed on the importance of grooming Bahraini talent and providing them opportunities to grow in the organization.

## INFORMATION TECHNOLOGY

Information Technology has implemented many projects during 2016 in line with the bank's strategic direction. IT has launched the second version of its award winning Mobile Banking service with improved customer experience, enhanced features and security to further enable Banking anywhere .. any time. The new features include EFTS services, Opening of Time deposit, credit card management, downloading of both account and credit card e-statements and various other features.

IT has also enabled EFTS Fawri+ for instant remittance to and receipt from other banks in Bahrain as well as Fawri whereby customers can remit and receive amounts on deferred basis. Furthermore, Fawateer was also launched for both online and offline biller payments including Phone and Electricity payments. We also anticipate that more billers will join the Fawateer as enabled and look to include others as enabled by Benefit.

Account e-statement was also enabled for customer previously. However, in-line with Bank direction on digitalization, during the second quarter of 2016, we have migrated all account customers to e-statement to reduce paper works unless customers specifically request otherwise.

IT has renovated the Infrastructure Technology to meet the PCI/DSS compliance which is mandated by VISA/MASTERCARD. On the security technology aspect, IT has executed a number of projects to strengthen the security of its system and ensure customers information is highly secure and protected against cybercrime.

There have also been various other projects and initiatives taken up by and launched by IT during 2016 including credit card and refill card e-statement, streamlining IT infrastructure and look forward to upcoming projects that will enhance the bank capability and service to our stakeholders.

## HUMAN RESOURCES

During 2016, NBB recruited more than 60 Bahraini graduates from the local market and provided them opportunities to become able professionals in the Banking & Finance industry. With the conscious efforts to focus on Bahraini recruitment, the Bank has improved its level of Bahrainization to 93.7% during 2016.

The Bank has always stressed on the importance of grooming Bahraini talent and providing them opportunities to grow in the organization. To this effect the Bank had launched the career planning program which has now matured. The program is currently grooming 30 high potential Bahraini employees with innate talent to grow towards higher echelons of career. Career planning is a process of clearly defining the career goals related career progression milestones for the high potential staff. It clearly communicates the career path to the concerned staff, which helps the Bank in retaining valuable employees who will play an important role in crafting the Bank's future. At the same time, it also helps the concerned employee in understanding his/her future moves and the Bank's expectations.

At the apex level, continuing with the tradition of Leadership Development, a promising Bahraini employee was nominated for the Leadership Development Program at Darden Business School, University of Virginia, USA. This initiative has also been helping the Bank in developing and retaining high potential Bahraini employees, who will eventually assume significant responsibilities towards future growth of the Bank.

Apart from the Leadership Development initiative, numerous training programs were conducted during the year in order to build competencies, resulting in the training of 4.8 mandays per employee covering 88 percent of eligible Bahraini staff under training.

The Bank also continued with its Executive Trainee program in 2016, with 13 additional trainees getting deployed in mainstream functions through structured career plans. A new, further improved Executive Trainee program is being planned for the next batch, which will be rolled out in 2017. The enrollments in the Executive Trainee Program are finalized through an "Assessment Centre", which assesses abilities, skills and competencies of the staff in a scientific manner and thus development efforts can be focused on the right candidates addressing specific competencies.

In order to ensure sound succession depth in the organization, the Bank conducted an assessment of available leadership bench strength and organizational restructuring options. The actions and initiatives resulting from this exercise have helped the Bank in effectively managing executive transitions in the top management.

For effective talent management, the Bank has developed a Talent Management framework which will foster meritocracy in the organization. The talent inventory and talent needs for executing the Bank's strategy will define the talent gaps which can be addressed in a focused manner so that the strategic initiatives that shape the Bank's future are not compromised. The talent development initiatives will focus on both organic and inorganic approaches so that while developing the existing resources, wherever essential, the Bank can quickly scale up the talent inventory through recruitment of talent from the local and other advanced markets. The proposed Talent Management framework will be deployed during 2017.

#### **CORPORATE SOCIAL RESPONSIBILITY**

The National Bank of Bahrain has always been dedicated to enriching the community in the Kingdom, where the organization has its roots and conducts its business. NBB is determined to ensure that its business operates in an ethical, sound and responsible manner. We believe that our activities reflect our philosophy of implementing sound business practices, innovating to realize products and services that inspire our customers, assist the community in which we operate and help shape a better, more sustainable society.

In order to align and respond effectively to evolving social imperatives and changes in the business environment, NBB's approach to corporate social responsibility has been multi dimensional right from its inception. The Bank believes in growing its business in a socially responsible way while addressing the legitimate interests of our stakeholders. The Bank adopts a stringent policy of involving itself with the community whereby the organization undertakes an active role in helping local communities achieve their aspirations. A combination of volunteer work and patronage is followed to sustain this objective.

We know that NBB ultimately owes its success to its customers and to the communities in which it functions. Society is demanding even more vigorously that businesses work in a sustainable way. We have the same opinion. Doing business in an honest and ethical way and with integrity helps us to build long-term, trusting relationships with our employees, customers and all other stakeholders. Just as we are proud to be a successful part of the social fabric, we are determined to promote public inclusion, helping to bring vulnerable and under privileged groups into the vibrant social and economic interaction, the rest of us take for granted.

In 2016 the Bank contributed over BD 1.5 million, through the donations and contributions programme, primarily directed towards health care, social welfare, supporting educational institutions including government schools, research studies and ensuring that the less privileged among us are put on the path to a more secure future. The Bank spent BD 41.2 million since the inception of the Donation and Contributions programme in 1980.

The Bank's employees also make significant contributions by sharing their skills, financial and business knowledge and the benefit of their experience with the student community. This includes participating in a broad range of training seminars and work-shops, for the benefit of students from educational establishments, particularly those that are aimed at the development of vision and leadership capabilities among Bahrain's future government and business leaders.

The National Bank of Bahrain has been at the forefront of development in the Kingdom of Bahrain will continue to remain so. Much that we pride ourselves on is our expertise in the world of banking. We also remain duly humbled at our continuous efforts to contribute effectively towards a more sustainable society. We aim to equip every member of the society with the right tools to not only have a financially prosperous future but also one which is safe, secure and enriching in every possible way.

#### **MAJOR 2016 PROJECTS**

##### **Crown Prince's International Scholarship Programme**

In 2006 NBB joined the Crown Prince International Scholarship Programme (CPISP) as a Gold sponsor and made a commitment to contribute BD 500,000 to the programme over a five-year period. Subsequently, the Bank upgraded its sponsorship level to Platinum in 2009 whereby the Bank committed to contribute BD 1 million to the programme over a five year period. In 2014 the Bank continued to support the programme for 5 more years. NBB has already made contribution of BD 1.9 million towards the programme. The sponsorship reflects the Banks continuing support to human resources development in the country and in particular, programmes that support Bahraini students to develop and improve their academic qualifications, including doctorate and master's degrees.

# Review of Operations

In 2016 the Bank contributed over BD 1.5 million, through the donations and contributions programme, primarily directed towards health care, social welfare and supporting the educational sector.

## Charity Funds Support

2016 was the thirtieth consecutive year that the Bank has provided assistance to all local charity funds registered with the Ministry of Social Development. During the past 21 years about BD 1.67 million has been contributed by the Bank to the local charity funds that provide basic sustenance to poor families and under privileged people across the Kingdom. This year, during the Holy Month of Ramadan, the Bank distributed nearly 7,692 coupons to purchase foodstuffs totaling BD150,000. The amount was allocated to local charitable societies and organization, who in turn distributed these coupons to those families who are in dire need for help and support.

On the occasion of Eid Al Fitr and Eid Al Adha, the Bank organised the purchase and distribution of gift items for occupants of the NBB Home for the Aged, NBB Home for Disabled Children, Bahrain Mobility International as well as for the children in the kindergartens of the Friendship Society for the Blind, the Bahraini Saudi Institute for the Blind, and the Child Care Home.

## Support to government School Students

In 2016, more than 20,000 needy government school students benefited from the annual winter clothing donation programme. NBB allocated BD 150,000 this year for the programme, which covered all government schools in the Kingdom of Bahrain.

## SPONSORSHIP

NBB has demonstrated a leading role in supporting a unique number of important activities and events. Major activities in which the Bank participated as a key sponsor during 2016 were:

- Support EWA electricity & Water Conservation Awareness organised by the Electricity & Water Authority
- Sponsor the 7 Middle East Investment Conference 2016 organised by the CFA Society Bahrain
- Support the Kingdom of Bahrain World Tour Cycling Team
- Sponsor the 2016 Bahrain National Day Festival organised by the Bahrain International Circuit
- Support the Euromoney Bahrain Conference 2016
- Support Spring of Culture Festival 2016 organised by the Bahrain Economic Board
- Sponsor the 11<sup>th</sup> Invest in Bahrain 2016 Forum organised by the Ministry of Industry, Commerce & Tourism

Included among the major beneficiaries of the Donations and Contributions programme this year were:

- Umm Al-Darda' Al-Sughra Center For Quranic Studies
- Bahrain Cancer society
- Children & Mother Welfare Society
- Hope Institute for Handicapped
- Women & Child Information Centre
- Bahrain Society for Child Development
- Sultan Bin A. Aziz Centre for Hearing & Speech
- The Saudi Bahraini Institute for The Blind
- Bahrain National Heredity Anemia Society
- Bahraini disabled Sports Committee
- Bahrain Down Syndrome Society
- Al Rahma Centre
- Bahrain Diabetes Society
- Bahraini Association for Intellectual Disability & Autism
- The Bahrain Young Ladies Assn/Aisha Yateem Family Counseling Center
- Migrant Workers protection Society
- Minors Estate Directorate
- Child Care Home
- Cerebral Palsy Friendship Society
- Al Sanable Orphans Care
- NBB Home for Disable Children
- NBB Home for the Aged
- Muharraq Social Welfare Centre
- UCO Parents Care Centre
- Al Manar Parents Care Centre



- Bahrain Philanthropic Society
- Bahrain Red Crescent Society
- Al Noor Charity Welfare
- Husan Al Jawar Society
- Bahrain Reproductive Health & Family Planning Association
- Bahraini Association For Parents & Friends of Disabled
- Isa Bin Salman Education Charitable Trust
- InJaz Bahrain
- Al Mabarrah Al Khalifia Foundation
- Royal Charity Organisation
- Al Noor Centre for Quran
- Discover Islam Center
- Bahrain Historical & Archaeological society
- Shaikh Ebrahim bin Mohamed Al Khalifa Centre for Culture & Research
- Islamic Association
- Bahrain Table Tennis Association
- Bankers Unions

#### MAJOR PROJECTS

Major projects financed and charity contributions made since the beginning of the donations and contributions programme:

##### Health Services:

- Building and equipping NBB Dair health centre.
- Financing and furnishing the NBB Arad health centre and physiotherapy wing.
- Providing Salmaneya Medical Centre with two advanced general purpose x-rays, an ambulance, dialysis machines and a urology endoscopy system.
- ECO cardiogram machine for Shaikh Mohamed Bin Khalifa cardiac centre.
- Annual financial support to Shaikh Mohammed Bin Khalifa Cardiac Centre at the Bahrain defense force hospital.
- Upgradation of BDF's computer systems.
- Providing Femtosecond Laser equipment to the Eye & Lasik Center at the Bahrain defence force hospital.

##### Social Welfare Schemes

- Building the Crown Prince Khalifa Bin Salman Al Khalifa theater hall in the new premise of Al Noor Charity Welfare
- Building and furnishing the NBB home for the aged.
- Building and furnishing the friendship Kindergarten for the Blind.
- Building and furnishing the NBB home for disabled children and providing a bus with special equipment.
- Supplying 2 specially manufactured buses for Bahrain mobility international and Muharraq Social Welfare Centre.
- Annual financial support to all the facilities built by the Bank.

##### Educational facilities

- Construction of administration and registration buildings for the University of Bahrain
- Building and furnishing the NBB public library in Muharraq.
- Providing the University of Bahrain with "horizon", a fully automated library system and 2 PC laboratories, the e-learning centre in addition to annual financial support for many years.
- Contribution to the new Shaikh Isa library.
- Installation of air conditioning in all government primary schools.
- Annual financial support to the university student fund.
- Computerised library system for Women and children information centre.
- Renovation of Abdulla Al Zayed House in Muharraq in coordination with Shaikh Ebrahim bin Mohamed Al Khalifa Centre for Culture & Research

# Review of Operations



**ABDUL AZIZ ABDULLA AL AHMED**  
General Manager  
Domestic Banking

## BUSINESS BANKING

As expected, the weakening of oil prices has made year 2016 one of the most challenging years for the Bahrain banking industry. While the fall in oil prices has led to a slowdown in Government spending due to stressed government revenues, the Government has resorted to external borrowing to continue work on its main strategic projects, to help support the National economy.

Moreover, the overall sluggish growth of the global economy has caused investors to be more cautious due to the high level of market uncertainty and volatility. However, despite the difficult business climate and growing competition in the domestic market, Business Banking Unit was successful in strengthening its business.

Being optimistic about the future and having strong faith in the Government of Bahrain, the Business Banking Unit focused on funding projects that are Government related, which would go a long way in stimulating the economy and lead to overall economic development of the Kingdom of Bahrain.

In addition, while the Bank remained prudent and continued to be selective regarding exposures to certain sectors of the economy, the same was compensated by maximizing business in other areas / segments, leading to an overall enhancement of the Business Banking book. Business Banking focused on understanding the business and operational cycle of their existing clients to customize products that suited their business model and cash-flow. This approach was fruitful in terms of increasing business with our existing clients and increasing our market presence.

By monitoring the market closely, several successful strategies were implemented to enhance our presence in the market. Business Banking was successful in selecting acceptable projects that align with NBB lending criteria and adopted a segmented approach whereby preferred sectors within the market were targeted to diversify the Bank's loan portfolio and minimize the risk. The Business Unit was aggressive in approaching sectors where the Bank lacked presence, by structuring products that suited both parties i.e. the clients and the Bank. The same has enhanced our strong financial position and helped us to maintain our market leadership position.

Moreover, Business Unit focused on enhancing its relationship with its existing customers that the Bank is comfortable with by implementing retention strategies such as customizing its services to suit the client requirement and structuring facilities that suit their business model. Keeping in mind that 'customer satisfaction' is the key to success, several retention strategies were implemented by the Business Banking Unit which led to maximizing business opportunities from our highly valued relationships.

The Business Banking unit's efforts to enhance non-funded business also were rewarded especially in the private (non-Govt) sector, wherein the non-funded business volumes were enhanced significantly. On the liabilities front, Business Banking Unit succeeded in attracting new deposits despite not offering the best interest returns, which demonstrates the solid reputation and trust that the Bank enjoys in the eyes of investors.

We are confident that although the region is presently witnessing a challenging economic period, the same is a temporary phase and the situation will improve sooner rather than later. We expect that the various large-ticket projects planned by industry/ Government will remain on track, opening up new opportunities in the market and NBB will do whatever is required to assist in strengthening the economic outlook of the Kingdom. The Business Banking Unit remains committed to the local economy and looks forward with optimism to the year ahead, with plans to focus on new tactical strategies to strengthen its position in the preferred sectors of the economy.

## PERSONAL BANKING

The year 2016 was yet another challenging year with the local market being affected by international developments. Though the fluctuations in oil prices have stabilized, the prices continue to remain low. This has put pressure on government revenues and spending, which has affected many downstream retail segments as well.

The Business Banking Unit remains committed to the local economy and looks forward with optimism to the year ahead.

However, the Division continued to consolidate in its core segments and managed to grow its asset book despite severe competition and price pressure. Overall customer deposits were also increased compared to previous year. Additionally, the Division concentrated on enhancing electronic & direct channels to enhance customer access and convenience. Retail Banking aimed to improve banking convenience for customers by enhancing its electronic banking channels and facilitating remote banking through self-service options. The unit worked closely with IT for the second phase of mobile banking, which introduced new remote banking services. The division also actively worked to enhance Sales & distribution channels through installation of 2 new offsite drive-through ATMs in areas of high customer density and is working to establish a new branch in the Tubli area where the Bank currently does not have a presence. Cards acceptance services were expanded through both POS and electronic payment gateways.

On core loans & advances, the low interest environment continued during the year despite an increase in Fed rates, which put pressure on interest margins. Working within difficult operating conditions, new packages and campaigns were launched for retail customers. We built on our strengths of door-step service through sales channels, and held on-site sales promotions at many employers' premises. In line with our objective of supporting retail customers, very competitive loan rates were offered which was well received by customers. Marketing campaigns were launched for loans, which was successful in attracting new customers to the bank. Campaigns were supported through below the line advertising like branch merchandising, bulk messaging, social media and data mining to cross-sell to existing customer base, which helped the division in enhancing booking volumes and income.

In line with the Bank's objective of encouraging savings habit among customers, the Bank's flagship saving scheme "Al Watani Savings" was revamped and relaunched with an attractive prize package which for the first time offered a villa as one of the mega prizes to lucky savers, in addition to other cash and non-cash prizes. In order to enable the widest participation and encourage all customers to save, enrolment in the campaign continued to be extremely customer friendly wherein all savings and Savewave accounts with the minimum balance are automatically included in the draws.

The Taabeya card continued its successful run with the portfolio increasing significantly. Marketing campaigns were run to stimulate card usage during Ramadan & Eid. Sales drives were held at employer locations and cross-sell lists were prepared by mining our database. The Bank tied up with various merchant partners to bring special offers and add value to its cardholders, for example promotions with Mastercard, Gulf Air, OSN and other retail outlets.

In an effort to bring banking services nearer to customers, the direct sales distribution channel was strengthened and used as an effective sales tool. By offering customers service at their door-step, the direct sales team was able to canvass business from a growing number of customers. Sales promotions were implemented in various Ministries and Government offices to interact directly with customers and potential customers.

Focus on Customer service continues to be a priority area for the business and in line with this objective our 24x7 Call center continued to emphasize its core function of handling customer queries and complaints and ensuring that query resolution was done to the customer's satisfaction within agreed time lines. Further, all Call Center agents made conscious efforts to promote our e-channels like Internet Banking, Mobile banking, e-statements, IVR etc. In addition to its service role, Call Center put in additional efforts to contribute to the Bank's business and be a revenue generator. Throughout the year, outbound calling program was maintained wherein potential customers were proactively called to canvass for the bank products and create sales leads. Call Center resources were also utilised for monitoring card transactions during non working hours, providing warning in case of suspicious transactions and taking appropriate action.

Retail Banking units will continue to enhance their products and services and we are optimistic about 2017. We expect that various major projects expected to be launched during the year will remain on track, which will create opportunities in the retail space as well. We are therefore confident of enhancing the base of our valued clients, maintaining and growing our already significant share of market in both deposits and assets, and meeting our objectives in 2017 and beyond.

# Review of Operations



**HUSSAIN SAYED ALI AL HUSSAINI**  
General Manager  
Treasury, Overseas Branches &  
Operations

## TREASURY, OVERSEAS BRANCHES & OPERATIONS GROUP

Global growth is projected to slow to 3.1% in 2016 before recovering to 3.4% in 2017. A more subdued outlook is due to the U.K. vote in favor of leaving the European Union and weaker than expected growth in the United States. Market sentiment toward emerging market economies has improved somewhat with expectations of lower interest rates in advanced economies and reduced concern about China's near-term prospects.

Economic activity in the Middle East appears to have bottomed out in Q2 of 2016. Ballooning fiscal deficits led to an introduction of austerity measures while financial conditions tightened. Most governments tapped their domestic and the international debt markets to finance fiscal gaps. MENA growth is expected to be 2.3% in 2016 and is expected to accelerate to 2.8% in 2017. Continued subpar growth and low inflation allowed global central banks to keep benchmark interest rates at historically low levels. The pace of U.S. Fed tightening has been much slower than our expectations with only 25bps for 2016. Europe has continued with its quantitative easing and the U.K. was again forced to lower rates in the face of BREXIT. Global equity markets continue to be supported as the unprecedented liquidity in the financial system benefited risky assets. Credit spreads have continued to benefit as well.

Main concerns for the year to come will be continued slow global growth. It will remain to be seen if monetary policy has reached its limits. Stable to higher crude prices are needed to revive GCC economies.

## PORTFOLIO MANAGEMENT UNIT:

Interest rates remained at historically low levels globally. Weakness in crude allowed for opportunities to invest in quality GCC names at extremely attractive levels early in the year.

We continue to maintain our strategy of effectively hedging the portfolios long term fixed rate risk and replace it with floating risk. Though the path to higher interest rates in the U.S. has been slower than our expectations we expect two to three interest rate hikes in 2017. Approximately 74 % of the investment portfolio is currently floating or less than one year maturity. We continue to hedge with liquid plain vanilla swaps with very strong counterparties. Liquid G-7 bonds were added to the portfolio throughout the year at attractive levels for diversification.

Market timing strategies were utilized to take advantage of the limited volatility producing capital gains throughout the year. These strategies coupled with a high level of diversification provided the unit with above average returns.

## FOREIGN EXCHANGE & MONEY MARKETS UNIT:

The year 2016 has been characterised by the restabilisation of the local interbank market following a period of a rapidly changing market and economic environment, regional players and markets adapting to the new norm and global markets that are faced with increased ambiguity. NBB's sound liquidity stance and market position allowed the bank to take advantage of opportunities that emerged during the year.

The Government of Bahrain continued to fund its fiscal deficit through issuing debt securities in the local and international markets. Relative to 2015, the increase in the supply of short-term issues was somewhat limited in 2016 as the Government focused on raising longer term funding. Accordingly, the liquidity in the Bahraini Dinar's money market was readily available among banks for most of the year with the short-term rates on the local currency only increasing marginally. The bank continued to capitalise on its strong liquidity position taking advantage of the higher short-term treasury bills and interbank rates.

NBB's sound liquidity stance and market position allowed the bank to take advantage of opportunities that emerged during the year.

