Embracing the Future

Bank ABC

Bank ABC Group
Annual Report 2019

Contents

Our Promise

"A team committed to your success."

Bank ABC at a glance in 2019

$877 million NORMALISED OPERATING INCOME	$194 million NET PROFIT	16.9% TIER-1 RATIO
BBB- Fitch Ratings / S&P Global Ratings CREDIT RATINGS	4.9% RETURN ON EQUITY	ila LAUNCH OF DIGITAL, MOBILE-ONLY BANK

Strategic Intent

To be MENA's leading international bank.

Our Objectives

To unlock the full potential of our global wholesale bank.

To digitise retail banking in MENA and grow our commercial banking in Brazil.

To enhance our operating model to increase resilience and strengthen culture.

To seek inorganic growth opportunities and improve returns.

Core Values

Client Centric

We are committed to knowing our customers and developing long-term relationships.

Collaborative

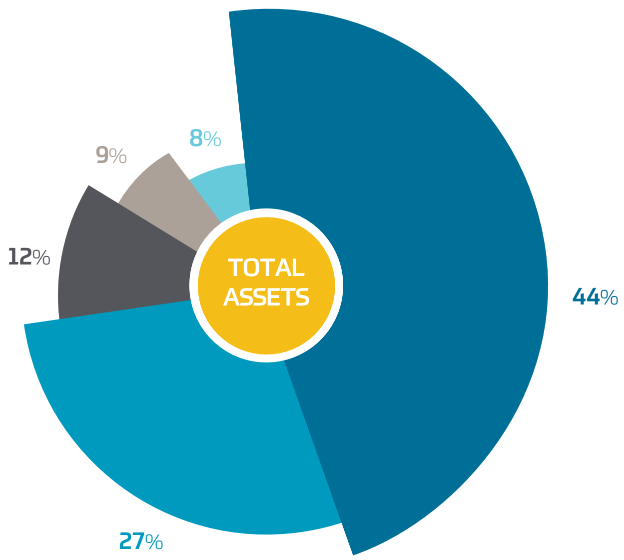
We work together as one team across our international network, providing a superior client experience.

Consistent

We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders.

$30.1 billion

TOTAL ASSETS



Your business partner across 5 continents and 15 countries

44% Arab World

27% Latin America

12% Others

9% North America

8% Western Europe

Banking that reflects you

Bank ABC's digital, mobile-only bank, ila is the latest in a series of digital initiatives by MENA's leading international bank to promote Bahrain as a Fintech hub for the region.

In November 2019, Bank ABC launched ila Bank, marking its foray into the digital, mobile-only banking space, beginning with Bahrain with a roadmap to take it across the MENA region. ila reflects Bank ABC's commitment to drive the financial services sector to the next frontier, combining technology with a human-centric design to redefine banking for the next generation.

Arabic for the word 'to', ila promises to propel its users from where they are, "to" where they want to be, enabling their long- and short-term goals and aspirations through an extremely personalised approach to banking and financial management, aided by cutting-edge technology, Artificial Intelligence and sophisticated data analytics.

Completely digital onboarding within minutes

Instant virtual debit card for online transactions

Flexible funding options

Multiple foreign currency accounts that can be linked to a single card

A current account **rewarding customers with higher interest** rate on higher balance

In-app full card control, including set/reset pin, freeze/unfreeze, block and instantly reorder card

Digital DNA™ Customer Assistant "Fatema" to answer customer questions through ila's website 24/7

ila has created quality jobs and internships for young Bahraini professionals - **over 80% of ila employees are Bahraini and 84% are under 40 years old.** Furthermore, the mobile-banking app is positioned to promote financial inclusion in the MENA region, something that Bank ABC is extremely passionate about, with the lowest required income threshold to open an account in Bahrain.

Since its launch in November 2019, it has received a phenomenal market response with unprecedented download rate and onboarding requests, and is fast developing as a national champion that can disrupt and drive Bahrain's banking industry to the next frontier.

ilabank.com

ila Bank Bahrain

Download the ila app

GET IT ON Google Play

Download on the App Store

Directors' Report

Saddek Omar El Kaber
Chairman

Our revenue growth demonstrated traction in the Group strategy: on a headline basis, total operating income rose by 6% to US$865 million, compared to US$817 million in 2018, and when adjusted for FX impact and one-off items, underlying total operating income grew by 4%.