The speculation in the Bahraini Dinar foreign exchange market also receded in 2016 with the currency trading close to the official peg level in the spot market while the some volatility in the forward markets persisted. The fall in the crude oil prices and subsequently government revenues in 2015 resulted in a change in the local market environment and increased uncertainty among foreign speculators about the faith of the foreign exchange policy. In 2016, the local market conditions improved notably as market participants adapted to the new environment and foreign exchange speculation receded. Positioned as a market maker in the Bahraini Dinar market, NBB benefited from the activities in forward markets generating trading revenues.

In contrast, the other GCC markets were continuing to adapt to the new norm as the shift in the economic and market conditions that took place somewhat later than in the case of Bahrain. In fact, number of interbank money markets in the region exhibited sharp increases in the short-term lending rates between banks in 2016. The governments in response introduced number of measures and undertook steps to improve the market status. Internationally, the prospects for the interest rate hike by the Federal Reserve and the presidential elections in the US, the speculation about the European banking system health, and to greater extent the decision of Britain to leave the EU increased the uncertainty among investors and dominated the market. The bank, accordingly, focused on the regional markets taking advantage of money markets and foreign exchange trading opportunities that contributed to enhancing its income for the year.

#### **TREASURY MARKETING & SALES UNIT:**

2016 proved to be a challenging year for the banking sector, as a result of the current economic environment. The continued weakness in oil prices and ongoing stringent fiscal measures adopted by regional GCC governments of reducing government expenditures and decreasing projects, subdued growth and somewhat affected business sentiment.

As a result, competition greatly intensified between banks to capture business, thus shrinking customary margins. Nevertheless, Treasury Marketing & Sales unit endeavored to pursue an aggressive marketing plan throughout the year of attracting new cliental to enhance overall activities and achieve its targeted figures, by executing a number of lucrative customer foreign exchange transactions.

Deposit growth slowed to some extent, but mainly due to government and government-related entities deposit withdrawals from the banking system for various operational and investment diversification purposes. Moreover, the surge in local and international government debt issuances and tight liquidity conditions increased the cost of maintaining and attracting deposits.

Furthermore, the unit continued its critical collaboration with various bank units to provide our valuable NBB customers with Total Treasury Solutions to accommodate all their hedging and investment requirements.

# Review of Operations

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## **INVESTMENT ADVISORY & WEALTH MANAGEMENT UNIT:**

The Investment Advisory and Wealth Management Unit provides asset management services with its main focus fixed income and custody services. The Unit's customer base includes institutions, corporates, financials & insurance companies, and high net worth individuals.

Year 2016 was once again a challenging year for the Investment Advisory and Wealth management unit. Risk adverse behavior was once again the main theme for the year and we continue to see a cautious approach by our customers.

NBB, in conjunction with other three prominent Bahrain-based financial institutions, has participated in the Bahrain Liquidity Fund in a combination of cash and shares in kind. The Fund forms part of a series of initiatives by parties involved, which is aimed at enhancing the vibrancy and depth of the Bahrain Bourse. It should help increase liquidity; volumes traded and help expand the investor base. The funds' goal is also to seek medium to long term capital appreciation.

Custodial services continued to see growth as we increased AUM by around 16%. This increase can almost fully be attributed to the inflow of new assets from institutional clients. While we continue to see competition grow in this business we were once again able to capitalize on the banks competitive advantage in fee structure and goodwill. Customer appetite continues to move toward safer fixed income assets and with the Government of Bahrain's active issuance in the local currency markets we were able to capitalize on this as we saw good customer demand.

We continue to take a very cautious approach in the proprietary investment side of the business. Our strategy has been to look for opportunities to exit positions on the book and wait for a better investment environment to allocate new capital.

Going forward we envisage continued growth in our custodial business. We also will pursue new businesses such as managed fixed income accounts for customers. As the investment environment becomes friendlier we will seek to evaluate and offer products which emphasize capital preservation and high risk-reward returns.

## **SYNDICATIONS & TRANSACTIONAL BANKING**

Generally, 2016 proved to be a challenging year in terms of solicitation of business due to changes in market liquidity, risk diameters and the reduction in the deal flow of wholesale banking transactions from both primary and secondary markets.

Nevertheless, Syndications & Transactional Banking Department continued to actively pursue business opportunities from financial institutions and regional corporate clients.

Our focus during the year was on targeting financial advisory role for industrial projects, as NBB has been mandated jointly with J.P. Morgan and Gulf International Bank to act as financial advisors for Alba's line 6 expansion project. As part of its role, NBB's team worked extensively on the comprehensive financial memorandum for the financing and structured the detailed term sheet and other related reports for the transaction. Subsequently, NBB and the other two advisors approached a large number of local, regional and international banks to raise the

NBB has been mandated jointly with J.P. Morgan and Gulf International Bank to act as financial advisors for Alba's line 6 expansion project.

required commercial loan for the project. Alba's target was to raise USD 750 million, but due to extensive marketing efforts of NBB and other advisors, we succeeded to raise total commitments of more than USD 2 billion. As a result, Alba decided to increase Loan's amount from USD 750 million to USD 1.50 billion.

In addition, NBB played the Arranger's role in the USD 570 million syndicated facility for National Oil & Gas Authority (NOGA) to finance the new oil pipeline project. We are also presently considering similar roles for BANAGAS expansion and the new Liquefied Natural Gas plant.

During the year, the Ministry of Works and Ministry of Housing were very active in awarding infrastructural and housing projects which are financed under GCC Fund allocated for Bahrain. NBB supported these projects by providing contract financing facilities to the nominated contractors of these projects. In the same context, NBB worked with other syndicate members, to restructure the BD100 million syndicated term loan facility to Eskan Bank to finance social housing projects, and the transaction is presently in the final stage of implementation. Furthermore, NBB continued its engagements with the Ministry of Finance with respect to different financing requirements of the Government.

As regards new facilities and due to the lack of adequate flow of new syndications, we shifted our focus to bilateral loans to acceptable local and regional financial institutions. These loans were on clean or collateralized basis depending on the financial position of the Borrower. A particular attention was given to Islamic banks as potential borrowers for loans using mutually acceptable Islamic Structures.

Internally, we developed a contingency funding plan for the bank to cater for possibly changing market circumstances. We also negotiated and entered in several GMRA and ISDA agreements with other banks to facilitate our treasury requirements. The department continued to support other business units (mainly Corporate Banking, Overseas Branches and Treasury) for booking loans and providing other logistical support as needed by these business units.

#### **OPERATIONS**

In its effort to maintain the highest standards of services and quality in funds transfer operation, the Bank remained strongly committed to this strategic direction, positioning the bank to be among the top tier service quality bank provider in all areas of customer services in general and fund transfer in particular. In recognition of its consistent, high-quality performance and standard in the fund transfer operations, in this year NBB has achieved the Elite Quality Recognition Award for the MT103 category of payments. The Bank was awarded with the JP Morgan 2016 Quality Recognition Award for excellence in US Dollar processing. JP Morgan presents this award to selected U.S. Dollar clearing clients who achieve outstanding straight-through results by properly formatting their Swift payments. Less than one percent of JP Morgan's total funds transfer clients are able to meet the criteria for this award. This is the 15<sup>th</sup> consecutive year that NBB has earned such recognition which clearly demonstrates NBB's the Bank's long-term commitment to maintain highest standard of quality.

# Review of Operations

During the year, Central Operations in coordination with Information Technology Department had successfully launched one of most significant national projects, namely, the "Electronic Funds Transfer System" EFTS which has been pioneered by the Central Bank of Bahrain aiming to add a new dimension to customer services, funds transfers and other payments services between retail banks in Kingdom of Bahrain is now done in a very structured and speedy ways. The introduction of FAWRI, FAWRI+ & FAWATEER, all were initiatives that truly took the payment process to a new level through the use of the latest clearing technology system across the banking industry in Bahrain .

All features were made available to the Bank's customers through Mobile Banking and Corporate Internet Banking, where customer can enjoy the state of the art technology in funds transfer/ bill payments through these e-Channels with peace of mind and fast easy access, thus customer have the privilege to use functions to conduct such payments choosing his convenient time to perform payments during the day 24/7.

## CARD CENTRE

As part of continues efforts towards enhancing and adopting highest security features to their cardholders, NBB Card Centre has carried out the necessary system enhancements and Launching 3D secure services for online shopping transactions in Septemper 2016. Over the last few years there has been a major surge in e-commerce transactions fraud. To protect our cardholders from fraudulent online shopping transactions, the Bank has initiated the 3D secure project to enhance the security of using NBB Credit/Taabeya cards over the internet where the customer has to input a password prior to conduct online transaction. The new introduced security feature will eliminate un-authorized and fraudulent e-commerce transactions.

Further customer services improvement was made, in third quarter of 2016, the bank has added new services through Mobile Banking Channel for NBB's credit cards holders, such as : Stop lost/ stolen cards, Replacing Credit/Taabeya cards, Set up/amend credit limit for supplementary credit cards, download Credit/Taabeya cards monthly statement and customer can do E-Statement registration for Credit/Taabeya cardholders. All these feature are available online with easy access and management.

## RIYADH BRANCH

Riyadh Branch maintained a cautious growth strategy throughout 2016 in view of prevailing market conditions. We updated a comprehensive full review of branch portfolio -funded and unfunded - done earlier, in 2015. We implemented specific account recommendations to maintain or enhance quality of assets held while ensuring new assets booked meet a revised Target Market and Asset Acceptance Criteria. We continued to monitor our credit exposure while focusing on highly selective bilateral relationships in high growth sectors of the economy, namely, trading, operation and maintenance, manufacturing and financial institutions. The deal flow reflected strong interest by target names in dealing with National Bank of Bahrain, Riyadh Branch. We expect many of those corporates to have a relationship with us in early 2017 as our growth in 2016 was impacted by the challenges encountered in filling vacant positions. During 2016, the branch completed a thorough training of branch staff on AML, FATCA, SAMA Rules and Regulations and Counterfeit Notes and Documentation to enhance skills of staff. Other courses



The Bank was awarded with the JP Morgan 2016 Quality Recognition Award for excellence in US Dollar processing. This is the 15th consecutive year that NBB has earned such recognition which clearly demonstrates NBB's the Bank's long-term commitment to maintain highest standard of quality.

were also attended by staff at Institute of Bankers, Riyadh and at our Head Office in Bahrain. During 2016, the branch continued to invest in Information Technology to ensure full compliance with SAMA guidelines and directions covering SARIE System and Administration, Information Security, Business Continuity and Disaster Recovery. We remain cautious going forward into 2017 and we envisage challenges in achieving our goals and objectives in growth and profitability.

#### **ABU DHABI BRANCH**

In 2016, the Branch turned a corner by registering Operating Profits in every month of 2016, as a result of the marketing ground work which was done in 2015. The Branch has built up an active list of target names for bilateral relationship and established relationship with a good number of Financial Institutions "FI" for sourcing Club/Syndication transactions. The Branch has booked both bilateral as well as syndicated facility during the year. 2016 is being ended with a strong deal flow pipeline, which bodes well for Branch business activity in 2017.

2016 continued to challenge and test banks operating in the UAE. As a result of the losses incurred in the SME segment of the Economy, UAE is finalizing the introduction of Bankruptcy Laws. Consolidation in the banking sector is also taking place with the announced merger between NBAD & FGB, this will create the UAE's largest Bank. Going forward, further consolidation in the banking sector can be expected.

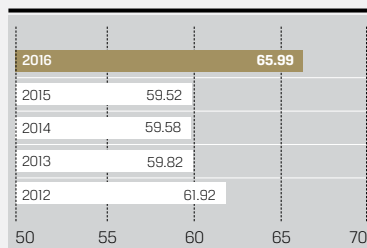
Human Resources at the Branch were brought to required level in 2016 by recruitment of Relationship Manager, Compliance Officer and Credit Risk Manager. In-house training at the Branch was arranged with Emirates Institute for Banking and Financial Studies "EIBFS" for the first time with 8 Modules covering Banking Activities including Anti Money Laundering "AML." The Branch participated in Career Fair at both Khalifa City Women's College and Abu Dhabi Women's College, both were well received.

The Branch is well positioned to face the opportunities of 2017, with the team gaining in confidence, ability, knowledge and desire to further grow on its current base.

# Financial Review

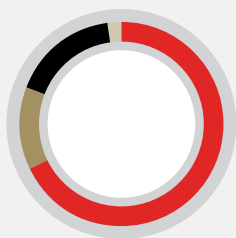
## NET INTEREST INCOME

BD millions



## COMPOSITION OF TOTAL INCOME

Per cent



- Net Interest Income (68%)
- Fees & Commission (13%)
- FX, Investment other Treasury Income (17%)
- Others (2%)

## OVERVIEW

**The Bank's financials reflect steady and consistent earnings over the years backed by a healthy capital position, well-diversified asset portfolio with adequate liquidity and strong deposit base.**

2016 was a challenging year given the tough external economic environment on the back of low oil prices and austerity measures by most of the regional governments to better manage their fiscal position. During the year, the Bank focused on supporting projects of national importance while enhancing the overall income by better asset liability management and prudent risk management. This resulted in the Bank recording a net Profit of BD 58.24 million for 2016, an increase of 5.4 per cent over the previous year actual of BD 55.26 million.

At year-end 2016, the total Balance Sheet of the Bank stood at BD 2,977.10 million compared to BD 2,999.71 million as at the previous year-end. The Bank has a well-diversified asset profile with Loans and Advances representing 34.7 per cent of the total assets, while Treasury Bills represents 16.4 per cent, Placements with Banks & Financial Institutions represent 5.4 per cent, Investment securities represent 36.7 per cent and Others 6.8 per cent of the total assets. Customer Deposits stood at BD 2,088.35 million which represents 70.1 per cent of total liabilities and equity while shareholders funds represents 13.9 per cent of total liabilities and equity and Others (mainly bank borrowings and other liabilities) the balance 16.0 per cent.

Key performance indicators continue to remain healthy with Return on Average Equity at 14.94 per cent (2015: 14.88 per cent) and a Return on Assets of 1.95 per cent (2015: 1.93 per cent) for the year 2016. Earnings Per Share improved from 48.5 fils in 2015 to 50.9 fils for 2016. Efficiency Ratio increased from 31.9 per cent for the previous year to 35.2 per cent for 2016 as the Bank continues to invest on human resources and technology to meet customer needs. The Bank continues to have a strong capital adequacy ratio of 35.4 per cent before the proposed appropriations calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks, Treasury bills and Placement with financial institutions) representing 25.2 per cent of total assets.

## NET INTEREST INCOME

Net Interest Income for 2016 was BD 65.99 million compared to BD 59.52 million for 2015, reflecting a strong increase of 10.9 per cent. The increase is attributable to growth in the average loans and advances and better return on deployment of surplus funds. Accordingly, the net interest income as a percentage of average total assets, improved to 2.21 per cent in 2016 compared to 2.07 per cent in 2015.

## OTHER INCOME

Total Other Income recorded for the year was BD 30.88 million compared to BD 34.88 million recorded for the previous year. The decrease is mainly attributable to capital gain on sale of certain fixed rate investments in the previous year which was not available during 2016 due to prevalent market conditions, lower share of profit from associates and lower fee income from lending operations.

Details of Other Income, with comparative figures for the previous year, are set out in Note 24 to the Financial Statements.

## OPERATING EXPENSES

Operating Expenses at BD 34.09 million showed an increase of 13.3 per cent over the previous year actual of BD 30.10 million, reflecting a Cost to Income Ratio of 35.2 per cent. The increase in Staff and Other Expenses is a result of investment made in human resources and technology in line with the Bank's growing business needs.

## PROVISIONS

The Bank follows International Accounting Standard 39 and Central Bank of Bahrain regulations for assessing the adequacy of provisions for loan losses. Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. Impairment and uncollectability is also measured on a portfolio basis, for a homogenous group of loans and advances not individually identified as impaired, on the basis of estimates of incurred losses inherent within the loans and advances portfolio that have not been specifically identified at the balance sheet date. The estimates are based on internal risk ratings, historical default rates adjusted considering current observable data, rating migrations, loss severity, macroeconomic outlook and other relevant factors

## OPERATING COST

BD millions

Year	Operating Cost (BD millions)
2016	34.09
2015	30.10
2014	29.19
2013	27.45
2012	27.34

that reflect the effect of current conditions on the loan book. Based on the ongoing assessment of the provision requirement, an amount of BD 2.08 million was provided towards impairment on loans and advances during the year. Further, a charge of BD 2.46 million was made for impairment on equity investments due to decrease in the market value of the investments.

Non-performing loans continue to be closely managed which decreased to BD 83.58 million at the end of 2016 compared to BD 91.54 million at the end of 2015. This includes one large exposure, which has been restructured for which the Bank holds adequate security. Details of the Bank's non-performing loans, provisions and movements therein during the year are detailed in Note 7 to the Financial Statements

## ASSETS

Total Assets stood at BD 2,977.10 million as at 31 December 2016, compared to BD 2,999.71 million as at 31 December 2015. Total Earning Assets stood at BD 2,822.98 million as at 31 December 2016 compared to BD 2,837.94 million as at the previous year-end. The Bank has a well diversified asset profile with Loans and Advances representing 34.7 per cent of the total assets, while Treasury Bills represents 16.4 per cent, Placements with Banks & Financial Institutions represent 5.4 per cent, Investment securities represent 36.7 per cent and Others 6.8 per cent of the total assets.

The loan portfolio is diversified with widespread participation in domestic market and broadening of business relationships in Bahrain in line with the Bank's strategy of focusing on the active sectors of the domestic economy. Loans and Advances portfolio is well diversified with 96.6 per cent of the total concentrated in Bahrain and other GCC countries. Based on contractual maturity terms, 45.3 per cent of the current portfolio matures within one year and 74.6 per cent is due to mature within 3 years of the balance sheet date.

At the year-end, the Bank's Investment portfolio of BD 1,092.92 million (2015: BD 1,094.04 million) consisted mainly of debt and equity securities while a small portion represents investments in mutual funds designated at Fair Value Through Profit or Loss. A major part of the available for sale debt securities represents Government of Bahrain bonds and Islamic Sukuks.

Notes 29 and 30 to the Financial Statements provide details of the distribution of Total Assets by geographical region and industry.

## LIABILITIES

Customer Deposits at year-end 2016 stood at BD 2,088.35 million compared to BD 2,247.02 million at previous year-end. The Bank continues to be successful in generating core customer deposits resulting from its dominant position in the domestic market and leveraging its image as a safe and sound financial institution in the Kingdom of Bahrain.

Borrowings under repurchase agreements and Due to banks and financial institutions stood at BD 438.09 million at year-end 2016, compared to BD 341.14 million as at year-end 2015. Customers Deposits continue to be the major source of funding with the ratio of Customers' Deposits to Total Liabilities at 81.5 per cent at year-end 2016.

## CAPITAL STRENGTH

Shareholders' Equity, inclusive of proposed appropriations, reflected a balance of BD 414.70 million as at year-end 2016, compared to BD 364.76 million as at the previous. At the year-end, Shareholders' Equity as a percentage of Total Assets was 13.9 per cent.

The Bank's capital adequacy ratio as at 31 December 2016 was 35.4 per cent with Common Equity Tier 1 (CET 1) ratio at 34.3 per cent before the proposed appropriations. The ratios have been calculated in accordance with the Basel 3 and Central Bank of Bahrain guidelines.

The Bank's capital adequacy ratio, encompassing credit, operational and market risk, is well above the Basel requirement and comfortably above the minimum level of 12.5 per cent set by the Central Bank of Bahrain. The main factors that contribute to the Bank's strong capital adequacy ratio are high capital base, low risk profile of on-balance sheet and off-balance sheet exposures which includes significant exposures to low risk weighted assets namely governments, public sector undertakings, banks and financial institutions. Note 41 to the Financial Statements and Risk and capital management disclosures provide further details on capital adequacy.



Focussing on our core banking competencies to capitalise on future growth potential



# Risk Management



**BRUCE CHARLES WADE**  
General Manager  
Risk

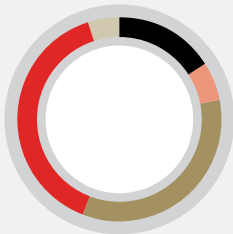
## RISK MANAGEMENT

Given the changes in the global economy, change in demand for products, conflict and unrest in particular countries and recent payment system and customer confidential information attacks on banks, the management of risk is a key issue for every bank. NBB has over the years, developed risk management into a core competence and remains well positioned to meet these challenges. The Bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at NBB has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Risk arises from the Bank's lending and investment activities as carried out by the various units. Corporate Banking is responsible for lending to large corporate entities in Bahrain. Regional Banking handles credit facilities to leading corporate entities in other countries of the GCC. The Trade Finance and Financial Institutions unit is involved in identifying and financing trade flows between the GCC region and the rest of the world. Commercial Banking's responsibilities cover the borrowing requirements of small to medium-sized companies based in Bahrain. Personal Banking handles lending to individuals in Bahrain and other retail services. Treasury and Investments is responsible for all the treasury and capital market related activities of the Bank, and the Abu Dhabi and Riyadh Branches serve the UAE and Saudi Arabian markets respectively.

## COMPOSITION OF TOTAL ASSETS

Per cent



- Treasury bills (16%)
- Placements (6%)
- Loans and advances (34%)
- Investment securities (39%)
- Other assets (5%)

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate Credit, Operational, Market and Information and Cyber Security risk policies as well as suitable operational guidelines based on the recommendation of Management. Approval authorities are delegated in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established committees that decide on all risk issues and ensures authorities are properly structured.

Integral to the Bank's risk management system is the internal audit department that plays a role in evaluating the independence and overall effectiveness of the Bank's risk management functions. A periodic review of risk assets is conducted by the department to confirm that established policies, procedures and approved terms are complied with, and to review asset quality and highlight areas of concern so that corrective action can be taken in time.

The Risk Group (RG) of the Bank provides the necessary support to the business units in all areas of risk management. This division functions independently of the business units to analyse risks and put forth its recommendations prior to approval by the delegated authorities. The Bank promotes healthy debate among the business units and RG to achieve an optimum balance between risk and return.

The Bank's risk management process encompasses the various dimensions of risk as follows:

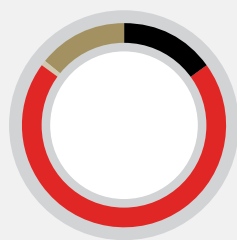
## CREDIT RISK

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral and counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral.

### COMPOSITION OF TOTAL LIABILITIES AND EQUITY

Per cent



Deposits from banks and other financial institutions & borrowings under repurchase agreements (15%)

Customers' Deposits (70%)

Other Liabilities (1%)

Equity (14%)

In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 10-point scale that takes into account 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. Ratings are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to exit accounts that evidence deterioration in risk profile.

The Bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Bank's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates. The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark to market value is positive, together with an estimate for the potential future change in the value of the contract. The credit risk on contracts with a negative mark to market value is restricted to the potential future change in their market value. Details of derivative contracts are contained in Note 17 to the Financial Statements.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 89 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. Adequate provisions are carried to guard against inherent risks in the portfolio.

#### LEGAL RISK

Legal Risk manages and mitigates the legal risks of the Bank through prompt review and advice on transaction documents; regular review of standard documentation to ensure the Bank's interests are protected; negotiate with counterparties/lawyers; keep abreast of latest developments in domestic and international banking, corporate and other laws and regulations and initiate corrective action when the Bank's business is likely to be affected.

In-house expertise independently ensures the above objectives are properly maintained. In addition, firms of international repute have been retained by the Bank to advise on foreign law related matters and represent the Bank in legal proceedings before foreign legal authorities as and when such representation is required.

#### LIQUIDITY RISK

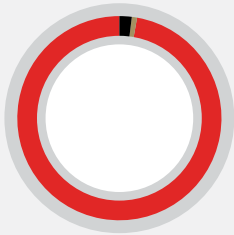
Liquidity Risk is classified as the potential inability of the bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management of the Bank ensures various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc.

# Risk Management

## GEOGRAPHICAL DISTRIBUTION OF ASSETS

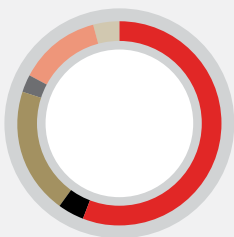
Per cent



- GCC (97%)
- Europe (2%)
- Others (1%)

## SECTOR DISTRIBUTION OF ASSETS

Per cent



- Government (56%)
- Manufacturing / Trading (4%)
- Banks / Financial Inst. (20%)
- Construction (3%)
- Personal (13%)
- Others (4%)

The Bank maintains adequate investments in liquid assets such as inter-bank placements and treasury bills. In addition, the Bank also relies on trading assets and other marketable securities to provide secondary sources of liquidity. The ratio of liquid assets to total assets as at 31 December 2016 was 25.2 per cent. The high level of liquidity enables the Bank to meet fluctuating customer borrowings and drawdowns comfortably.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. As a result of its successful deposit and asset-liability management strategies, the Bank is a net placer of funds in the interbank market and is not dependent on volatile short-term borrowings.

The Treasurer closely monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is detailed in Note 35 to the Financial Statements. As at 31 December 2016, 25.9 per cent of assets were scheduled to mature within three months. Substantial investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. Proper contingency plans exist and can be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer, reviews the liquidity gap profile, liquidity scenarios and projections, and addresses strategic issues concerning liquidity.

### INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. A negative gap denotes liability sensitivity and a positive gap denotes asset sensitivity. Note 32 to the Financial Statements gives details of the Bank's exposure to interest rate risk.

Modified Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 1.59 per cent on 31 December 2016. This implies that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 4.5 Million. Interest rate swaps and forward rate agreements



are used to manage the interest rate risk. The Treasurer is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

#### MARKET RISK

Market Risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity and equity prices. The Bank's trading activities are governed by conservative policies, stringent adherence to controls and limits, strict segregation of front and back office duties, regular reporting of positions, regular independent review of all controls and limits and rigorous testing of pricing, trading and risk management systems. The limits are set annually and regularly reviewed. Quality and rating are the main criteria in selecting a trading asset.

The Bank uses the Standardised Method to calculate Capital Charge for Market Risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirement on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk capital requirement of the Bank. The following table shows the capital charges as at 31 December 2016:

Particulars (BD'000)	Capital Charge
Interest Rate Risk	1,077
Equities Risk	56
Foreign Exchange Risk	18
Commodities Risk	-
Options Risk	-
Total minimum capital required for market risk	1,151
Multiplier	12.5
<b>Market Risk weighted exposure under the Standardized Method</b>	<b>14,388</b>

During the period January to December 2016, the maximum capital requirement as per Standardized Method was BD 2.4 Million on 6<sup>th</sup> October 2016 while the minimum capital requirement was BD 0.8 Million on 24<sup>th</sup> May 2016.

# Risk Management

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## OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address potential risks.

The Operational Risk management department within the Risk Group independently monitors and manages all aspects of operational risk on a bank wide basis. The Bank has established an Operational Risk Management Committee (ORMC) to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues. The Risk and Control Self-Assessment (RCSA) programme provides the ORMC with a compact, comparative view of operational risks, along with their measure in terms of likelihood of occurrence and probable impact across various units of the Bank, and also provides a basis to evaluate and prioritise the requirement of control enhancements and new mitigation approaches in a structured manner.

In addition to the RCSA programme, the Bank also uses Key Risk Indicators (KRIs) as a tool to monitor operational risk. KRIs are statistics and/or metrics which provide insight into the Bank's operational risk position. KRIs have been designed with thresholds that indicate increasing level of risk, thereby providing an indication of severity and the requirement to take corrective action. KRI results are tracked regularly by the Operational Risk management department and reviewed by the ORMC. Further, Operational Risk Department assess risks in all new products, services, product processes and agreements before the same are implemented.

The scope of the Bank's internal audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are also reviewed by the internal audit department and assessed for operational risk prior to their implementation. The internal audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a well-established Business Continuity Plan as well as an off-site computer back-up centre that provides full system support to the Bank's operations in case of an emergency in the information technology systems. The Business Continuity Plan and the computer back-up centre are regularly tested to ensure readiness for seamless switchover in case of any emergency.

Necessary procedures and systems have been put in place to protect the Bank from money laundering activities.

In the circumstances where internal controls do not adequately address risk and existing risk is not reasonably mitigated, complementary controls to transfer risk to another party such as through insurance is evaluated on an annual basis.

**INFORMATION AND CYBER SECURITY RISK**

Banks are constantly being challenged by increasing Information and Cyber security threats. The threats are becoming more frequent, more sophisticated, and more widespread. Bank has taken significant steps to bolster cyber security efforts. Bank is utilizing the following tools: anti-virus software, spyware and malware detection, firewalls, server-based access control lists, intrusion detection tools, intrusion prevention systems, vulnerability scanning tools, encryption for data in transit, and encrypted files. Further, Cyber security incident response and event management, access controls, network security, vendor management, and disaster recovery procedures are considered in evaluating the bank's overall safety and soundness.

In light of the challenges posed by cyber threats and to combat the evolving threat landscape, Bank Management has added an Information Security function within Risk Group that serves as an oversight on the Information and Cyber Security activities of the Bank. The Information security framework includes key aspects (1) a written Information and Cyber security policy, (2) security awareness education and employee training, (3) risk management of cyber-risk, inclusive of identification of key risks and trends, (4) information security audits, and (5) incident monitoring and reporting.

**REPUTATION AND FIDUCIARY RISK**

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators and general public and fiduciary and non-fiduciary clients. Through its policies and practices, NBB ensures that proper screening of clients' risk profiles and performance expectations are conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated and funds placed under management are treated with due care and professionalism.

All the aspects of risk mentioned above are reviewed regularly at each meeting of the Board of Directors and the Executive Committee based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.



Achieving our key targets to  
enhance share holder value



# Remuneration Report

The Bank's total compensation policy, which includes Variable Remuneration, sets out the Bank's policy on remuneration for directors and senior management and the key factors that were taken into account in setting the policy.

The Bank fully complied with the Sound Remuneration Practices rules issued by the Central Bank of Bahrain and has adopted a policy for its variable remuneration framework which approved by the Board of Directors, the shareholders and the Central Bank of Bahrain.

The key features of the remuneration framework have been summarized below.

## REMUNERATION STRATEGY

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of objectives through balancing reward for both short-term results and long-term sustainable performance. The policy is designed to share success, and to align employees' incentives with risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the Bank's success. The Bank therefore aims to attract, retain and motivate the best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of shareholders. The Bank's reward package consists of the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters and overall compliance with regulatory requirements are overseen by the Nomination and Remuneration Committee of the Board (NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they head significant business lines and any individuals within their control who have a material impact of the Bank's risk profile. In order to ensure alignment between what we pay the employees and the Bank's business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk, compliance measures and above all acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Bank believes the latter contributes to the long-term sustainability of the business.

## NRC ROLE AND FOCUS

The NRC has oversight of all compensation policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the Bank.

The responsibilities of the NRC as regards the variable compensation policy of the Bank, as stated in its mandate, include, but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure that the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank are treated differently.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls, AML and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The Board of Directors has established the Nomination & Remuneration Committee in order to address the above mentioned objectives. Details of the committee, including the meeting dates, are included under the Corporate Governance Report. The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to BHD 3,500.

#### **EXTERNAL CONSULTANTS**

External Consultants have helped the Bank in formulating its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share Incentive Scheme for the Bank.

#### **SCOPE OF APPLICATION OF THE REMUNERATION POLICY**

The remuneration policy has been adopted on a Bank-wide basis and shall apply to its overseas branches and subsidiaries.

#### **BOARD REMUNERATION**

The Bank's Board's remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of 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.

#### **VARIABLE REMUNERATION FOR STAFF**

The variable remuneration is performance related and consists primarily of the annual performance bonus award. The variable remuneration reward is linked to achieving the financial and operational targets set each year, the individual performance of the employees in achieving those targets, and their contribution to the Bank's strategic objectives.

# Remuneration Report

The Bank has a Board approved framework to develop a transparent link between performance and variable remuneration. The framework is designed on the basis that the combination of financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations). In the framework adopted in determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

The key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators.

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with the assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 10% to 10.5% of the net profit before the bonus.

## REMUNERATION OF CONTROL FUNCTIONS

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

## VARIABLE COMPENSATION FOR BUSINESS UNITS

The variable compensation for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

## RISK ASSESSMENT FRAMEWORK

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure



that the remuneration policy is designed to reduce employees' incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

The Bank's NRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework includes several adjustments. The NRC carefully examines the results of stress test and back test conducted on the variable remuneration policy framework and makes necessary corrections to the staff bonus viz., reduction of Bonus pool, possible changes to vesting period, additional deferrals and malus or clawback provisions.

The NRC, with Board's approval, can rationalize and make the following discretionary decisions:

- Increase/ decrease the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

#### **MALUS AND CLAWBACK FRAMEWORK**

The Bank's malus and clawback provisions allows the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable compensation could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be taken by the Bank's Board of Directors.

The Bank's malus and clawback provisions allows the Bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

# Remuneration Report

## COMPONENTS OF VARIABLE REMUNERATION

Variable remuneration has following main components:

<b>Upfront cash</b>	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
<b>Deferred Cash</b>	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
<b>Upfront share awards</b>	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
<b>Deferred shares</b>	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

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

## DEFERRED COMPENSATION

Employees in the grade of Senior Manager and above and those earning total annual compensation of BD 100,000 and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	GMs and above	5 highest paid business emp.	SMs and AGMs	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	50%	40%	3 years*	6 months	Yes	Yes

\* Based on the original award price

The NRC, based on its assessment of role profiles and risk taken by an employee could increase the coverage of employees that would subject to deferral arrangements.

## DETAILS OF REMUNERATION PAID

### (a) Board of Directors:

(BD '000)	2016	2015
• Sitting Fees	20	24
• Remuneration	460	460
• Others	-	-

**(b) Employees****1. Employee Remuneration****2016**

(BD '000)	Number of Staff	Fixed Remuneration		Sign on Bonuses	Guaranteed Bonuses	Variable Remuneration					Total
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
<b>Approved Persons</b>											
- Business Lines	10	1,587	2,711	0	0	709	17	156	847	0	6,028
- Control & Support	16	1,317	752	0	0	618	95	31	533	0	3,345
<b>Other Material Risk Takers</b>	4	172	54	0	0	62	12	0	49	0	350
<b>Other Staff</b>	523	6,577	2,960	0	0	3,063	43	0	169	0	12,811
<b>Overseas Staff</b>	32	777	328	0	0	52	0	3	17	0	1,177
<b>TOTAL</b>	<b>585</b>	<b>10,430</b>	<b>6,804</b>	<b>0</b>	<b>0</b>	<b>4,503</b>	<b>168</b>	<b>189</b>	<b>1,616</b>	<b>0</b>	<b>23,710</b>

Note: Other Staff Costs amounting to BD 193 (000) incurred towards recruitment and other indirect staff expenses are not included in the above.

**2015**

(BD '000)	Number of Staff	Fixed Remuneration		Sign on Bonuses	Guaranteed Bonuses	Variable Remuneration					Total
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
<b>Approved Persons</b>											
- Business Lines	11	1,634	633	0	0	743	13	170	900	0	4,093
- Control & Support	13	1,143	336	0	0	384	54	26	345	0	2,288
<b>Other Material Risk Takers</b>	5	241	86	0	0	90	18	0	72	0	507
<b>Other Staff</b>	513	6,567	3,056	0	0	2,863	28	0	114	0	12,628
<b>Overseas Staff</b>	30	435	138	0	0	21	0	0	0	0	594
<b>TOTAL</b>	<b>572</b>	<b>10,020</b>	<b>4,249</b>	<b>0</b>	<b>0</b>	<b>4,101</b>	<b>113</b>	<b>196</b>	<b>1,431</b>	<b>0</b>	<b>20,110</b>

Note: Other staff Costs amounting to BD 112(000) incurred towards Recruitment is not included in the above.

**2. Deferred Awards**

	Cash	Shares		Others	Total
	(BD '000)	Number	(BD '000)*	(BD '000)	(BD '000)
Opening Balance	176	1,732,551	1,292	-	1,468
Awarded during the year	196	2,280,389	1,544	-	1,740
Cash/Stock dividend awarded during the year	100	401,277	-	-	100
Paid out / released during the period	(59)	(818,551)	(544)	-	(602)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	8	-	-	-	8
<b>Closing balance</b>	<b>421</b>	<b>3,595,666</b>	<b>2,293</b>	<b>-</b>	<b>2,714</b>

\* Based on the original award price

# FINANCIAL STATEMENTS

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<b>Content</b>	<b>Page No.</b>
Independent Auditors' Report to the Shareholders	<b>59</b>
Statement of Financial Position	<b>64</b>
Statement of Profit or Loss	<b>65</b>
Statement of Comprehensive Income	<b>66</b>
Statement of Changes in Equity	<b>67</b>
Statement of Cash Flows	<b>68</b>
Notes to Financial Statements	<b>69</b>

# Independent Auditors' Report to the Shareholders



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

National Bank of Bahrain BSC  
PO Box 106  
Manama  
Kingdom of Bahrain

## REPORT ON THE FINANCIAL STATEMENTS

### OPINION

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditors' Report to the Shareholders

## IMPAIRMENT OF LOANS AND ADVANCES

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv), note 7 and disclosures of credit risk in note 3 of the financial statements)

DESCRIPTION	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>We focused on this area because:</p> <ul style="list-style-type: none"> <li>of the significance of loans and advances (representing 35% of total assets) and the related estimation uncertainty to the financial statements;</li> <li>the Bank makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment;</li> <li>large loans that are classified as non-performing are assessed individually by management for specific impairment based on knowledge of each individual borrower; and</li> <li>other homogenous loans are grouped together for impairment assessment on a collective basis.</li> </ul>	<p>We understood and tested key controls and focused on:</p> <ul style="list-style-type: none"> <li>the credit rating, monitoring process and assessment of the risk rating;</li> <li>past due ageing of the Bank's loans;</li> <li>the identification of impairment events;</li> <li>the governance controls over the impairment processes, including the continuous re-assessment by management of impairment models;</li> <li>the transfer of data between underlying source systems and the impairment models that the Bank operates; and</li> <li>the review and approval process that management has in place for the outputs of the Bank's impairment models.</li> </ul> <p>In addition to testing the key controls, we have also performed the following procedures:</p> <p><i>Specific Impairment Provision:</i> Our procedures included the following where specific impairment is calculated for individual loans:</p> <ul style="list-style-type: none"> <li>understanding and evaluating the key impairment triggers used by the Bank for identifying impairment events for the loan and advances portfolio;</li> <li>challenging whether all impairment events have been identified;</li> <li>for a sample of exposures that were subject to specific impairment assessment and focusing on those with the most significant potential impact on the financial statements: <ul style="list-style-type: none"> <li>we understood the basis of measuring the specific impairment provision and considered whether key judgements were appropriate given the borrowers' circumstances; and</li> <li>we tested key inputs to the expected cash flows and valuation of collateral held, and challenged management as to whether the valuations were up to date and appropriate adjustments were taken on collateral valuation to account for forced sales value.</li> </ul> </li> </ul> <p><i>Collective impairment provision:</i> Our procedures included the following where impairment is calculated on a collective basis for portfolio of loans:</p> <ul style="list-style-type: none"> <li>understanding and assessing the appropriateness of the provisioning model for the Bank's portfolio;</li> <li>testing the inputs that is used in the model and sourced from underlying systems;</li> </ul>

# Independent Auditors' Report to the Shareholders

- testing ageing and credit classification of the loans on a sample basis; and
- where modelling assumptions were based on prior historic data, we evaluated whether the output of the models are consistent with the historical losses incurred in the portfolio. We then challenged the appropriateness of the adjustments made by management to reflect current market conditions,

We assessed the adequacy of the Bank's disclosure in relation to impairment of loans and advances by reference to the requirements of relevant accounting standards, with reference to our own knowledge and to market and economic conditions.

## VALUATION AND IMPAIRMENT OF INVESTMENT SECURITIES

(refer to the use of estimate and management judgement in note 2(d), impairment policy in note 2f(xiv) and note 8 of the financial statements)

DESCRIPTION	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>We focused on this area because:</p> <ul style="list-style-type: none"> <li>• of the significance of investment securities (representing 37% of total assets) to the financial statements;</li> <li>• of the total investment securities, a significant amount (representing 67% of total investment securities) comprise unquoted debt and equity securities at fair value, the measurement of which requires use of estimates and judgements; and</li> <li>• the Bank makes subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.</li> </ul>	<p>We understood and tested key controls and focused on:</p> <ul style="list-style-type: none"> <li>• documenting and assessing the processes in place to record investment transactions and to value the quoted investment portfolio;</li> <li>• agreeing the valuation of the quoted equity and debt securities to externally quoted prices;</li> <li>• for unquoted equity securities, we challenged the appropriateness of the valuation methodology selected and compared key underlying financial data inputs to external sources, investee company financial statements and management information as applicable;</li> <li>• for unquoted debt securities, we tested the valuation by evaluating the appropriateness of the valuation technique used and the inputs that are directly observable from market data;</li> </ul> <p>For impairment of debt securities, we:</p> <ul style="list-style-type: none"> <li>• evaluated individual debt security for any signs of significant financial difficulty of the issuer;</li> <li>• assessed if there has been a default or past due event;</li> <li>• assessed individual debt security for a significant drop in external credit rating; and</li> <li>• assessed if there had been a significant drop in fair value.</li> </ul> <p>For impairment of available-for-sale equity securities, we:</p> <ul style="list-style-type: none"> <li>• examined whether management has identified all investments that have experienced a decline in fair value below cost; and</li> <li>• evaluated the reasonableness and consistency of the application of the criteria to determine that a significant or prolonged decline in fair value below cost has led to recognition of impairment.</li> </ul> <p>We assessed the adequacy of the Bank's disclosure in relation to impairment of investment securities by reference to the requirements of relevant accounting standards.</p>

# Independent Auditors' Report to the Shareholders

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## *OTHER INFORMATION*

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors report and other sections which forms part of the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we have obtained prior to the date of this auditors' report, 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 IFRS, 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.

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.

## *AUDITORS' 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 auditors' 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.



# Independent Auditors' Report to the Shareholders

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER 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 board of directors report is consistent with the financial statements;
- c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would 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.

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.



**KPMG Fakhro**

Partner registration number 83

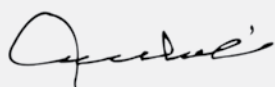
30 January 2017

# Statement of Financial Position

As at 31 December 2016

	Note	2016		2015	
		BD millions	US\$ millions	BD millions	US\$ millions
<b>Assets</b>					
Cash and balances at central banks		102.99	273.92	106.78	284.00
Treasury bills	4	486.80	1,294.69	462.94	1,231.23
Placements with banks and other financial institutions	5	160.90	427.93	185.45	493.21
Trading securities	6	0.35	0.93	6.04	16.06
Loans and advances	7	1,031.93	2,744.48	1,051.72	2,797.11
Investment securities	8	1,092.92	2,906.71	1,094.04	2,909.68
Investment in associates	9	50.08	133.18	37.75	100.40
Interest receivable and other assets	10	38.71	102.96	42.48	112.98
Property and equipment	19	12.42	33.03	12.51	33.27
<b>Total assets</b>		<b>2,977.10</b>	<b>7,917.83</b>	2,999.71	7,977.94
<b>Liabilities</b>					
Due to banks and other financial institutions	11	373.81	994.19	271.49	722.05
Borrowings under repurchase agreements	12	64.28	170.96	69.65	185.22
Customers' deposits	13	2,088.35	5,554.12	2,247.02	5,976.13
Interest payable and other liabilities	14	35.96	95.64	46.79	124.43
<b>Total liabilities</b>		<b>2,562.40</b>	<b>6,814.91</b>	2,634.95	7,007.83
<b>Equity</b>					
Share capital	20	115.95	308.38	105.41	280.34
Shares under employee share incentive scheme	20	(1.64)	(4.36)	(1.72)	(4.57)
Share premium	21	2.53	6.73	1.21	3.22
Statutory reserve	21	57.98	154.19	51.75	137.63
General reserve	21	32.40	86.17	32.40	86.17
Other reserves and retained earnings	21	207.48	551.81	175.71	467.32
<b>Total equity</b>		<b>414.70</b>	<b>1,102.92</b>	364.76	970.11
<b>Total liabilities and equity</b>		<b>2,977.10</b>	<b>7,917.83</b>	2,999.71	7,977.94

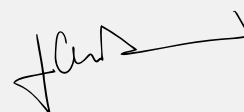
The Board of Directors approved the financial statements consisting of pages 64 to 105 on 30 January 2016 and signed on their behalf by :



**Farouk Yousuf Khalil Almoayyed**  
Chairman



**Dr. Essam Abdulla Fakhro**  
Deputy Chairman



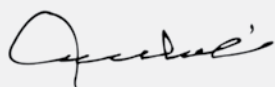
**Jean Christophe Durand**  
Chief Executive Officer

The accompanying notes 1 to 43 are an integral part of these financial statements.

# Statement of Profit or Loss

For the year ended 31 December 2016

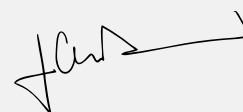
	Note	2016		2015	
		BD millions	US\$ millions	BD millions	US\$ millions
Interest income	22	88.14	234.41	76.13	202.48
Interest expense	22	(22.15)	(58.90)	(16.61)	(44.18)
<b>Net interest income</b>		<b>65.99</b>	<b>175.51</b>	59.52	158.30
Other income	23	30.88	82.14	34.88	92.77
<b>Total operating income</b>		<b>96.87</b>	<b>257.65</b>	94.40	251.07
Staff expenses	24	23.90	63.57	20.22	53.78
Other expenses		10.19	27.13	9.88	26.27
<b>Total operating expenses</b>		<b>34.09</b>	<b>90.70</b>	30.10	80.05
<b>Profit before provisions</b>		<b>62.78</b>	<b>166.95</b>	64.30	171.02
Impairment provisions for loans and advances	7	(2.08)	(5.53)	(7.74)	(20.59)
Impairment provisions for investments		(2.46)	(6.54)	(1.30)	(3.46)
<b>Profit for the year</b>		<b>58.24</b>	<b>154.88</b>	55.26	146.97
Basic and diluted earnings per share	37	50.9 fils	14 cents	48.5 fils	13 cents



**Farouk Yousuf Khalil Almoayyed**  
Chairman



**Dr. Essam Abdulla Fakhro**  
Deputy Chairman



**Jean Christophe Durand**  
Chief Executive Officer

# Statement of Comprehensive Income

For the year ended 31 December 2016

	2016		2015	
	BD millions	US\$ millions	BD millions	US\$ millions
<b>Profit for the year</b>	<b>58.24</b>	<b>154.88</b>	55.26	146.97
<b>Other comprehensive income:</b>				
<b>Items that are or may be reclassified subsequently to profit or loss:</b>				
Foreign currency translation movement	(0.01)	(0.03)	(0.01)	(0.03)
Fair value reserve (available-for-sale securities):				
Net change in fair value	19.53	51.95	(39.65)	(105.45)
Net amount transferred to profit or loss	(1.89)	(5.03)	(4.96)	(13.19)
Share of other comprehensive income of associate	-	-	(0.36)	(0.96)
<b>Total other comprehensive income for the year</b>	<b>17.63</b>	<b>46.89</b>	(44.98)	(119.63)
<b>Total comprehensive income for the year</b>	<b>75.87</b>	<b>201.77</b>	10.28	27.34

The accompanying notes 1 to 43 are an integral part of these financial statements.

# Statement of Changes In Equity

For the year ended 31 December 2016

For the year ended 31 December 2016											
In BD millions	Note	Shares under employee share		Share Premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total	
		Share capital	incentive scheme							BD millions	US \$ millions
Balance at 1 January 2016		105.41	(1.72)	1.21	51.75	32.40	7.62	13.40	154.69	364.76	970.11
2015 appropriations											
Cash Dividend at 25%		-	-	-	-	-	-	-	(25.98)	(25.98)	(69.10)
Bonus shares issued 10%		10.54	(0.15)	-	-	(10.54)	-	-	0.15	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.76	(2.76)	-	-
Transfer to general reserve / statutory reserve		-	-	-	0.96	15.81	-	-	(16.77)	-	-
Transfer to statutory reserve		-	-	-	5.27	(5.27)	-	-	-	-	-
Balance after 2015 appropriations		115.95	(1.87)	1.21	57.98	32.40	7.62	16.16	109.33	338.78	901.01
Employee shares allocated		-	0.23	1.32	-	-	-	-	-	1.55	4.13
Comprehensive income for the year:											
Profit for the year		-	-	-	-	-	-	-	58.24	58.24	154.88
Other comprehensive income		-	-	-	-	-	17.64	-	(0.01)	17.63	46.89
Total comprehensive income for the year		-	-	-	-	-	17.64	-	58.23	75.87	201.77
Utilisation of donation and charity reserve		-	-	-	-	-	-	(1.50)	-	(1.50)	(3.99)
<b>Balance at 31 December 2016</b>	<b>20-22</b>	<b>115.95</b>	<b>(1.64)</b>	<b>2.53</b>	<b>57.98</b>	<b>32.40</b>	<b>25.26</b>	<b>14.66</b>	<b>167.56</b>	<b>414.70</b>	<b>1,102.92</b>

\* The appropriations for the year 2016 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 28.99 million for cash dividend at 25% (2015: 25%), BD 2.91 million for donations and contributions and a transfer of BD 17.39 million from retained earnings to general reserve. The Board of Directors has also proposed a one for ten bonus issue through utilization of BD 11.60 million from general reserve and the transfer of BD 5.80 million from General Reserve to Statutory Reserve .

For the year ended 31 December 2015											
In BD millions	Note	Shares under employee share		Share Premium	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total	
		Share capital	incentive scheme							BD millions	US \$ millions
Balance at 1 January 2015		94.09	-	-	47.05	32.40	52.60	12.15	139.73	378.02	1,005.37
2014 appropriations											
Cash Dividend at 25%		-	-	-	-	-	-	-	(23.52)	(23.52)	(62.55)
Bonus shares issued 10%		9.41	-	-	-	(9.41)	-	-	-	-	-
Transfer to donations and charity		-	-	-	-	-	-	2.67	(2.67)	-	-
Transfer to general reserve		-	-	-	-	14.11	-	-	(14.11)	-	-
Transfer to statutory reserve		-	-	-	4.70	(4.70)	-	-	-	-	-
Balance after 2014 appropriations		103.50	-	-	51.75	32.40	52.60	14.82	99.43	354.50	942.82
Employee shares issued		1.91	(1.91)	-	-	-	-	-	-	-	-
Employee shares allocated		-	0.19	1.21	-	-	-	-	-	1.40	3.73
Comprehensive income for the year:											
Profit for the year		-	-	-	-	-	-	-	55.26	55.26	146.97
Other comprehensive income		-	-	-	-	-	(44.98)	-	-	(44.98)	(119.63)
Total comprehensive income for the year		-	-	-	-	-	(44.98)	-	55.26	10.28	27.34
Utilisation of donation and charity reserve		-	-	-	-	-	-	(1.42)	-	(1.42)	(3.78)
Balance at 31 December 2015	<b>20-22</b>	<b>105.41</b>	<b>(1.72)</b>	<b>1.21</b>	<b>51.75</b>	<b>32.40</b>	<b>7.62</b>	<b>13.40</b>	<b>154.69</b>	<b>364.76</b>	<b>970.11</b>

The accompanying notes 1 to 43 are an integral part of these financial statements.

# Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016		2015	
		BD millions	US\$ millions	BD millions	US\$ millions
<b>Cash flows from operating activities</b>					
<b>Profit for the year</b>		<b>58.24</b>	<b>154.88</b>	55.26	146.97
Adjustments to reconcile net income to net cash from operating activities :					
Depreciation		<b>1.65</b>	<b>4.39</b>	1.77	4.71
Impairment provisions on loans and advances	7	<b>2.08</b>	<b>5.53</b>	7.75	20.59
Impairment provisions on investments		<b>2.46</b>	<b>6.54</b>	1.30	3.46
Share of profit of associates		<b>(2.99)</b>	<b>(7.95)</b>	(4.58)	(12.19)
<b>Profit for the year after adjustments</b>		<b>61.44</b>	<b>163.39</b>	61.50	163.54
<b>Changes in operating assets and liabilities</b>					
Balances with central banks (mandatory cash reserves)		<b>3.36</b>	<b>8.94</b>	2.02	5.38
Treasury bills		<b>(145.38)</b>	<b>(386.65)</b>	(120.26)	(319.85)
Placements with banks and other financial institutions		<b>(15.42)</b>	<b>(41.01)</b>	12.54	33.35
Trading securities		<b>5.69</b>	<b>15.13</b>	(5.48)	(14.56)
Loans and advances		<b>17.71</b>	<b>47.10</b>	(276.44)	(735.23)
Investment securities		<b>5.98</b>	<b>15.89</b>	(137.13)	(364.72)
Interest receivable and other assets		<b>0.88</b>	<b>2.34</b>	(9.01)	(23.93)
Due to banks and other financial institutions		<b>102.32</b>	<b>272.13</b>	133.16	354.15
Borrowings under repurchase agreements		<b>(5.37)</b>	<b>(14.28)</b>	41.48	110.31
Customer deposits		<b>(158.67)</b>	<b>(421.99)</b>	92.17	245.15
Interest payable and other liabilities		<b>1.74</b>	<b>4.63</b>	5.33	14.19
<b>Net cash used in operating activities</b>		<b>(125.72)</b>	<b>(334.38)</b>	(200.12)	(532.22)
<b>Cash flows from investing activities</b>					
Investment in associates		<b>(10.00)</b>	<b>(26.60)</b>	(9.16)	(24.35)
Dividend received from associates		<b>0.65</b>	<b>1.73</b>	0.23	0.60
Purchase of property and equipment, net		<b>(1.56)</b>	<b>(4.15)</b>	(1.29)	(3.43)
<b>Net cash used in investing activities</b>		<b>(10.91)</b>	<b>(29.02)</b>	(10.22)	(27.18)
<b>Cash flows from financing activities</b>					
Dividends paid		<b>(25.66)</b>	<b>(68.24)</b>	(23.26)	(61.86)
Donations and charities paid		<b>(1.50)</b>	<b>(3.99)</b>	(1.42)	(3.78)
<b>Net cash used in financing activities</b>		<b>(27.16)</b>	<b>(72.23)</b>	(24.68)	(65.64)
<b>Net decrease in cash and cash equivalents</b>		<b>(163.79)</b>	<b>(435.63)</b>	(235.02)	(625.04)
<b>Cash and cash equivalents at 1 January</b>	15	<b>372.65</b>	<b>991.10</b>	607.67	1,616.14
<b>Cash and cash equivalents at 31 December</b>	15	<b>208.86</b>	<b>555.47</b>	372.65	991.10

The accompanying notes 1 to 42 are an integral part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 1. ACTIVITIES

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries. The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a. Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

### b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (US\$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US dollar at the rate of BHD 0.376 to US\$ 1 (2015: BHD 0.376 to US\$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments at fair value through profit or loss, available-for-sale investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

#### i) New standards, amendments and interpretations effective from 1 January 2016:

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Bank:

#### Disclosure Initiative (Amendments to IAS 1)

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

Materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

Disaggregation and subtotals - line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

Notes - confirmation that the notes do not need to be presented in a particular order.

OCI arising from investments accounted for under the equity method - the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The adoption of this amendment had no significant impact on the financial statements of the Bank.

#### ii) New standards, amendments and interpretations issued but not yet effective:

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2017.

# Notes to the Financial Statements

For the year ended 31 December 2016

## IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The application of this standard will have no significant impact on the financial statements of the Bank.

## IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank currently plans to apply IFRS 9 initially on 1 January 2018.

The Bank has assessed the likely impact of this standard and expects no significant impact on the financial statements of the Bank. The actual impact of adopting IFRS 9 on the Bank's financial statements in 2018 will be dependent on the financial instruments that the Bank holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

### iii) Early adoption of standards

The Bank did not early adopt new or amended standards in 2016.

## c. Foreign currencies

### Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in "other income".

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comprehensive income as part of fair value changes.

### Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at spot exchange rate at the reporting date. The income and expenses of these overseas branches for the period are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

## d. Use of estimates and management judgement

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.



# Notes to the Financial Statements

For the year ended 31 December 2016

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of significant or prolonged decline requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price for the specific equity instrument and also the general market index. In addition, the Bank considers impairment when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

## **e. Accounting for income and expenses**

**i)** Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

**ii)** Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

**iii)** Dividend income is recognised when the right to receive a dividend is established.

# Notes to the Financial Statements

For the year ended 31 December 2016

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability, which is unfunded, is considered as a 'Defined Benefit Plan' which represents a defined benefit scheme under IAS 19, and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

## **f. Financial assets and liabilities**

i) Investments at fair value through profit or loss comprised of investments designated at inception at fair value through profit or loss and trading investments.

Investments designated at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, fund manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Trading securities: Securities which are either acquired for the purpose of generating profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market bid prices. Realised and unrealised gains and losses on trading securities are included in the statement of profit or loss.

### **ii) Held-to-maturity investments**

Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held to maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

### **iii) Available-for-sale investments**

Investments which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale investments. Available-for-sale investments which comprise both debt and equity investments are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices, brokers quotes or amounts derived from cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive income are transferred to the statement of profit or loss.

# Notes to the Financial Statements

For the year ended 31 December 2016

**iv) Investment securities measured as at amortised cost:**

Investments measured as at amortised cost are those non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Investment securities measured as at amortised cost are stated at amortised cost, less provision for impairment.

**v) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

**vi) Customer deposits**

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest method.

**vii) Financial guarantees**

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

**viii) Derivative financial instruments**

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

**ix) Repos and Reverse repos**

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised on the statement of financial position and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.

# Notes to the Financial Statements

For the year ended 31 December 2016

## x) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the bank in the management of its short term commitments.

## xi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

## xii) Fair value measurement

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

## xiii) Categorisation of financial assets

The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

## xiv) Identification and measurement of impairment

At each reporting date, the carrying amount of the Bank's financial assets not carried at fair value through profit or loss is reviewed to determine whether there is objective evidence that a specific asset may be impaired. Financial asset(s) is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that financial assets are impaired include significant financial difficulty of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not consider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced directly or through use of an allowance account. The amount of the loss shall be recognized in statement of profit or loss. When subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through statement of profit or loss.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

# Notes to the Financial Statements

For the year ended 31 December 2016

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of losses that have been incurred but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

In case of debt securities classified as available-for-sale, the bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principle repayment and amortisation, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

For an investment in equity security classified as available-for-sale, a significant or prolonged decline in fair value below cost is an objective evidence of impairment. Where there is an objective evidence of impairment, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

## **xv) De-recognition of financial assets and liabilities**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the terms of the financial assets are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be de-recognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

# Notes to the Financial Statements

For the year ended 31 December 2016

## g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

## h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

## i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

# Notes to the Financial Statements

For the year ended 31 December 2016

## **j. Other provisions**

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## **k. Off-setting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the bank currently has a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## **l. Settlement date accounting**

All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative transactions are recognised on trade date i.e. the date the bank contracts to purchase or sell.

## **m. Proposed appropriations**

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

## **n. Remuneration policy**

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of Board.

Employees - The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees' performance during the year.

The above is in compliance with the sound remuneration practices of the Central Bank of Bahrain.

## **o. Segment reporting**

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

## **p. Earnings per share**

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

## **q. Income tax liability**

The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

## **r. Repossessed property**

In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

## **s. Fund administration**

The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of trust or other institutions. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- operational risk

### Risk management framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various 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. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer.

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### Credit Risk

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 has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collaterals to provide a cushion against adverse movement in the market price of collateral.

The Credit Review Department of the Bank analyses risks and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account 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. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.



# Notes to the Financial Statements

For the year ended 31 December 2016

## Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising 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 Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

## Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

## Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks.

The scope of the Bank's Internal Audit division encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit division and assessed for operational risks prior to their implementation. The Internal Audit division is operationally independent and reports significant internal control deficiencies to the Audit Committee.

## Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasis common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 4. TREASURY BILLS

Treasury bills are short-term in nature. These include treasury bills issued by the Government of Bahrain and Government of Saudi Arabia. They also include short-term Islamic Sukuk issued by the Government of Bahrain.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Government of Bahrain	476,800	1,268,085	452,907	1,204,540
Government of Saudi Arabia	10,002	26,601	10,034	26,686
<b>Total</b>	<b>486,802</b>	<b>1,294,686</b>	462,941	1,231,226

## 5. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Placements with banks	145,484	386,926	170,031	452,210
Placements with other financial institutions	15,416	41,000	15,416	41,000
<b>Total</b>	<b>160,900</b>	<b>427,926</b>	185,447	493,210

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Current and call accounts	12,352	32,851	7,436	19,777
Placements -Term	148,548	395,075	178,011	473,433
<b>Total</b>	<b>160,900</b>	<b>427,926</b>	185,447	493,210

## 6. TRADING SECURITIES

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Equity securities	349	928	406	1,080
Debt securities	-	-	5,633	14,981
<b>Total</b>	<b>349</b>	<b>928</b>	6,039	16,061

## 7. LOANS AND ADVANCES

a) As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Loans and advances to non-banks	947,443	2,519,796	920,002	2,446,814
Loans and advances to banks	134,028	356,457	180,347	479,646
Less: Provision for impairment	(49,545)	(131,769)	(48,634)	(129,346)
<b>Total</b>	<b>1,031,926</b>	<b>2,744,484</b>	1,051,715	2,797,114

# Notes to the Financial Statements

For the year ended 31 December 2016

## 7. LOANS AND ADVANCES (Continued)

b) As at 31 December 2016, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 515.3 million (US\$ 1,370.5 million) [31 December 2015: BD 540.73 million (US\$ 1,438.11 million)].

c) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing on which interest is not being accrued. The following is the ageing schedule of non-performing loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Over 3 months to 1 year	7,544	20,063	21,825	58,045
1 to 3 years	21,780	57,926	9,540	25,372
Over 3 years	54,253	144,290	60,173	160,035
<b>Total</b>	<b>83,577</b>	<b>222,279</b>	91,538	243,452

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Bank. As at 31 December 2016, loans past due below 90 days but not impaired amounted to BD 3.78 million (US\$ 10.04 million) [31 December 2015: BD 3.35 million (US\$ 8.91 million)].

d) The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be de-recognized and the renegotiated loan recognized as a new loan.

The Bank renegotiates loans to customers as a result of changes in anticipated cash flows and / or in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. During 2016, credit facilities amounting to BD Nil million (US\$ Nil million) were restructured [2015: BD 22.66 million (US\$ 60.27 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/ projects' revised cash flow projections and amending the terms of loan covenants. Due to minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

e) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/ bank guarantees. As at 31 December 2016, loans and advances amounting to BD 222.59 million (US\$ 591.99 million) [31 December 2015: BD 247.7 million (US\$ 658.78 million)] were fully collateralized and loans and advances amounting to BD 11.08 million (US\$ 29.47 million) [31 December 2015: BD 12.80 million (US\$ 34.04 million)] were partly collateralized with a collateral value of BD 4.14 million (US\$ 11.01 million) [31 December 2015: BD 6.83 million (US\$ 18.16 million)].

# Notes to the Financial Statements

For the year ended 31 December 2016

## 7. LOANS AND ADVANCES (Continued)

### f) Exposure to credit risk

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>TOTAL CARRYING AMOUNT</b>	<b>1,031,926</b>	<b>2,744,484</b>	1,051,715	2,797,114
<b>1. Individually impaired</b>				
Substandard	58,130	154,601	68,315	181,689
Doubtful	1,869	4,971	1,200	3,191
Loss	23,578	62,707	22,023	58,572
Individually impaired net of interest in suspense	83,577	222,279	91,538	243,452
Specific provision for impairment	(36,509)	(97,098)	(35,819)	(95,263)
<b>Individually impaired carrying amount</b>	<b>47,068</b>	<b>125,181</b>	55,719	148,189
<b>2. Past due below 90 days but not impaired</b>				
Gross amount	3,776	10,043	3,350	8,910
Collective impairment provision	(48)	(128)	(43)	(114)
<b>Past due but not impaired carrying amount</b>	<b>3,728</b>	<b>9,915</b>	3,307	8,796
<b>3. Neither past due nor impaired by internal rating</b>				
Rated 1	47,352	125,936	36,657	97,492
Rated 2	23,900	63,564	16,431	43,699
Rated 3	64,624	171,872	94,051	250,135
Rated 4	136,248	362,362	125,530	333,856
Rated 5	116,703	310,380	258,750	688,165
Rated 6	215,431	572,955	93,604	248,947
Rated 7	13,578	36,112	5,640	15,000
Not rated *	376,282	1,000,750	374,798	996,803
Gross amount	994,118	2,643,931	1,005,461	2,674,097
Collective impairment provision	(12,988)	(34,543)	(12,772)	(33,968)
<b>Carrying amount of neither past due nor impaired</b>	<b>981,130</b>	<b>2,609,388</b>	992,689	2,640,129
<b>Total carrying amount</b>	<b>1,031,926</b>	<b>2,744,484</b>	1,051,715	2,797,114

\* Includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

### g) Impairment provisions for loans and advances

Movements during the year	Specific		Collective		Total	
	Impairment Provision		Impairment Provision		Impairment Provisions	
Amounts in BD '000's	2016	2015	2016	2015	2016	2015
At 1 January	35,819	27,705	12,815	11,154	48,634	38,859
Net charge for the year	1,074	5,145	1,010	2,600	2,084	7,745
Amounts written off against provision	(1,173)	(1,037)	-	-	(1,173)	(1,037)
Recoveries, transfers & write backs	789	4,006	(789)	(939)	-	3,067
At 31 December	36,509	35,819	13,036	12,815	49,545	48,634

The provisions relate to loans and advances to non-banks. In accordance with the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 8. INVESTMENT SECURITIES

Investment securities comprise the following:

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Available-for-sale investments	1,106,784	2,943,574	1,072,506	2,852,410
Provision for impairment on available-for-sale investments	(14,164)	(37,670)	(12,340)	(32,819)
	1,092,620	2,905,904	1,060,166	2,819,591
Investments designated at fair value through profit or loss	303	806	712	1,894
Investment securities measured as at amortized cost	-	-	33,160	88,191
<b>Total investment securities</b>	<b>1,092,923</b>	<b>2,906,710</b>	<b>1,094,038</b>	<b>2,909,676</b>

### A) Available for sale investments

#### i. Breakdown of quoted and unquoted securities

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>Quoted:</b>				
Debt securities	320,614	852,697	338,504	900,277
Equity securities	53,409	142,045	61,371	163,221
<b>Total</b>	<b>374,023</b>	<b>994,742</b>	<b>399,875</b>	<b>1,063,498</b>
Provision for impairment on available-for-sale securities	(14,164)	(37,670)	(12,340)	(32,819)
<b>Total net quoted securities</b>	<b>359,859</b>	<b>957,072</b>	<b>387,535</b>	<b>1,030,679</b>
<b>Unquoted:</b>				
Debt securities	722,429	1,921,353	660,433	1,756,471
Equity securities	10,332	27,479	12,198	32,441
Total net unquoted securities	732,761	1,948,832	672,631	1,788,912
<b>Total available-for-sale investments</b>	<b>1,092,620</b>	<b>2,905,904</b>	<b>1,060,166</b>	<b>2,819,591</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

## 8. INVESTMENT SECURITIES (Continued)

### ii. Breakdown between fixed rate and floating rate available-for-sale debt securities

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Fixed rate debt securities	425,720	1,132,234	441,821	1,175,056
Floating rate debt securities*	617,323	1,641,816	557,116	1,481,692
<b>Total</b>	<b>1,043,043</b>	<b>2,774,050</b>	998,937	2,656,748

\* Floating rate debt securities at 31 December 2016 include securities amounting to BD 608.25 million (US\$ 1,617.7 million) [31 December 2015: BD 545.95 million (US\$ 1,452 million)] of hedged fixed rate bonds.

### iii. Breakdown of available-for-sale debt securities by rating.

The ratings given below are by established rating agencies.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
AAA	9,339	24,838	21	56
AA	12,304	32,723	23,815	63,338
A	36,384	96,766	37,701	100,269
BBB	18,138	48,239	930,091	2,473,646
BB*	965,015	2,566,529	1,795	4,774
Not-rated	1,863	4,955	5,514	14,665
<b>Total</b>	<b>1,043,043</b>	<b>2,774,050</b>	998,937	2,656,748

\* 2016 represent mainly Government of Bahrain Bonds and Islamic Sukuks.

### B) Investments designated at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments as under:

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Investments in managed funds	303	806	712	1,894
<b>Total</b>	<b>303</b>	<b>806</b>	712	1,894

# Notes to the Financial Statements

For the year ended 31 December 2016

## 9. INVESTMENT IN ASSOCIATES

The Bank has a 29.06% shareholding in Bahrain Islamic Bank. Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain and operates under a retail banking license issued by the Central Bank of Bahrain and carries out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a)

The Bank has a 34.84% interest in The Benefit Company BSC (c) incorporated in the Kingdom of Bahrain. The company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain Cheque Truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

During 2016, the Bank acquired 24.27% of the units issued by the Bahrain Liquidity Fund (BLF). BLF was set up in 2016 as an open ended fund registered as Private Investment Undertaking "PIU" as per Central Bank of Bahrain Rulebook Volume 7. The main objective of BLF is to add liquidity to Bahrain Bourse, which over a period of time should result in enhancing investors' confidence in the market's listed securities.

The Bank has recognised both the investments as equity accounted associates in accordance with IAS 28 "Investment in associates".

Movements during the year	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	37,749	100,395	24,602	65,430
Acquisition during the year	10,000	26,596	9,155	24,348
Share of profit/ (loss)	2,985	7,939	4,584	12,191
Dividends received	(650)	(1,729)	(226)	(601)
Share of change in fair value reserve	(8)	(21)	(366)	(973)
<b>At 31 December</b>	<b>50,076</b>	<b>133,180</b>	37,749	100,395

Shares of Bahrain Islamic Bank are listed on the Bahrain Stock Exchange and the quoted price on 31 December 2016 was BD 0.123 (31 December 2015: BD 0.143). The estimated fair value of the investment based on this price is BD 36.22 million (US\$ 96.33 million) [(31 December 2015: BD 41.91 million) (US\$ 111.46 million)].

The financial statements of the associates used for applying the equity accounting are as of 30 September 2016 which is different from the reporting date of the Bank. Accordingly, amounts have been adjusted for material transactions, if any, for the period from 30 September 2016 to the Bank's reporting date.

## 10. INTEREST RECEIVABLE AND OTHER ASSETS

Movements during the year	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest receivable	22,251	59,178	17,955	47,753
Accounts receivable & prepayments	8,611	22,902	21,693	57,694
Positive fair value of derivatives	3,455	9,189	1,088	2,893
Others*	4,397	11,694	1,746	4,644
<b>Total</b>	<b>38,714</b>	<b>102,963</b>	42,482	112,984

\* Others include BD 4.18 million (US\$ 11.12 million) [31 December 2015: BD 1.08 million (US\$ 2.92 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and net realisable value.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions consists of short-term borrowings from banks and financial institutions.

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Current and call accounts	74,150	197,207	45,101	119,949
Term deposits	299,664	796,979	226,390	602,101
<b>Total</b>	<b>373,814</b>	<b>994,186</b>	271,491	722,050

## 12. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amounts to BD 64.28 million (US\$ 170.96 million) [31 December 2015: BD 69.65 million (US\$ 185.22 million)] and the fair value of the investment securities pledged as collateral amounts to BD 69.45 million (US\$ 184.71 million) [31 December 2015: BD 72.89 million (US\$ 193.86 million)].

## 13. CUSTOMER DEPOSITS

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Repayable on demand or at short notice	1,188,342	3,160,484	1,235,808	3,286,723
Term deposits	900,006	2,393,633	1,011,216	2,689,404
<b>Total</b>	<b>2,088,348</b>	<b>5,554,117</b>	2,247,024	5,976,127

## 14. INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest payable	18,809	50,024	16,363	43,518
Creditors & account payables	2,152	5,723	3,694	9,824
Deferred income	1,800	4,787	1,127	2,997
Employee benefits	11,066	29,431	11,097	29,513
Negative fair value of derivatives	719	1,912	13,366	35,548
Others	1,413	3,758	1,141	3,034
<b>Total</b>	<b>35,959</b>	<b>95,635</b>	46,788	124,434

## 15. CASH AND CASH EQUIVALENTS

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Cash and balances at central banks*	18,589	49,439	19,020	50,585
Treasury bills	48,242	128,303	169,764	451,500
Placements with banks and other financial institutions	142,025	377,726	181,988	484,011
Investment securities measured as at amortized cost	-	-	1,880	5,000
<b>Total</b>	<b>208,856</b>	<b>555,468</b>	372,652	991,096

\* Exclude balances with central banks of BD 84.40 million (US\$ 224.47 million) [31 December 2015: BD 87.76 million (US\$ 233.40 million)] maintained for the purpose of the cash reserve ratio requirement set by the central banks.



# Notes to the Financial Statements

For the year ended 31 December 2016

## 16. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

Movements during the year	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>Contingent liabilities</b>				
Liabilities on confirmed documentary credit	27,492	73,117	30,775	81,848
Guarantees:				
Counter guaranteed by banks	43,815	116,529	38,241	101,705
Others	114,278	303,931	111,185	295,705
Sub-total	185,585	493,577	180,201	479,258
<b>Banking commitments</b>				
Undrawn loan commitments	58,195	154,774	-	-
Forward commitments:				
Securities purchased	-	-	20,000	53,191
Interbank takings	-	-	16,168	43,000
Sub-total	58,195	154,774	36,168	96,191
<b>Total</b>	<b>243,780</b>	<b>648,351</b>	<b>216,369</b>	<b>575,449</b>

## 17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counter parties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS (continued)

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value :

Amounts in BD'000 As at 31 December	Notional principal amount		Replacement cost		Fair value	
	2016	2015	2016	2015	2016	2015
<b>Interest rate contracts</b>						
Interest rate swaps	644,689	557,494	1,160	1,009	1,160	(13,366)
<b>Sub-total</b>	<b>644,689</b>	<b>557,494</b>	<b>1,160</b>	<b>1,009</b>	<b>1,160</b>	<b>(13,366)</b>
<b>Foreign exchange contracts</b>						
Outright spot and forward contracts	259,048	340,926	1,569	1,042	1,346	704
Swap agreements	313,758	59,333	726	607	230	238
Options	-	1,224	-	5	-	5
<b>Sub-total</b>	<b>572,806</b>	<b>401,483</b>	<b>2,295</b>	<b>1,654</b>	<b>1,576</b>	<b>947</b>
<b>Total</b>	<b>1,217,495</b>	<b>958,977</b>	<b>3,455</b>	<b>2,663</b>	<b>2,736</b>	<b>(12,419)</b>

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows :

Amounts in BD'000 As at 31 December	2016			2015		
	Up to 1 Year	More than 1 Year	Total	Up to 1 Year	More than 1 Year	Total
<b>Interest rate contracts</b>						
Interest rate swaps	-	644,689	644,689	-	557,494	557,494
<b>Sub-total</b>	<b>-</b>	<b>644,689</b>	<b>644,689</b>	<b>-</b>	<b>557,494</b>	<b>557,494</b>
<b>Foreign exchange contracts</b>						
Outright spot and forward contracts	259,048	-	259,048	340,871	55	340,926
Swap agreements	313,758	-	313,758	59,333	-	59,333
Options	-	-	-	1,224	-	1,224
<b>Sub-total</b>	<b>572,806</b>	<b>-</b>	<b>572,806</b>	<b>401,428</b>	<b>55</b>	<b>401,483</b>
<b>Total</b>	<b>572,806</b>	<b>644,689</b>	<b>1,217,495</b>	<b>401,428</b>	<b>557,549</b>	<b>958,977</b>

## 18. CAPITAL COMMITMENTS

At 31 December 2016 commitments for capital expenditure amounted to BD 1.05 million (US\$ 2.79 million) [31 December 2015: BD 0.31 million (US\$ 0.82 million)].

## 19. PROPERTY & EQUIPMENT

	Land		Buildings		Furniture and equipment		Total	
	BD'000	US\$'000	BD'000	US\$'000	BD'000	US\$'000	BD'000	US\$'000
Cost	967	2,572	25,229	67,098	16,149	42,949	42,345	112,619
Accumulated depreciation	-	-	(17,360)	(46,170)	(12,564)	(33,416)	(29,924)	(79,586)
<b>Net book value at 31 December 2016</b>	<b>967</b>	<b>2,572</b>	<b>7,869</b>	<b>20,928</b>	<b>3,585</b>	<b>9,533</b>	<b>12,421</b>	<b>33,033</b>
Net Book value at 31 December 2015	967	2,572	8,494	22,590	3,049	8,109	12,510	33,271

The depreciation charge for 2016 amounted to BD 1.65 million (US\$ 4.39 million) [2015: BD 1.77 million (US\$ 4.71 million)].

The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 20. SHARE CAPITAL

	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>Authorised share capital</b>				
1,500,000,000 (2015: 1,500,000,000) ordinary shares of 100 fils each	<b>150,000</b>	<b>398,936</b>	150,000	398,936
<b>Issued and fully paid share capital</b>				
At 1 January 1,054,089,600 ordinary shares of 100 fils each (at 1 Jan 2015: 940,896,000 shares of 100 fils each)	<b>105,409</b>	<b>280,343</b>	94,090	250,239
Bonus issue (one for ten shares held) *	<b>10,541</b>	<b>28,034</b>	9,409	25,024
Employee shares issued under the Employee Share Incentive Scheme ***	-	-	1,910	5,080
At 31 December 1,159,498,560 ordinary shares of 100 fils each (at 31 Dec 2015: 1,054,089,600 shares of 100 fils each) **	<b>115,950</b>	<b>308,377</b>	105,409	280,343

\* The shareholders annual general ordinary and extra ordinary meeting for the year 2015 held on 9th March 2016 approved the increase of issued and fully paid capital by the issue of bonus shares at the rate of one additional share for every ten shares held amounts to BD 10.54 million.

\*\* The Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BD 127.54 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounting to BD 11.60 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is proposed to be made through utilisation of BD 11.60 million from General Reserve.

### \*\*\* Employee Share Incentive Scheme

At the ordinary general meeting for the year 2014 which was held on 11 March 2015, and in pursuant to CBB's Sound Remuneration Practices, the Employee Share Incentive Scheme (the "Scheme") was approved. As a result, 19,104,000 ordinary shares amounting to BD 1.91 million were issued in 2015 to a special purpose vehicle, NBB Hawafiz SPC, to hold the beneficial interest of the shares under the scheme. Since then the Bank has allocated 4,156,520 ordinary shares (including bonus shares) to the employees under this Scheme. Un allocated shares under the Scheme are deducted from equity. The allocated shares under the Scheme are entitled to cash & stock dividends.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	31 December 2016			31 December 2015		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	<b>350,352,486</b>	<b>1,134</b>	<b>30.2%</b>	332,729,966	1,165	31.5%
1% up to less than 5%	<b>170,657,770</b>	<b>8</b>	<b>14.7%</b>	140,915,720	7	13.4%
5% up to less than 10%	-	-	-	-	-	-
10% up to less than 20%	<b>126,170,432</b>	<b>1</b>	<b>10.9%</b>	114,700,394	1	10.9%
20% up to less than 50%	<b>512,317,872</b>	<b>1</b>	<b>44.2%</b>	465,743,520	1	44.2%
More than 50%	-	-	-	-	-	-
<b>Total</b>	<b>1,159,498,560</b>	<b>1,144</b>	<b>100%</b>	1,054,089,600	1,174	100.0%

The distribution of ordinary shares ownership based on nationality of the shareholders is shown below:

	31 December 2016			31 December 2015		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	<b>1,097,510,160</b>	<b>1,029</b>	<b>94.6%</b>	994,701,571	1,059	94.4%
Other GCC countries	<b>61,196,769</b>	<b>89</b>	<b>5.3%</b>	58,330,300	90	5.5%
Others	<b>791,631</b>	<b>26</b>	<b>0.1%</b>	1,057,729	25	0.1%
<b>Total</b>	<b>1,159,498,560</b>	<b>1,144</b>	<b>100%</b>	1,054,089,600	1,174	100.0%

44.2% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, that is 100% owned by the Government of Bahrain. 10.9% of shares is owned by the Social Insurance Organisation, Kingdom of Bahrain. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 21. RESERVES

### a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BD 5.80 million from General Reserve to Statutory Reserve.

### b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

### c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired. Further, it includes Bank's share of other comprehensive income of associate.

### d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from the profit for the year to this reserve. The reserve represents the uncommitted amount of the donations and charities approved by the shareholders.

### e) Share premium

Under the Employee Share Incentive Scheme, the Bank has allocated 4,156,520 ordinary shares with a nominal value of BD 0.42 million to the employees, which has resulted in share premium of BD 2.53 million.

## 22. APPROPRIATIONS

The appropriations relating to the year 2015 were approved at the last annual general meeting held on 9 March 2016.

## 23. INTEREST INCOME / INTEREST EXPENSE

### a) Interest income

For the year ended 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Loans and advances to customers	34,457	91,641	33,501	89,098
Loans and advances to banks	3,403	9,051	1,805	4,801
Treasury bills	11,190	29,761	7,036	18,713
Placement with banks & other financial institutions	1,232	3,277	778	2,069
Investment securities	37,697	100,258	32,799	87,231
Derivative assets held for risk management	158	420	215	572
<b>Total</b>	<b>88,137</b>	<b>234,408</b>	76,134	202,484

### b) Interest expense

For the year ended 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Deposits from customers	18,688	49,702	15,255	40,572
Deposits from banks and other financial institutions	2,790	7,420	913	2,428
Borrowings under repurchase agreements	180	479	84	223
Derivative liabilities held for risk management	489	1,301	359	955
<b>Total</b>	<b>22,147</b>	<b>58,902</b>	16,611	44,178

# Notes to the Financial Statements

For the year ended 31 December 2016

## 24. OTHER INCOME

For the year ended 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
<b>a) Fees and commission income</b>				
Fees and commission on loans and advances	9,557	25,418	10,832	28,809
Commission on sale of managed funds	145	386	164	436
Other fees and commission	7,083	18,838	6,501	17,290
Less: fees and commission paid	(4,442)	(11,814)	(3,650)	(9,707)
<b>Sub-total</b>	<b>12,343</b>	<b>32,828</b>	<b>13,847</b>	<b>36,828</b>
<b>b) Other operating income</b>				
Profit on sale of available for sale investments	4,597	12,226	6,407	17,040
Gain / (loss) on fair value through profit or loss investments	(114)	(303)	(5)	(13)
Dividend income	4,042	10,750	3,821	10,162
Profit on exchange dealing and transactions	5,249	13,960	5,227	13,902
Profit on trading securities and derivatives	37	98	392	1,043
Share of profit of associates	2,985	7,939	4,584	12,191
Other income	1,744	4,638	609	1,620
<b>Sub-total</b>	<b>18,540</b>	<b>49,308</b>	<b>21,035</b>	<b>55,945</b>
<b>Total other income</b>	<b>30,883</b>	<b>82,136</b>	<b>34,882</b>	<b>92,773</b>

## 25. STAFF EXPENSES

For the year ended 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
Salaries, allowances and bonuses	18,300	48,670	16,344	43,468
Social security & gratuity	2,058	5,473	2,013	5,354
Housing & other benefits	3,297	8,768	1,556	4,138
Others	248	660	309	822
<b>Total</b>	<b>23,903</b>	<b>63,571</b>	<b>20,222</b>	<b>53,782</b>

## 26. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	2016		2015	
	BD '000	US\$ '000	BD '000	US\$ '000
US Dollar (long position) - unhedged	18,344	48,787	28,881	76,811
UAE Dirhams (long position) - unhedged	4,172	11,096	25,699	68,348
Saudi Riyal (long position) - unhedged	14,251	37,902	22,325	59,375
Qatari Riyal (long position) - unhedged	10,638	28,293	58,149	154,652

The Bahraini dinar has a fixed rate of exchange against the US dollar.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 27. RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business.

The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD'000	Majority Shareholder		Directors & Key Management Personnel		Associates	
	2016	2015	2016	2015	2016	2015
As at 31 December						
Loans and advances	<b>185,516</b>	164,308	<b>14,051</b>	4,890	-	37,661
Treasury bills, bonds and equities	<b>1,444,757</b>	1,368,860	-	-	<b>50,076</b>	37,749
Customers' deposits	<b>105,029</b>	277,184	<b>46,521</b>	59,599	<b>4,425</b>	5,321
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	<b>50,896</b>	60,288	<b>5,915</b>	14,832	-	-
For the year ended 31 December						
Loans advanced	<b>657</b>	167,067	<b>18,892</b>	4,127	-	37,600
Loans repaid	<b>3,477</b>	20,032	<b>18,499</b>	6,692	<b>37,661</b>	-
Net increase / (decrease) in overdrafts	<b>24,028</b>	(3,648)	<b>8,768</b>	(362)	-	-
Treasury bills, bonds and equities purchased	<b>1,252,829</b>	2,056,314	-	-	<b>10,000</b>	9,155
Treasury bills, bonds and equities matured/sold	<b>1,176,932</b>	1,968,439	-	-	-	-
Interest income	<b>59,192</b>	51,883	<b>296</b>	327	<b>305</b>	289
Interest expense	<b>414</b>	1,260	<b>392</b>	415	<b>31</b>	25
Share of profit of associates	-	-	-	-	<b>2,985</b>	4,584
Directors' remuneration & sitting fees	<b>167</b>	169	<b>313</b>	315	-	-
Short term employee benefits	-	-	<b>5,485</b>	3,258	-	-
Post employment retirement benefits	-	-	<b>651</b>	628	-	-

No impairment losses have been recorded during the year against balances outstanding with related parties and no specific allowance has been made for impairment losses on balances with related parties at the year end.

## 28. FUND ADMINISTRATION

Assets administered on behalf of customers to which the Bank does not have legal title are not included in the statement of financial position. At 31 December 2016, assets under administration amounted to BD 113.97 million (US\$ 303.11 million) [31 December 2015 : BD 98.43 million (US\$ 261.78 million)].

# Notes to the Financial Statements

For the year ended 31 December 2016

## 29. GEOGRAPHICAL DISTRIBUTION

Amounts in BD'000

As at 31 December	Assets		Liabilities		Contingent liabilities and banking commitments	
	2016	2015	2016	2015	2016	2015
GCC	2,881,553	2,900,214	2,474,532	2,516,781	706,069	431,707
U.S.A.	12,224	17,174	10,375	11,902	260,401	212,506
Europe	54,561	43,590	66,101	93,348	490,002	332,198
Rest of the World	28,763	38,727	11,397	12,914	4,803	198,935
<b>Total</b>	<b>2,977,101</b>	<b>2,999,705</b>	<b>2,562,405</b>	<b>2,634,945</b>	<b>1,461,275</b>	<b>1,175,346</b>

## 30. DISTRIBUTION BY SECTOR

Amounts in BD'000

As at 31 December	Assets		Liabilities		Contingent liabilities and banking commitments	
	2016	2015	2016	2015	2016	2015
Government	1,656,172	1,561,870	424,687	507,256	87,461	80,491
Manufacturing / trading	116,788	120,825	157,583	173,411	31,689	29,437
Banks / financial institutions	590,067	681,437	492,608	400,803	1,269,703	1,020,571
Construction	82,367	92,143	92,612	91,251	34,804	32,526
Personal	389,941	379,857	1,252,287	1,238,934	494	405
Others	141,766	163,573	142,628	223,290	37,124	11,916
<b>Total</b>	<b>2,977,101</b>	<b>2,999,705</b>	<b>2,562,405</b>	<b>2,634,945</b>	<b>1,461,275</b>	<b>1,175,346</b>

## 31. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

### a) By Industry

As at 31 December 2016	Government			Banks/	Construction	Personal	Others	Total
	Bahrain	Other countries	Manufacturing/trading	financial institutions				
<b>Assets</b>								
Balances at central banks	-	-	-	89,892	-	-	-	89,892
Treasury bills	476,800	10,002	-	-	-	-	-	486,802
Placements with banks and other financial institutions	-	-	-	160,900	-	-	-	160,900
Loans and advances	191,998	-	109,827	166,322	80,966	389,344	93,469	1,031,926
Investment securities	952,251	9,339	1,888	77,729	263	-	1,876	1,043,346
Interest receivable and other assets	15,778	4	188	4,226	287	597	16,991	38,071
<b>Total assets</b>	<b>1,636,827</b>	<b>19,345</b>	<b>111,903</b>	<b>499,069</b>	<b>81,516</b>	<b>389,941</b>	<b>112,336</b>	<b>2,850,937</b>
<b>Contingent liabilities and banking commitments</b>	<b>87,461</b>	<b>-</b>	<b>31,689</b>	<b>52,208</b>	<b>34,804</b>	<b>494</b>	<b>37,124</b>	<b>243,780</b>
<b>Derivatives (notional)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

## 31. CONCENTRATION OF CREDIT RISK (Continued)

### a) By Industry

As at 31 December 2015	Government		Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
	Bahrain	Other countries						
<b>Assets</b>								
Balances at central banks	-	-	-	89,483	-	-	-	89,483
Treasury bills	452,907	10,034	-	-	-	-	-	462,941
Placements with banks and other financial institutions	-	-	-	185,447	-	-	-	185,447
Loans and advances	173,422	-	113,120	196,332	90,275	379,271	99,295	1,051,715
Investment securities	902,359	9,347	1,881	114,618	-	-	4,605	1,032,810
Interest receivable and other assets	13,790	12	145	2,968	62	586	24,106	41,669
<b>Total assets</b>	<b>1,542,478</b>	<b>19,393</b>	<b>115,146</b>	<b>588,848</b>	<b>90,337</b>	<b>379,857</b>	<b>128,006</b>	<b>2,864,065</b>
<b>Contingent liabilities and banking commitments</b>								
Derivatives (notional)	80,491	-	29,437	61,594	32,526	405	11,916	216,369
	-	-	-	958,977	-	-	-	958,977

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at

Amounts in BD'000

Counterparty	Counterparty type	Total Exposure
Counterparty A	Sovereign	1,490,777
Counterparty B	Sovereign	190,392
Counterparty C	Central Bank	185,999

### (b) By geographical regions:

Amounts in BD'000

As at 31 December 2015	GCC	USA	Europe	Rest of the World	Total
<b>Assets</b>					
Balances at central banks	89,892	-	-	-	89,892
Treasury bills	486,802	-	-	-	486,802
Placements with banks and other financial institutions	135,549	1,596	23,092	663	160,900
Loans and advances	996,457	-	14,863	20,606	1,031,926
Investment securities	1,011,967	10,598	13,461	7,320	1,043,346
Interest receivable and other assets	34,758	30	3,146	137	38,071
<b>Total assets</b>	<b>2,755,425</b>	<b>12,224</b>	<b>54,562</b>	<b>28,726</b>	<b>2,850,937</b>
<b>Contingent liabilities and banking commitments</b>					
	218,489	86	21,046	4,159	243,780
<b>Derivatives (notional)</b>	<b>487,580</b>	<b>260,315</b>	<b>468,956</b>	<b>644</b>	<b>1,217,495</b>



# Notes to the Financial Statements

For the year ended 31 December 2016

## 31. CONCENTRATION OF CREDIT RISK (Continued)

### (b) By geographical regions:

Amounts in BD'000

As at 31 December 2015	GCC	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	89,483	-	-	-	89,483
Treasury bills	462,941	-	-	-	462,941
Placements with banks and other financial institutions	174,819	855	9,240	533	185,447
Loans and advances	1,019,199	-	11,507	21,009	1,051,715
Investment securities	984,367	10,647	20,744	17,052	1,032,810
Interest receivable and other assets	39,460	38	2,099	72	41,669
<b>Total assets</b>	<b>2,770,269</b>	<b>11,540</b>	<b>43,590</b>	<b>38,666</b>	<b>2,864,065</b>
Contingent liabilities and banking commitments					
Derivatives (notional)	246,074	212,440	314,558	185,905	958,977

## 32. INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgment concerning their most likely repricing behavior.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 32. INTEREST RATE RISK (continued)

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

Amounts in BD'000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2016								
<b>Assets</b>								
Cash and balances at central banks	-	-	-	-	-	-	102,990	102,990
Treasury bills	2.66%	162,816	140,583	183,403	-	-	-	486,802
Placements with banks and other financial institutions	0.93%	133,132	15,416	-	-	-	12,352	160,900
Trading securities	-	349	-	-	-	-	-	349
Loans and advances	3.47%	545,398	36,882	47,305	321,624	80,717	-	1,031,926
Investment securities	4.07%	19,740	-	134,781	606,643	281,879	49,880	1,092,923
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	88,790	88,790
Property and equipment	-	-	-	-	-	-	12,421	12,421
<b>Total assets</b>		<b>861,435</b>	<b>192,881</b>	<b>365,489</b>	<b>928,267</b>	<b>362,596</b>	<b>266,433</b>	<b>2,977,101</b>
<b>Liabilities and equity</b>								
Due to banks and other financial institutions	1.29%	299,664	-	-	-	-	74,150	373,814
Borrowings under repurchase agreements	1.45%	64,284	-	-	-	-	-	64,284
Customer deposits	0.92%	985,054	180,288	51,430	618	-	870,958	2,088,348
Interest payable and other liabilities	-	-	-	-	-	-	35,959	35,959
Equity	-	-	-	-	-	-	414,696	414,696
<b>Total liabilities and equity</b>		<b>1,349,002</b>	<b>180,288</b>	<b>51,430</b>	<b>618</b>	<b>-</b>	<b>1,395,763</b>	<b>2,977,101</b>
<b>On-Balance sheet interest rate sensitivity gap</b>		<b>(487,567)</b>	<b>12,593</b>	<b>314,059</b>	<b>927,649</b>	<b>362,596</b>	<b>(1,129,330)</b>	<b>-</b>
<b>Off-Balance sheet interest rate gap</b>		<b>644,689</b>	<b>-</b>	<b>-</b>	<b>(365,734)</b>	<b>(278,955)</b>	<b>-</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>157,122</b>	<b>169,715</b>	<b>483,774</b>	<b>1,045,689</b>	<b>1,129,330</b>	<b>-</b>	<b>-</b>
Amounts in BD'000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2015								
<b>Assets</b>								
Cash and balances at central banks	-	-	-	-	-	-	106,784	106,784
Treasury bills	1.54%	288,038	82,281	92,622	-	-	-	462,941
Placements with banks and other financial institutions	0.73%	178,011	-	-	-	-	7,436	185,447
Trading securities	-	6,039	-	-	-	-	-	6,039
Loans and advances	3.60%	492,040	68,122	53,843	346,468	91,242	-	1,051,715
Investment securities	3.65%	36,805	26,346	71,428	430,456	467,063	61,940	1,094,038
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	80,231	80,231
Property and equipment	-	-	-	-	-	-	12,510	12,510
<b>Total assets</b>		<b>1,000,933</b>	<b>176,749</b>	<b>217,893</b>	<b>776,924</b>	<b>558,305</b>	<b>268,901</b>	<b>2,999,705</b>
<b>Liabilities and equity</b>								
Due to banks and other financial institutions	0.92%	226,390	-	-	-	-	45,101	271,491
Borrowings under repurchase agreements	1.29%	69,642	-	-	-	-	-	69,642
Customer deposits	0.71%	1,007,684	143,963	175,108	53,085	-	867,181	2,247,021
Interest payable and other liabilities	-	-	-	-	-	-	46,791	46,791
Equity	-	-	-	-	-	-	364,760	364,760
<b>Total liabilities and equity</b>		<b>1,303,716</b>	<b>143,963</b>	<b>175,108</b>	<b>53,085</b>	<b>-</b>	<b>1,323,833</b>	<b>2,999,705</b>
<b>On-Balance sheet interest rate sensitivity gap</b>		<b>(302,783)</b>	<b>32,786</b>	<b>42,785</b>	<b>723,839</b>	<b>558,305</b>	<b>(1,054,932)</b>	<b>-</b>
<b>Off-Balance sheet interest rate gap</b>		<b>557,494</b>	<b>-</b>	<b>-</b>	<b>(145,774)</b>	<b>(411,720)</b>	<b>-</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>		<b>254,711</b>	<b>287,497</b>	<b>330,282</b>	<b>908,347</b>	<b>1,054,932</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

## 33. MARKET RISK

a) The Bank uses the Standardised Method for allocating market risk capital.

The following table shows the capital charges as at 31 December  
Amounts in BD'000

Risk Type	2016	2015
Interest Rate Risk	1,077	1,627
Equities Risk	56	65
Foreign Exchange Risk	18	44
<b>Total minimum capital required for market risk</b>	<b>1,151</b>	<b>1,736</b>
Multiplier	12.5	12.5
<b>Market Risk weighted exposure under the Standardized Method</b>	<b>14,388</b>	<b>21,703</b>

b) The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200 bps increase/decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

Amounts in BD'000	2016		2015	
	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	10,961	(10,961)	10,876	(10,876)
Average for the year	9,836	(9,836)	8,544	8,544
Minimum for the year	4,539	(4,539)	3,752	3,752
Maximum for the year	12,110	(12,110)	10,876	10,876

c) The Bank holds investments in quoted equities as part of the available for sale investments. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 34. SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Personal Banking, Bahrain Business Banking and Treasury & overseas Banking. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain. The SBUs are differentiated based on their respective customer segments. Personal Banking caters to individuals. Bahrain Business Banking caters to governments, corporates and commercial enterprises.

The Treasury & overseas Banking SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and provide various banking products and services to Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

Amounts in BD'000	Personal Banking		Bahrain Business Banking		Treasury & International Banking		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
For the year ended 31 December								
Interest income	20,471	21,275	12,073	10,494	55,593	44,365	88,137	76,134
Interest expense	(6,190)	(5,381)	(12,226)	(9,599)	(3,731)	(1,631)	(22,147)	(16,611)
Inter-segment interest income/(expense)	9,613	5,204	11,787	7,599	(21,400)	(12,803)	-	-
Net interest income	23,894	21,098	11,634	8,494	30,462	29,931	65,990	59,523
Other income	8,846	8,816	2,784	2,735	19,253	23,331	30,883	34,882
<b>Operating income</b>	<b>32,740</b>	<b>29,914</b>	<b>14,418</b>	<b>11,229</b>	<b>49,715</b>	<b>53,262</b>	<b>96,873</b>	<b>94,405</b>
<b>Result</b>	<b>17,495</b>	<b>17,425</b>	<b>5,775</b>	<b>3,716</b>	<b>37,537</b>	<b>36,092</b>	<b>60,807</b>	<b>57,233</b>
Unallocated corporate expenses							(2,572)	(1,971)
<b>Profit for the year</b>							<b>58,235</b>	<b>55,262</b>
<b>Other information:</b>								
Segment assets	430,080	418,599	480,777	456,550	2,066,244	2,124,556	2,977,101	2,999,705
Segment liabilities & Equity	975,923	1,052,058	1,105,549	1,261,891	895,629	685,756	2,977,101	2,999,705
Depreciation for the year	529	445	325	260	252	321	1,106	1,026
Provision for impaired assets	1,713	235	(155)	(97)	2,982	8,907	4,540	9,045

During 2016, the total capital expenditure amounted to BD 1.56 million (US\$ 4.15 million) [ 2015: BD 1.29 million (US\$ 3.43 million)].

# Notes to the Financial Statements

For the year ended 31 December 2016

## 34. SEGMENT INFORMATION (Continued)

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and overseas Banking. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

While the Bank conducts its Banking business primarily through its strategic Business units, it operates from various geographical locations:

- (i) Domestic operations, through its network of branches in the Kingdom of Bahrain and
- (ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

Financial information about geographical locations is presented in the following table:

Amounts in BD 000's

For the year ended 31 December	Domestic		Overseas		Total	
	2016	2015	2016	2015	2016	2015
Operating income	<b>94,339</b>	92,056	<b>2,534</b>	2,349	<b>96,873</b>	94,405
Profit for the year	<b>58,596</b>	62,777	<b>(361)</b>	(7,515)	<b>58,235</b>	55,262
At 31 December						
Segment assets	<b>2,912,887</b>	2,926,700	<b>64,214</b>	73,005	<b>2,977,101</b>	2,999,705
Segment liabilities & Equity	<b>2,912,887</b>	2,926,700	<b>64,214</b>	73,005	<b>2,977,101</b>	2,999,705

# Notes to the Financial Statements

For the year ended 31 December 2016

## 35. MATURITY PROFILE AND LIQUIDITY RISK

### a) Maturity Profile

The table below shows the maturity profile of total assets and liabilities and equity based on contractual terms, except for Asset Backed securities and Mortgage Backed securities which are based on expected weighted average tenor as it is better representative of the product's maturity profile considering the inherent nature of the products.

Amounts in BD'000 As at 31 December 2016	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
<b>Assets</b>									
Cash and balances at central banks	102,990	-	-	-	-	-	-	-	102,990
Treasury bills	162,816	140,583	183,403	-	-	-	-	-	486,802
Placements with banks and other financial institutions	145,484	15,416	-	-	-	-	-	-	160,900
Trading securities	349	-	-	-	-	-	-	-	349
Loans and advances	344,888	66,656	55,539	302,899	158,793	85,451	16,760	940	1,031,926
Investment securities	10,669	1,820	134,781	283,369	330,507	251,126	18	80,633	1,092,923
Investment in associates, Interest receivable, other assets and property & equipment	3,343	58	1,988	6,289	5,073	5,668	639	78,153	101,211
<b>Total assets</b>	<b>770,539</b>	<b>224,533</b>	<b>375,711</b>	<b>592,557</b>	<b>494,373</b>	<b>342,245</b>	<b>17,417</b>	<b>159,726</b>	<b>2,977,101</b>

<b>Liabilities and equity</b>									
Due to banks and other financial institutions	373,814	-	-	-	-	-	-	-	373,814
Borrowings under repurchase agreements	64,284	-	-	-	-	-	-	-	64,284
Customers' deposits	1,855,814	180,462	51,430	642	-	-	-	-	2,088,348
Interest payable & other liabilities	23,925	736	560	10,738	-	-	-	-	35,959
Equity	28,988	-	-	-	-	-	-	385,708	414,696
<b>Total liabilities and equity</b>	<b>2,346,825</b>	<b>181,198</b>	<b>51,990</b>	<b>11,380</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385,708</b>	<b>2,977,101</b>

Amounts in BD'000 As at 31 December 2015	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
<b>Assets</b>									
Cash and balances at central banks	106,784	-	-	-	-	-	-	-	106,784
Treasury bills	288,038	82,281	92,622	-	-	-	-	-	462,941
Placements with banks and other financial institutions	185,447	-	-	-	-	-	-	-	185,447
Trading securities	6,039	-	-	-	-	-	-	-	6,039
Loans and advances	264,558	47,663	115,650	291,271	206,898	86,945	38,100	630	1,051,715
Investment securities	25,638	26,346	73,439	244,882	194,709	401,246	37,054	90,724	1,094,038
Investment in associates, Interest receivable, other assets and property & equipment	25,245	409	958	4,198	1,845	7,839	265	51,982	92,741
<b>Total assets</b>	<b>901,749</b>	<b>156,699</b>	<b>282,669</b>	<b>540,351</b>	<b>403,452</b>	<b>496,030</b>	<b>75,419</b>	<b>143,336</b>	<b>2,999,705</b>

<b>Liabilities and equity</b>									
Due to banks and other financial institutions	271,491	-	-	-	-	-	-	-	271,491
Borrowings under repurchase agreements	69,642	-	-	-	-	-	-	-	69,642
Customers' deposits	1,874,673	144,158	175,108	53,085	-	-	-	-	2,247,024
Interest payable & other liabilities	33,834	621	520	11,813	-	-	-	-	46,788
Equity	26,352	-	-	-	-	-	-	338,408	364,760
<b>Total liabilities and equity</b>	<b>2,275,992</b>	<b>144,779</b>	<b>175,628</b>	<b>64,898</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>338,408</b>	<b>2,999,705</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

## b) Liquidity risk

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

Amounts in BD'000 At 31 December 2016	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
<b>Non derivative liabilities</b>							
Due to Banks and other financial institutions	373,814	374,621	374,621	-	-	-	-
Borrowings under repurchase agreements	64,284	64,480	64,480	-	-	-	-
Customer deposits	2,088,348	2,099,112	1,864,797	180,006	53,651	658	-
<b>Total non derivative liabilities</b>	<b>2,526,446</b>	<b>2,538,213</b>	<b>2,303,898</b>	<b>180,006</b>	<b>53,651</b>	<b>658</b>	<b>-</b>
<b>Derivative liabilities</b>							
Trading: outflow	-	(570,781)	(177,580)	(288,673)	(104,528)	-	-
Trading: inflow	1,576	572,806	178,135	289,196	105,475	-	-
<b>Total derivative liabilities</b>	<b>1,576</b>	<b>2,025</b>	<b>555</b>	<b>523</b>	<b>947</b>	<b>-</b>	<b>-</b>
<b>Banking commitments</b>	<b>-</b>	<b>-</b>	<b>(58,195)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,195</b>
<b>Financial guarantees</b>	<b>-</b>	<b>(46,404)</b>	<b>(6,089)</b>	<b>(79)</b>	<b>(361)</b>	<b>(39,875)</b>	<b>-</b>
<b>Amounts in BD'000 At 31 December 2015</b>							
<b>Non derivative liabilities</b>							
Due to Banks and other financial institutions	274,491	271,796	271,796	-	-	-	-
Borrowings under repurchase agreements	69,642	69,798	69,798	-	-	-	-
Customer deposits	2,247,024	2,260,208	1,881,619	144,183	176,358	58,048	-
<b>Total non derivative liabilities</b>	<b>2,591,157</b>	<b>2,601,802</b>	<b>2,223,213</b>	<b>144,183</b>	<b>176,358</b>	<b>58,048</b>	<b>-</b>
<b>Derivative liabilities</b>							
Trading: outflow	-	(398,800)	(289,403)	(38,063)	(71,279)	(55)	-
Trading: inflow	947	400,259	290,093	38,183	71,928	55	-
<b>Total derivative liabilities</b>	<b>947</b>	<b>1,459</b>	<b>690</b>	<b>120</b>	<b>649</b>	<b>-</b>	<b>-</b>
<b>Banking commitments</b>	<b>-</b>	<b>-</b>	<b>(20,000)</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>
<b>Financial guarantees</b>	<b>-</b>	<b>(46,338)</b>	<b>(5,888)</b>	<b>(140)</b>	<b>(40,300)</b>	<b>(10)</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 31 December 2016

## 36. RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the income statement. The Bank's contribution for 2016 amounted to BD 0.87 million (US\$ 2.31 million) [2015: BD 0.83 million (US\$ 2.21 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year is as follows:

### Provision for leaving indemnities

Movements during the year	2016		2015	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
At 1 January	4,994	13,497	4,241	11,277
Charge for the year	2,797	7,439	1,167	3,104
Paid during the year	(4,692)	(12,479)	(414)	(1,101)
At 31 December	3,099	8,457	4,994	13,280

The Bank has a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2016 amounted to BD 0.87 million (US\$ 2.31 million) [2015: BD 0.88 million (US\$ 2.34 million)]. As at 31 December 2016, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 12.03 million (US\$ 31.99 million) [31 December 2015: BD 11.85 million (US\$ 31.52 million)].

## 37. LEGAL CLAIMS

As at 31 December 2016, legal suits pending against the Bank aggregated to BD 0.53 million (US\$ 1.41 million) [31 December 2015: BD 0.58 million (US\$ 1.54 million)]. Based on the opinion of the Bank's legal advisors and pending any final judgement on these suits, management believes that no liability is likely to arise from the suits and does not consider it necessary to carry any specific provision in this respect.

## 38. EARNINGS AND DIVIDEND PER SHARE

	2016		2015	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	58.24	154.88	55.26	146.97
Dividend proposed at 25% (2015: 25 %)	28.99	77.10	26.35	70.08
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	1,054.1	1,054.1	1,054.1	1,054.1
Effect of bonus shares issued during 2016	105.4	105.4	105.4	105.4
Less unallocated employee shares	(16.4)	(16.4)	(18.9)	(18.9)
Weighted average number of ordinary shares (millions) as at 31 December	1,143.1	1,143.1	1,140.6	1,140.6
Earnings per share	50.9 fils	14 cents	48.5 fils	13 cents
Dividend per share	25 fils	7 cents	25 fils	7 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.



# Notes to the Financial Statements

For the year ended 31 December 2016

## 39. ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

Amounts in BD 000's		Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
At 31 December 2016	Trading					
Cash and balances at central banks	-	-	102,990	-	-	102,990
Treasury bills	-	-	486,802	-	-	486,802
Placements with banks and other financial institutions	-	-	160,900	-	-	160,900
Trading securities	349	-	-	-	-	349
Loans and advances	-	-	1,031,926	-	-	1,031,926
Investment securities	-	303	-	1,092,620	-	1,092,923
Interest receivable & other assets	-	-	38,714	-	-	38,714
<b>Total</b>	<b>349</b>	<b>303</b>	<b>1,821,332</b>	<b>1,092,620</b>	<b>-</b>	<b>2,914,604</b>
Due to banks and other financial institutions	-	-	-	-	373,814	373,814
Borrowings under repurchase agreements	-	-	-	-	64,284	64,284
Customer deposits	-	-	-	-	2,088,348	2,088,348
Interest payable & other liabilities	-	-	-	-	24,893	24,893
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,551,339</b>	<b>2,551,339</b>
Amounts in BD 000's		Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
At 31 December 2015	Trading					
Cash and balances at central banks	-	-	106,784	-	-	106,784
Treasury bills	-	-	462,941	-	-	462,941
Placements with banks and other financial institutions	-	-	185,447	-	-	185,447
Trading securities	6,039	-	-	-	-	6,039
Loans and advances	-	-	1,051,715	-	-	1,051,715
Investment securities	-	712	33,160	1,060,166	-	1,094,038
Interest receivable & other assets	-	-	42,482	-	-	42,482
<b>Total</b>	<b>6,039</b>	<b>712</b>	<b>1,882,529</b>	<b>1,060,166</b>	<b>-</b>	<b>2,949,446</b>
Due to banks and other financial institutions	-	-	-	-	271,491	271,491
Borrowings under repurchase agreements	-	-	-	-	69,642	69,642
Customer deposits	-	-	-	-	2,247,024	2,247,024
Interest payable & other liabilities	-	-	-	-	35,691	35,691
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,623,848</b>	<b>2,623,848</b>

## 39 b. FAIR VALUE HIERARCHY

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 39 b. FAIR VALUE HIERARCHY (Continued)

All financial instruments other than those disclosed in table below are classified as level 2.

- (i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.
- (ii) Customers' deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and as all deposits are at market rates.
- (iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

Amounts in BD 000's At 31 December	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading	349	-	-	349	6,039	-	-	6,039
Financial assets designated at fair value through profit or loss:								
Managed funds	-	303	-	303	-	712	-	712
Available-for-sale financial assets:								
Debt securities	320,614	722,429	-	1,043,043	338,504	660,433	-	998,937
Equity securities	39,245	-	10,332	49,577	49,031	-	12,198	61,229
Derivative financial assets	-	3,455	-	3,455	-	2,663	-	2,663
<b>Total</b>	<b>360,208</b>	<b>726,187</b>	<b>10,332</b>	<b>1,096,727</b>	<b>393,574</b>	<b>663,808</b>	<b>12,198</b>	<b>1,069,580</b>
<b>Derivative financial liabilities</b>	<b>-</b>	<b>719</b>	<b>-</b>	<b>719</b>	<b>-</b>	<b>15,082</b>	<b>-</b>	<b>15,082</b>

The following table analyses the movement in Level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

Amounts in BD 000's	Available for Sale Financial Assets	
	2016	2015
<b>At 1 January</b>	<b>12,198</b>	12,831
Total gains/(losses):		
in income statement	(41)	(20)
in other comprehensive income	(467)	727
Purchases	-	-
Settlements	(1,358)	(1,340)
Transfers into / (out) of Level 3	-	-
<b>At 31 December</b>	<b>10,332</b>	12,198
<b>Total gain / (loss) for the year included in income statement for assets/liabilities held at 31 December</b>	<b>(41)</b>	(40)

Level 3 comprises unquoted equity investments classified as available for sale which are measured at their net asset values based on the latest financial statements issued by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

## 40. AVERAGE BALANCES

The following are the average daily balances for full year:

	2016		2015	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
Total assets	2,940,359	7,820,104	2,882,634	7,666,580
Total liabilities	2,579,681	6,860,854	2,507,486	6,668,846
Equity	360,678	959,250	375,148	997,734
Contingent liabilities and undrawn loan commitments	210,614	560,144	145,570	387,154

# Notes to the Financial Statements

For the year ended 31 December 2016

## 41 CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel 3 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

The details of the Bank's capital adequacy calculations are shown below:

Based on year end balances	2016		2015	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
Common Equity (CET 1)	402,087	1,069,380	353,012	938,862
Additional Tier 1	-	-	-	-
Total Tier 1	402,087	1,069,380	353,012	938,862
Tier 2	12,381	32,928	12,815	34,082
<b>Total Capital Base</b>	<b>414,468</b>	<b>1,102,308</b>	365,827	972,944
<b>Risk Weighted Exposure:</b>				
Credit Risk	990,494	2,634,293	1,037,975	2,760,572
Market Risk	14,388	38,266	21,703	57,721
Operational Risk	166,100	441,755	160,339	426,434
<b>Total Risk Weighted Exposure</b>	<b>1,170,982</b>	<b>3,114,314</b>	1,220,017	3,244,727
<b>CET 1 Ratio</b>		34.3%		28.9%
<b>Total Capital Adequacy Ratio</b>		35.4%		30.0%

Based on average balances	2016		2015	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
Common Equity (CET 1)	351,329	934,386	366,106	973,686
Additional Tier 1	-	-	-	-
Total Tier 1	351,329	934,386	366,106	973,686
Tier 2	12,461	33,141	11,488	30,553
<b>Total Capital Base</b>	<b>363,790</b>	<b>967,527</b>	377,594	1,004,239
<b>Risk Weighted Exposure:</b>				
Credit Risk	1,008,990	2,683,484	992,748	2,640,287
Market Risk	18,375	48,870	24,829	66,035
Operational Risk	161,779	430,263	158,616	421,851
<b>Total Risk Weighted Exposure</b>	<b>1,189,144</b>	<b>3,162,617</b>	1,176,193	3,128,173
<b>CET 1 Ratio</b>		29.5%		31.1%
<b>Total Capital Adequacy Ratio</b>		30.6%		32.1%

## 42. DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

## 43. COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation. The regrouping did not affect previously reported profit for the year or equity of the Bank.

# **Risk and Capital Management Disclosures**

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for the year ended 31 December 2016

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), CBB Rule Book, Volume I for Conventional banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Financial Statements for the year ended 31 December 2016.

These disclosures have been reviewed by the Bank's external auditors KPMG based upon agreed-upon procedures as required under Para PD-A.2.4 of the PD Module.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## EXECUTIVE SUMMARY

The Central Bank of Bahrain's (CBB) Basel 3 rules outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015.

NBB has adopted the Standardised Approach for Credit Risk, Standardised Approach for Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement. This report consists of the Basel Committee's Pillar 3 disclosures and other disclosure requirements as stipulated by the CBB. The report contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on capital adequacy.

As at 31 December 2016, the Bank's total risk weighted assets amounted to BD 1,171.0 million; Common Equity Tier 1 (CET1) and Total Regulatory Capital amounted to BD 402.1 million and BD 414.5 million respectively. Accordingly, CET 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio were 34.34 percent and 35.39 percent respectively. These ratios exceed the minimum capital requirements under the CBB's Basel 3 framework.

The Bank views these disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants.

## CBB CAPITAL ADEQUACY RULES:

The CBB Capital Adequacy Rules provides guidance on the risk measurements for the calculation of capital requirements. The implementation of the requirements of Basel 3 began on 1st January 2015 and as of this date, conventional bank licences are required to meet the following minimum CAR requirements.

Components of Consolidated CARs				
	Optional	Minimum Ratio Required	Capital conservation buffer (CCB)	CAR including CCB
Common Equity Tier 1 (CET1)		<b>6.5 %</b>	2.5 % comprising of CET1	<b>9.0</b>
Additional Tier 1 (AT1)	1.5 %			
<b>Tier 1 (T1)</b>		<b>8.0 %</b>		
Tier 2 (T2)	2.0 %			
<b>Total Capital</b>		<b>10.0 %</b>		<b>12.5 %</b>

The regulatory adjustments (i.e. deductions) including amounts above the aggregate 15% limit for significant investments in financial institutions, mortgage service rights, and deferred tax assets from temporary differences, are fully deducted from CET1 by 1 January 2019. This regulatory adjustments being at 20% of the required adjustments to CET 1 on 1 January 2015, 40% on 1 January 2016, 60% on 1 January 2017, 80% on 1 January 2018, and reach 100% on 1 January 2019. During the transition period, the remainder not deducted from CET1 continues to be risk weighted as per the Rulebook.

Banks are required to maintain a Capital Conservation Buffer (CCB) of 2.5%, comprising of CET1 above the regulatory minimum Total Capital ratio of 10.0%. Capital distribution constraints will be imposed when the CCB fall below 2.5%. The constraints imposed only relate to distribution, and not the operations of the licensed banks.

The Basel III framework consists of three mutually reinforcing pillars:

- Pillar 1: Minimum capital requirements for credit risk, market risk and operational risk.
- Pillar 2: Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)
- Pillar 3: Market discipline including rules for disclosure of risk management and capital adequacy.

## SCOPE OF APPLICATION

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, the United Arab Emirates and Saudi Arabia. The Bank's capital adequacy requirements are computed on a consolidated basis.

## RISK AND CAPITAL MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- interest rate risk
- operational risk

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## Risk Management Framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various 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. The Risk Group (RG) of the Bank provides the necessary support to senior management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer. The Group comprises of a Credit Risk department (responsible for pre-approval analysis of credit/investment proposals as well as risk policy and procedures management), Credit Administration department (responsible for post approval implementation and follow up), Legal department (responsible for management of legal risk) and Market and Operational Risk Management department (responsible for market risk and operational risk).

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

## Credit Risk

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 acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Risk is just one aspect of the triangle for any economic capital system and must be seen in conjunction with capital requirements and returns. The Bank evaluates risk in terms of the impact on income and asset values and the evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at the Bank has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

The Bank monitors and manages concentration risk by setting limits on exposures to countries, sectors, products and counterparty groups. Stringent criteria are used by Credit Risk Department in setting such limits and these have ensured that the impact of any adverse developments on the Bank's income stream and capital strength is limited. Prior to launch of any new asset product, based on a comprehensive risk analysis, product specific transaction approval criteria are set. 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, etc.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, product type, facility tenor, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe by the Business Units and Credit Risk Department ensures timely identification of any events affecting the risk profile.

The Business Units of the Bank are responsible for business generation and initial vetting of proposals to make sure that the Bank's risk acceptance criteria are met. Credit facilities in excess of BD 250,000 or falling outside pre-approved product criteria are referred to Credit Risk Department, which analyses the proposal and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account 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. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary, etc are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

For purposes of comparison, the Bank's internal ratings are mapped to Moody's and Standard and Poor (S&P) ratings as under:

Bank's Internal Ratings Scale	Equivalent to S&P and Moody's ratings
1	AAA/Aaa
2	AA/Aa2
3	A/A2
4	BBB+/Baa1
5	BBB-/Baa3
6	BB/Ba2
7	B+/B1
8 - 10	CCC/Caa to C

However, the above mapping is not intended to reflect a direct relationship between the Bank's internal ratings and the corresponding rating of the external agencies since the basis and methodology differ.

## Liquidity risk

Liquidity Risk is the potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising 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 Treasury Department monitors the maturity profile of 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 retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Bank's dependence on volatile short-term borrowings. Further, investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

## Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

## Interest Rate Risk

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations, especially credit, treasury and electronic banking activities. The Bank has an Operational Risk Management Department (ORD) within the Risk Group to independently monitor and manage all aspects of operational risk on a bank wide basis. The Bank has established Policies and Procedures which incorporates Operational Risk measures into the management framework including budgeting, target-setting, and performance review and compliance.

Detailed operational guidelines are spelt out in the Operations Manuals to specify the steps to be followed in handling any transaction. These steps are designed to mitigate the risks arising from errors, omissions and oversights in dealing with customer instructions and transaction processing. The overriding principles in drawing up operational processes are that transactions must be scrutinized by a "checker" independent from the "originator" prior to booking and that there should be a clear audit trail for post facto scrutiny. The Bank's Risk Policies, Procedures and the Code of Conduct provide necessary guidance to mitigate risks and ensure that adequate controls are in place for detecting suspicious transactions. Any changes to operational procedures need to be processed through the Operational Risk Management Committee (ORMC), which ensures that satisfactory control mechanisms are in place in all procedures.

Specific limits are set up to mitigate and monitor the Bank's exposure including limits on maximum branch cash limit, maximum teller limit, maximum payment authorization limit, signature authorities, etc. Documented policies and procedures, approval and authorization process for transactions, documented authority letters, process of verification of transaction details and activities, reconciliation of key activities, dual custody of financial assets like demand drafts, cheques etc. and insurance coverage of various operational risks are the key pillars of the operational risk management process.

Bank has established business processes and infrastructure, trained the staff along with enhanced internal controls to mitigate contingencies, support business continuity and to reduce the operational losses. ORD tracks loss events, potential exposures and the loss reports along with business units. Further, the Bank's Risk and Control Self-Assessment (RCSA) process aims to analyze various risks using scenarios for arriving at residual risks, identify risk indicators for monitoring losses. Bank's Legal Department manages the processes relating to pending legal actions. ORMC supervises monitors and reviews operational risk issues and ensures that adequate mitigants are developed and implemented for all operational risk issues.

The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the ORD and Internal Audit department and assessed for operational risks prior to their implementation. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

## Risk Monitoring and Reporting

Systems and processes are in place to regularly monitor and report risk exposures to the Board of Directors and senior management to effectively monitor and manage the risk profile of the Bank.

The Board of Directors is provided with quarterly risk reports covering credit, market, liquidity, operational, concentration and other risks.

Senior management is provided with a daily report on market risk and monthly reports on other risks. Reports on capital adequacy and internal capital adequacy assessment are provided to senior management on a monthly basis. In addition, stress testing on capital adequacy is undertaken once a year or more frequently in times of need and communicated to Board of Directors and senior management for appropriate decisions.

## Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. 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 and other miscellaneous risks. The ICAAP also keeps in perspective



# Risk and Capital Management Disclosures

For the year ended 31 December 2016

the Bank's strategic plans, credit 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 capital requirement and planning to ensure that the Bank is adequately capitalised in line with the overall risk profile.

The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

Prior approval of the Central Bank of Bahrain is obtained by the Bank before submitting any proposal for distribution of profits for shareholders approval.

## CAPITAL STRUCTURE AND CAPITAL ADEQUACY

### Capital structure, minimum capital and capital adequacy:

BD 000's

As at 31 December 2016

#### Common Equity Tier 1 (CET1)

Issued and full paid ordinary shares	115,950
Shares under employee share incentive scheme	(1,644)
Statutory Reserve	57,975
Share Premium	2,528
General & Other Reserves	47,059
Retained Earnings	109,324
Current year profits	58,235
Unrealised gains and losses on available for sale financial instruments	25,597
Deduction from CET 1 (significant investments in common stock of financial entities)	(12,937)
<b>Total Common Equity Tier 1 (CET1) (A)</b>	<b>402,087</b>

Additional Tier 1 (AT1)

**Total Tier 1 (T1)** **402,087**

#### Tier 2 Capital (T2)

General loan loss provision subject to 1.25% of credit risk weighted assets 12,381

**Total Tier 2 (T2) (B)** **12,381**

**Total Capital Base (Tier 1 + Tier 2) (A+B)** **414,468**

BD 000's	Credit exposure before credit risk mitigant	Eligible credit risk mitigant	Credit exposure after credit risk mitigant	Risk weighted exposure	Capital Requirement @12.5%
<b>As at December 2016</b>					
Sovereigns	1,721,266	-	1,721,266	-	-
PSE	139	-	139	-	-
Banks	329,041	64,284	264,757	135,612	16,952
Corporates	542,529	43,334	499,195	259,447	32,431
Regulatory retail	369,788	1,239	368,549	276,412	34,552
Residential mortgages	19,355	-	19,355	14,516	1,815
Past due exposures	47,067	96	46,971	52,463	6,558
Investments in equities/funds	86,255	-	86,255	163,521	20,440
Securitisation exposures	18	-	18	9	1
Other assets	105,660	7,214	98,446	88,514	11,064
<b>Total Credit Risk Exposure</b>	<b>3,221,118</b>	<b>116,167</b>	<b>3,104,951</b>	<b>990,494</b>	<b>123,813</b>
<b>Market Risk</b>				<b>14,388</b>	<b>1,799</b>
<b>Operational Risk</b>				<b>166,100</b>	<b>20,763</b>
<b>Total Risk Weighted Exposure (C)</b>				<b>1,170,982</b>	<b>146,375</b>
<b>Capital Adequacy Ratio (B)/(C)</b>				<b>35.39%</b>	
<b>Tier 1 Capital Adequacy Ratio (A)/(C)</b>				<b>34.34%</b>	

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## CREDIT RISK

The Bank has a diversified on and off balance sheet credit portfolio, which are divided into counter party exposure classes in line with the CBB's Basel 3 capital adequacy framework for the standardised approach for credit risk. A high-level description of the counter party exposure classes and the risk weights used to derive the Risk Weighted Assets are as follows:

### Sovereigns Portfolio

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 per cent for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a 0 per cent risk weighting.

### PSE Portfolio

Public sector entities (PSEs) are risk weighted according to their external ratings except for Bahrain PSEs and domestic currency claims on other PSEs that are assigned a 0 per cent risk weight by their respective country regulator, are consequentially allowed a 0 per cent risk weight by CBB for computation purposes.

### Banks Portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

### Corporates Portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 per cent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0 per cent risk weight.

### Regulatory Retail Portfolio

Claims on individuals or to a small business with an annual turnover below BD 2 million; the maximum aggregated retail exposure to one counterpart must not exceed an absolute limit of BD 250,000. These claims are risk weighted at 75%.

### Residential mortgages

Lending fully secured by first mortgages on residential property that is or will be occupied by the borrower or that is leased. These claims are risk weighted at 75%.

### Equities / Funds Portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. The credit (specific) risk for equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes.

A 100 per cent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 per cent. Investments in rated funds are risk weighted according to the external credit rating. Investments in companies engaged primarily in real estate are included in other assets and risk weighted at 200 percent. Significant investments in listed and unlisted equities of financial entities are aggregated and the excess above the 10% of CET1 is deducted from equity; the amount not deducted is risk weighted at 250%.

In addition to the standard portfolios, other exposures are risk weighted as under:

### Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100 per cent or 150 per cent is applied depending on the level of specific provision maintained against the exposure.

### Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100 per cent. Securitisation tranches are risk weighted (ranging from 20 per cent to 350 per cent) based on their external credit ratings and resecuritisation tranches are risk weighted (ranging from 40 per cent to 650 per cent) based on their external credit ratings. Exposures to securitisation & resecuritisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight. Investments in real estate and also in bonds, funds and equities of companies engaged primarily in real estate are included in other assets and risk weighted at 200 percent.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## External Credit Assessment Institutions (ECAI)

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

BD 000's As at 31 December 2016	As at 31 -12- 2016	2016 Average
Cash and balances at central banks	102,990	100,938
Treasury bills	486,802	502,385
Placements with banks and other financial institutions	160,900	150,635
Loans and advances	1,031,926	1,046,103
Investment securities	1,093,272	1,056,437
Other assets	101,211	98,059
<b>Total assets</b>	<b>2,977,101</b>	<b>2,954,557</b>
<b>Non-derivative banking commitments and contingent liabilities (notional)</b>	<b>243,780</b>	<b>289,286</b>
<b>Derivatives (notional)</b>	<b>1,217,495</b>	<b>1,077,967</b>

## INDUSTRY OR COUNTERPARTY EXPOSURE

BD 000's As at 31 December 2016	Govt	Mfg/ Trdg	Banks/ FIs	Const	Personal	Others	Total
Cash and balances at central banks	-	-	102,990	-	-	-	102,990
Treasury bills	486,802	-	-	-	-	-	486,802
Placements with banks and other financial institutions	-	-	160,900	-	-	-	160,900
Loans and advances*	194,423	111,215	168,423	81,989	394,262	94,650	1,044,962
Investment securities	961,590	6,773	105,553	1,114	-	18,242	1,093,272
Investment in associates and other assets	15,782	188	54,302	287	597	30,055	101,211
<b>Total assets</b>	<b>1,658,597</b>	<b>118,176</b>	<b>592,168</b>	<b>83,390</b>	<b>394,859</b>	<b>142,947</b>	<b>2,990,137</b>
<b>Non-derivative banking commitments and contingent liabilities (notional)</b>	<b>87,461</b>	<b>31,689</b>	<b>52,208</b>	<b>34,804</b>	<b>494</b>	<b>37,124</b>	<b>243,780</b>
<b>Derivatives (notional)</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>

\* Gross of general provision of BD 13,036.

The above includes certain exposures to customers / counter parties which are in excess of 15 percent of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures:

Counterparty	Counterparty Type	Total Exposure
Counterparty A	Sovereign	1,490,777
Counterparty B	Sovereign	190,392
Counterparty C	Central Bank	185,999

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## GEOGRAPHIC DISTRIBUTION OF EXPOSURE

BD 000's As at 31 December 2016	GCC	USA	Europe	Rest of the world	Total
Cash and balances at central banks	102,990	-	-	-	102,990
Treasury bills	486,802	-	-	-	486,802
Placements with banks and other financial institutions	135,513	1,596	23,092	699	160,900
Loans and advances*	1,009,070	-	15,040	20,852	1,044,962
Investment securities	1,061,893	10,598	13,461	7,320	1,093,272
Investment in associates and Other assets	97,898	30	3,146	137	101,211
<b>Total assets</b>	<b>2,894,166</b>	<b>12,224</b>	<b>54,739</b>	<b>29,008</b>	<b>2,990,137</b>
<b>Non-derivative Banking commitments and contingent liabilities (notional)</b>	<b>218,489</b>	<b>86</b>	<b>21,046</b>	<b>4,159</b>	<b>243,780</b>
<b>Derivatives (notional)</b>	<b>487,580</b>	<b>260,315</b>	<b>468,956</b>	<b>644</b>	<b>1,217,495</b>

\* Gross of general provision of BD 13,036.

## RESIDUAL CONTRACTUAL MATURITY

BD 000's As at 31 December 2016	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Cash and balances at central banks	102,990	-	-	-	-	-	-	-	102,990
Treasury bills	162,816	140,583	183,403	-	-	-	-	-	486,802
Placements with banks and other financial institutions	145,484	15,416	-	-	-	-	-	-	160,900
Loans and advances*	349,176	67,441	56,445	306,825	160,692	86,477	16,955	951	1,044,962
Investment securities	11,018	1,820	134,781	283,369	330,507	251,126	18	80,633	1,093,272
Investment in associates and Other assets	3,343	58	1,988	6,289	5,073	5,668	639	78,153	101,211
<b>Total assets</b>	<b>774,827</b>	<b>225,318</b>	<b>376,617</b>	<b>596,483</b>	<b>496,272</b>	<b>343,271</b>	<b>17,612</b>	<b>159,737</b>	<b>2,990,137</b>
<b>Non-derivative banking commitments and contingent liabilities (notional)</b>	<b>125,556</b>	<b>28,062</b>	<b>21,408</b>	<b>25,641</b>	<b>42,702</b>	<b>380</b>	<b>31</b>	<b>-</b>	<b>243,780</b>
<b>Derivatives (notional)</b>	<b>178,131</b>	<b>289,200</b>	<b>105,475</b>	<b>86,126</b>	<b>279,608</b>	<b>278,955</b>	<b>-</b>	<b>-</b>	<b>1,217,495</b>

\* Gross of general provision of BD 13,036.

## Past due exposures

In accordance with the Bank's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are 90 days past due, are defined as non-performing.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc and adequate provisions are carried to guard against inherent risks in the portfolio.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of incurred losses that are inherent but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

## Ageing analysis of impaired and past due loans and advances:

**BD 000's**

**As at 31 December 2016**

Over 3 months to 1 year	7,544
1 to 3 years	21,780
Over 3 years	54,253
<b>Total</b>	<b>83,577</b>

## Geographical location of impaired and past due loans and advances:

**BD 000's**

**As at 31 December 2014**

	<b>Loan Amount</b>	<b>Specific impairment provision</b>	<b>Collective impairment provision</b>
Bahrain	71,576	24,517	10,096
Other GCC countries	12,001	11,992	2,518
Others	-	-	422
<b>Total</b>	<b>83,577</b>	<b>36,509</b>	<b>13,036</b>

## Industry/sector wise breakdown of impaired and past due loans and advances:

<b>BD 000's</b>	<b>At 31 December 2016</b>			<b>For the year ended 31 December 2016</b>	
	<b>Loan Amount</b>	<b>Specific impairment provision</b>	<b>Collective impairment provision</b>	<b>Specific impairment Charge</b>	<b>Write offs</b>
Manufacturing/trading	3,703	2,177	1,388	1,821	89
Construction	47,812	11,135	1,023	(998)	822
Personal	13,831	12,208	4,918	1,669	254
Others	18,231	10,989	5,707	(629)	8
<b>Total</b>	<b>83,577</b>	<b>36,509</b>	<b>13,036</b>	<b>1,863</b>	<b>1,173</b>

## Movement in impairment provision for loans and advances:

<b>BD 000's</b>	<b>Specific impairment provision</b>	<b>Collective impairment provision</b>	<b>Total impairment provision</b>
At 1 January 2016	35,819	12,815	48,634
Charge & transfers for the year	1,074	1,010	2,084
Amounts written off	(1,173)	-	(1,173)
Recoveries, transfers & write backs	789	(789)	-
<b>At 31 December 2016</b>	<b>36,509</b>	<b>13,036</b>	<b>49,545</b>

## Restructuring

During the year ended 31 December 2016, no credit facilities were restructured. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections. Due to the minor nature of concessions, there was no significant impact on the Bank's provisions for loans and advances impairment and present and future earnings.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

*Adjusted exposure amount:* The Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognized stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches) that are specified by the CBB.

*Substitution of counterparty:* The substitution method is used for eligible guarantees (only sovereigns, banks or corporate entities with ECAI ratings higher than that of the counterparty; guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better) whereby the rating of the counterparty is substituted with the rating of the guarantor.

## COLLATERAL AND VALUATION PRINCIPLES

The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered include salary and end of service benefits assignment for personal loans, personal guarantees of promoters etc. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel 3 is taken into consideration and there are no significant concentrations in such eligible collateral taken for credit risk mitigation.

The Bank's Credit Policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a system of independent valuation of collateral. In the case of real estate, valuation is done by independent valuer at regular intervals as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio are as under:

BD 000's	Gross credit exposure	Off which secured by eligible		Credit exposure after risk mitigants
		Financial collateral	Guarantees and credit derivatives	
<b>As at 31 December 2016</b>				
Sovereigns	1,721,266	-	-	1,721,266
PSE	139	-	-	139
Banks	329,041	64,284	-	264,757
Corporates	542,529	43,334	-	499,195
Regulatory retail	369,788	1,239	-	368,549
Residential mortgages	19,355	-	-	19,355
Past due exposures	47,067	96	-	46,971
Investments in equities/funds	86,255	-	-	86,255
Securitisation exposures	18	-	-	18
Others assets	105,660	7,214	-	98,446
<b>Total</b>	<b>3,221,118</b>	<b>116,167</b>	<b>-</b>	<b>3,104,951</b>

## On and off-Balance Sheet netting:

The legal documents that the Bank obtains from customers include clauses that permit the Bank to offset the customer's dues to the Bank against the Bank's dues to the customer. Thus, if the same legal entity has obtained credit facilities from the Bank and also maintains credit balance with the Bank, the Bank has the legal right to set-off the credit balances against the dues. In case of certain counter party banks, the Bank has entered into specific netting agreements that provide for netting on and off-balance sheet exposures.

The amount of financial assets and financial liabilities set off under netting agreements amounted to BD 83.5 million at 31 December 2016.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## MARKET RISK

The Bank uses the standardized method for allocating market risk capital. The Bank has clearly documented policies and procedures for the management and valuation of the trading portfolio. The Treasury Operations department, which is independent of the front office, is responsible for valuation which is done on a daily basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models as appropriate.

The following table shows the capital charges:

Risk Type	Capital Charge			
	As at 31-12-2016	Maximum	Minimum	Average
Interest Rate Risk	1,077	2,268	691	1,426
Equities Risk	56	65	47	54
Foreign Exchange Risk	18	264	18	51
Commodities Risk	-	-	-	-
Options Risk	-	6	-	-
<b>Total minimum capital required for market risk</b>	<b>1,151</b>			
Multiplier	12.5			
<b>Market Risk weighted exposure under the Standardized Method</b>	<b>14,388</b>			

## OPERATIONAL RISK

Whilst the Bank recognizes that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organisation and enhanced where necessary. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit and reviews, business continuity planning and arrangements for insurance cover are in place to complement the processes and procedures.

The Bank presently follows the Basic Indicator Approach for assessing the capital requirement for Operational Risk. The capital requirement of BD 20.8 million with Risk Weight Assets (RWA) BD 166.1 million is computed at 15 percent of average gross operating income for the last 3 years of BD 88.6 million (excluding profit/loss on Investments held under Available for Sale, Held to Maturity categories and any exceptional items of income) multiplied by 12.5 (the reciprocal of the 8 percent minimum capital ratio).

As at 31 December 2016, legal suits pending against the Bank aggregated to BD 0.53 million. Based on the opinion of the Bank's legal advisors and pending any final judgment on these suits, management believes that no liability is likely to arise from them and as such does not consider it necessary to carry any specific provision in this respect.

# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## EQUITY POSITION IN BANKING BOOK

The Bank holds certain investments in equity securities as part of its strategic holdings and others are held with the objective of capital appreciation and realizing gains on sale thereof. All equity positions in the Banking book are classified as "Available for Sale". The accounting policies for "Available for Sale" instruments are described in detail in the Financial Statements under "Significant Accounting Policies".

<b>BD 000's As at 31 December 2016</b>	<b>Balance Sheet Value</b>	<b>Capital Requirement @ 12.5% of Risk Weighted Assets</b>
Non Significant investment in the common shares		
Listed Equities	26,965	3,477
Unlisted Equities	2,932	550
Significant investment in the common shares of financial entities >10%	47,195	14,748
<b>Total</b>	<b>77,092</b>	<b>18,775</b>
Realised gain / (Loss) (recorded in Income Statement during the year)	(41)	
Unrealised gains and losses from fair valuing equities	23,799	
Deduction from CET 1 (Significant investments in common stock of financial entities)	(12,937)	

## INTEREST RATE RISK IN BANKING BOOK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of onbalance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the repricing structure of interest bearing assets differs from that of interest bearing liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning it to benefit from near-term changes in interest rate levels.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1 percent change in yield. Modified Duration of the Bank's fixed income portfolio was 1.59 percent on 31 December 2016 implying that a 1 percent parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 4.5 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Bank usually levies a pre-payment charge for any loan or deposit, which is repaid/withdrawn before the maturity date, unless it is specifically waived. This prepayment charge is to take care of any interest rate risk that the Bank faces on account of such prepayments and accordingly, no assumptions regarding such pre-payments are factored for computation of interest rate risk in the banking book.



# Risk and Capital Management Disclosures

For the year ended 31 December 2016

## INTEREST RATE RISK IN BANKING BOOK (continued)

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions. The asset and liability re-pricing profile of various asset and liability categories is set out below:

BD 000's As at 31 December 2016	Upto 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Rate insensitive	Total
<b>Assets</b>							
Cash and balances at central banks	-	-	-	-	-	102,990	102,990
Treasury bills	162,816	140,583	183,403	-	-	-	486,802
Placements with banks and other financial institutions	133,132	15,416	-	-	-	12,352	160,900
Loans and advances*	545,398	36,882	47,305	321,624	80,717	-	1,031,926
Investment securities	20,089	-	134,781	606,643	281,879	49,880	1,093,272
Investment in associates and Other assets	-	-	-	-	-	101,211	101,211
<b>Total assets</b>	<b>861,435</b>	<b>192,881</b>	<b>365,489</b>	<b>928,267</b>	<b>362,596</b>	<b>266,433</b>	<b>2,977,101</b>
<b>Liabilities and equity</b>							
Due to banks and other financial institutions	299,664	-	-	-	-	74,150	373,814
Borrowings under repurchase agreements	64,284	-	-	-	-	-	64,284
Customer deposits	985,054	180,288	51,430	618	-	870,958	2,088,348
Other liabilities	-	-	-	-	-	35,959	35,959
Equity	-	-	-	-	-	414,696	414,696
<b>Total liabilities and equity</b>	<b>1,349,002</b>	<b>180,288</b>	<b>51,430</b>	<b>618</b>	<b>-</b>	<b>1,395,763</b>	<b>2,977,101</b>
<b>On-Balance Sheet interest rate sensitivity gap</b>	<b>(487,567)</b>	<b>12,593</b>	<b>314,059</b>	<b>927,649</b>	<b>362,596</b>	<b>(1,129,330)</b>	<b>-</b>
<b>Off-Balance Sheet interest rate gap</b>	<b>644,689</b>	<b>-</b>	<b>-</b>	<b>(365,734)</b>	<b>(278,955)</b>	<b>-</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>157,122</b>	<b>169,715</b>	<b>483,774</b>	<b>1,045,689</b>	<b>1,129,330</b>	<b>-</b>	<b>-</b>

\* Net of general provision of BD 13,036.

The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

BD 000's As at 31 December 2016	200 bps parallel increase	200 bps parallel decrease
As at year ended above	10,961	(10,961)
Average for the year	9,836	(9,836)
Minimum for the year	4,539	(4,539)
Maximum for the year	12,110	(12,110)

# Composition of Capital Disclosure

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As at 31 December 2016

<b>Content</b>	Page No.
Balance sheet under the regulatory scope of consolidation - Step 1	121
Reconciliation of published financial balance sheet to regulatory reporting - Step 2	121
Composition of Capital Common Template (transition) - Step 3	122
Disclosure template for main feature of regulatory capital instruments	126

# Composition of Capital Disclosure

As at 31 December 2016

## Step 1: Balance sheet under the regulatory scope of consolidation

This step is not applicable to the Bank since the scope of regulatory consolidation and accounting consolidation is identical.

## Step 2: Reconciliation of published financial balance sheet to regulatory reporting As at 31 December 2016

BD 000's	Balance sheet as in published financial statements	Consolidated PIR data	Reference
<b>Assets</b>			
Cash and balances at central banks	102,990	102,990	
Placements with banks and other financial institutions	160,900	160,900	
Treasury bills	486,802	486,802	
Investment securities	1,092,923	1,092,620	
Trading portfolio assets	349	349	
Financial assets at fair value through P&L	-	303	
Investments in associates	50,076	50,076	
<b>Total Investment</b>	<b>1,143,348</b>	<b>1,143,348</b>	
of which:			
Significant investments in capital of financial institutions exceeds the 10% of CET1	-	60,112	
Amount in excess of 10% of CET1 to be deducted	-	18,610	A
Amount in excess of 10% of CET1 to be deducted in year 2	-	12,937	A
Gross Loans and advances	1,044,962	1,044,962	
Less: General loan loss provision	(13,036)	-	B
<b>Net loans and advances</b>	<b>1,031,926</b>	<b>-</b>	
Prepayments, accrued income and other assets	38,714	38,714	
Property, plant and equipment	12,421	12,421	
<b>Total assets</b>	<b>2,977,101</b>	<b>2,990,137</b>	
<b>Liabilities</b>			
Deposits from banks and other financial institutions	373,814	373,814	
Customer accounts	2,088,348	2,088,348	
Repurchase agreements and other similar secured borrowing	64,284	64,284	
Derivative financial instruments	-	-	
Accruals, deferred income and other liabilities	35,959	35,959	
<b>Total liabilities</b>	<b>2,562,405</b>	<b>2,562,405</b>	
<b>Shareholders' Equity</b>			
Paid-in share capital	115,950	114,306	
Shares under employee share incentive scheme	(1,644)	-	
<b>Total share capital</b>	<b>114,306</b>	<b>114,306</b>	
of which amount eligible for CET1	-	114,306	C
of which amount eligible for AT1	-	-	
Retained earnings	167,560	167,560	D
Statutory reserve	57,975	57,975	E
General reserve	32,400	32,400	F
Share premium	2,528	2,528	G
Donations and charity reserve	14,659	14,659	H
General loan loss provision which qualify as capital	-	13,036	
of which: amount eligible for Tier 2 capital subject to a maximum of 1.25% of credit risk weighted assets	-	12,381	B
of which: amount ineligible for Tier 2 capital	-	655	
Available for sale revaluation reserve	25,597	25,597	I
Share of Available for sale revaluation reserve relating to associates not considered for regulatory capital	(329)	(329)	
<b>Total shareholders' equity</b>	<b>414,696</b>	<b>427,732</b>	
<b>Total liabilities &amp; Shareholders' Equity</b>	<b>2,977,101</b>	<b>2,990,137</b>	

# Composition of Capital Disclosure

As at 31 December 2016

## Step 3: Composition of Capital Common Template (transition) as at 31 December 2016

Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Reference numbers of the balance sheet under the regulatory scope of consolidation from step 2
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	114,306		C
2 Retained earnings	167,559		D
3 Accumulated other comprehensive income (and other reserves)	133,159		E , F , G , H , I
4 Not Applicable	-	-	
5 Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-	
<b>6 Common Equity Tier 1 capital before regulatory adjustments</b>	<b>415,024</b>		
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
7 Prudential valuation adjustments	-	-	
8 Goodwill (net of related tax liability)	-	-	
9 Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	
11 Cash-flow hedge reserve	-	-	
12 Shortfall of provisions to expected losses	-	-	
13 Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	-	
14 Not applicable	-	-	
15 Defined-benefit pension fund net assets	-	-	
16 Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-	
17 Reciprocal cross-holdings in common equity	-	-	
18 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	
19 Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	12,937	5,673	A
20 Mortgage servicing rights (amount above 10% threshold)	-	-	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	
22 Amount exceeding the 15% threshold	-	-	
23 of which: significant investments in the common stock of financials	-	-	
24 of which: mortgage servicing rights	-	-	
25 of which: deferred tax assets arising from temporary differences	-	-	

# Composition of Capital Disclosure

As at 31 December 2016

## Step 3: Composition of Capital Common Template (transition) as at 31 December 2016 (continued)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Reference numbers of the balance sheet under the regulatory scope of consolidation from step 2
	<b>Additional Tier 1 capital: instruments</b>			
26	National specific regulatory adjustments	-	-	
	<b>REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT</b>			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-	
<b>28</b>	<b>Total regulatory adjustments to Common equity Tier</b>	<b>12,937</b>	<b>-</b>	
<b>29</b>	<b>Common Equity Tier 1 capital (CET1)</b>	<b>402,087</b>	<b>-</b>	
	<b>Additional Tier 1 capital: instruments</b>			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-	
31	of which: classified as equity under applicable accounting standards	-	-	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	-	
36	Additional Tier 1 capital before regulatory adjustments	-	-	
	<b>Additional Tier 1 capital: regulatory adjustments</b>			
37	Investments in own Additional Tier 1 instruments	-	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
41	National specific regulatory adjustments	-	-	
	<b>REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT</b>			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	
43	Total regulatory adjustments to Additional Tier 1 capital	-	-	
<b>44</b>	<b>Additional Tier 1 capital (AT1)</b>	<b>-</b>	<b>-</b>	
<b>45</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>402,087</b>	<b>-</b>	

# Composition of Capital Disclosure

As at 31 December 2016

## Step 3: Composition of Capital Common Template (transition) as at 31 December 2016

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Amounts subject to pre-2015 treatment	Reference numbers of the balance sheet under the regulatory scope of consolidation from step 2
<b>Tier 2 capital: instruments and provisions</b>				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Provisions	12,381	-	B
<b>51</b>	<b>Tier 2 capital before regulatory adjustments</b>	<b>12,381</b>	<b>-</b>	
<b>Tier 2 capital: regulatory adjustments</b>				
52	Investments in own Tier 2 instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
56	National specific regulatory adjustments	-	-	
<b>57</b>	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	<b>-</b>	
<b>58</b>	<b>Tier 2 capital (T2)</b>	<b>12,381</b>	<b>-</b>	
<b>59</b>	<b>Total capital (TC = T1 + T2)</b>	<b>414,468</b>	<b>-</b>	
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT				
	OF WHICH: Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible	14,183	-	
<b>60</b>	<b>Total risk weighted assets</b>	<b>1,170,982</b>	<b>-</b>	
<b>Capital ratios</b>				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	34.34%	-	
62	Tier 1 (as a percentage of risk weighted assets)	34.34%	-	
63	Total capital (as a percentage of risk weighted assets)	35.39%	-	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%	-	
65	of which: capital conservation buffer requirement	2.50%	-	
66	of which: bank specific countercyclical buffer requirement (N/A)	0.00%	-	
67	of which: D-SIB buffer requirement (N/A)	0.00%	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	34.34%	-	

# Composition of Capital Disclosure

As at 31 December 2016

## Step 3: Composition of Capital Common Template (transition) as at 31 December 2016 (continued)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Amounts subject to pre-2015 treatment	Reference numbers of the balance sheet under the regulatory scope of consolidation from step 2
<b>National minima including CCB (if different from Basel 3)</b>				
69	CBB Common Equity Tier 1 minimum ratio	9.00%	-	
70	CBB Tier 1 minimum ratio	10.50%	-	
71	CBB total capital minimum ratio	12.50%	-	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
72	Non-significant investments in the capital of other financials	7,049	-	
73	Significant investments in the common stock of financials	41,502	-	
74	Mortgage servicing rights (net of related tax liability)	-	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	13,036	-	
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of Credit Risk weighted Assets)	12,381	-	
78	NA	-	-	
79	NA	-	-	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)</b>				
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	

# Composition of Capital Disclosure

As at 31 December 2016

## Disclosure template for main feature of regulatory capital instruments

1	Issuer	National Bank of Bahrain BSC
2	Unique identifier (Bahrain Bourse ticker)	NBB
3	Governing law of the instrument	All applicable laws and regulations of the Kingdom of Bahrain

### Regulatory treatment

4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument Type Common	Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	BD 115.95 Million
9	Par Value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable

### Coupons / dividends

17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable



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**BRANCHES IN BAHRAIN**

AIRPORT	
Arrivals	<b>17 321212</b>
Transit	<b>17 321214</b>
A'ali	<b>17 643438</b>
Al Esteqlal Highway	<b>17 622611</b>
Al Muthanna	<b>17 225622</b>
Asry	<b>17 671007</b>
Awali	<b>17 756462</b>
Budaiya	<b>17 696699</b>
Central Market	<b>17 241242</b>
Diplomatic Area	<b>17 537466</b>
East Riffa	<b>17 775284</b>
Exhibition Avenue	<b>17 714900</b>
Hamad Town	<b>17 420898</b>
Hidd	<b>17 672683</b>
Isa Town	<b>17 689555</b>
Jidhafs	<b>17 552257</b>
Lulu Road	<b>17 256444</b>
Main Branch	
(New NBB Tower)	<b>17 228800</b>
Muharraq North	<b>17 322522</b>
Muharraq Souk	<b>17 343717</b>
Palace Avenue	<b>17 294191</b>
Salmaniya	<b>17 250777</b>
Seef Mall	<b>17 582666</b>
Sitra	<b>17 731128</b>
Souk Waqef	<b>17 413444</b>
Bukowara	<b>17 006655</b>

# Contact Directory

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## BRANCHES IN THE REGION

### ABU DHABI BRANCH

National Bank of Bahrain  
P O Box 46080, Al Otaiba Tower,  
Sh. Hamdan Street, Abu Dhabi  
United Arab Emirates  
Telephone : 00971 2 6335288  
Fax : 00971 2 6333783  
Swift : NBOBAEAA

### RIYADH BRANCH

National Bank of Bahrain  
P.O.Box 65543  
Riyadh 11566  
Kingdom of Saudi Arabia  
  
Bahrain Tower – Building No.834  
King Fahad Road  
Olaya District  
Riyadh City  
Kingdom of Saudi Arabia  
Telephone : 00966 1 299880  
Fax : 00966 1 299 8899

### SHARE REGISTRARS

Karvy Computershare W.L.L.  
Zamil Tower, Office Number 74  
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P.O. Box 514  
Manama, Kingdom of Bahrain





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