On behalf of the Directors of the Bank ABC Group, it is my pleasure to submit this annual report to the shareholders, highlighting key achievements and consolidated financial performance in 2019, and outlining the Bank's strategic direction for the next period.

Key Achievements

2019 has been a remarkable year for the Bank's transformation strategy, with significant investment and growth in human capital, digital, services and operating structures, showcasing progress during a year of global economic uncertainty. The year represented substantial developments in the Bank's strategic value drivers with demonstrable, positive outcomes.

I am delighted to share that 'ila Bank' our ground-breaking and world-class new digital retail bank in Bahrain was launched in November 2019. 'ila' is the Kingdom's first-ever purely digital, mobile-only bank that enables retail customers to manage all end-to-end services from a smartphone – including sophisticated AI features, all digital onboarding, a growing set of payment and product capabilities and state of the art security features. The proposition was developed by a talented team from across the Group, and its early post launch market feedback has been exceptional from all stakeholders.

The Wholesale Banking reorientation continues to witness much progress, with a notable increase in the number of corporate clients, streamlining of the FI business, and new cash management and digital offerings to our clients, whilst ensuring best-in-class governance. The Bank was awarded the title of Best Trade Finance Provider in Bahrain- 2020 by Global Finance magazine.

2019 also saw the launch of an Innovation function and ABC furthered the region's Fintech agenda by becoming the first Middle Eastern bank to join the Fintech Alliance, a multifaceted digital engagement platform, established in partnership with the UK Government's Department for International Trade (DIT). We also introduced "Fatema", the region's and Bank ABC's first 'digital employee' and the first such emotionally intelligent interface in the world created using Digital DNA™. Acknowledging these successes, ABC was recognised as the Most Innovative Arab Bank of the Year at the FinX Awards 2019.

Financial Performance

Turning to the Group's financial performance, we first consider the context set by the external outlook. In 2019, a widespread weakening in growth was experienced, worsened by the United States' trade wars with China and the EU and a declining low interest rate environment, contributing to a slowdown that saw the world's economy grow by only 2.2%, down from 2.9% in 2018. This represents the slowest growth since the global financial crisis in 2008-09.

When factoring in the economic backdrop and the significant cost investments absorbed in digital and wholesale, the Group achieved robust financial results for 2019 with net profit attributable to shareholders, of US$194 million compared to US$202 million in 2018. Our revenue growth demonstrated traction in the Group strategy: on a headline basis, total operating income rose by 6% to US$865 million, compared to US$817 million in 2018, and when adjusted for FX impact and one-off items, underlying total operating income grew by 4%.

Impairment charges were at US$82 million compared with the US$79 million reported for the previous year, broadly at similar level as last year, reflecting proactive credit management and conservative underwriting practices. The ratio of impaired loans to gross loans improved to 3.7% from the 2018 year-end levels of 4.0%, and normalises to 2.9%, when long-standing legacy fully provided loans are adjusted for. Provisions coverage against the aggregate impaired exposures remained comfortable at 102%.

Overall profitability was therefore primarily impacted by the significant investments the Group is making into its businesses through human capital, digital capabilities, and footprint, with operating costs increasing by 11%. Over the medium term, we expect these investments to translate into even greater revenue growth potential, enhanced profits and shareholder value.

The Group's total assets stood at US$30.1 billion at the end of the December 2019, compared to US$29.5 billion at the 2018 year-end. Loans and advances grew strongly during the period by 11% to US$16.5 billion, after absorbing FX impact, reflecting the Bank's diversified strategy. However, this growth was absorbed with prudent use of balance sheet: robust Tier 1 capital adequacy ratios stood at 17% at the close of the year. Deposits at the end of the period were at US$21 billion, compared to US$20.7 billion at 2018 year-end. The Group increased its focus on the non-bank financial institution segment as part of its efforts to diversify and improve the quality of its deposit base and this focus will continue to be a priority over the coming period. The Bank also successfully launched its Certificate of Deposit Programme broadening its investor base and achieving a high roll-over rate. This improved management of the Group's liquidity and funding base secured for the Bank impressive LCR and NSFR ratios, both with comfortable buffers above minimum regulatory requirements.

More broadly, our retail business across MENA recorded notable growth. The combined loan book for the MENA region rose to US$653 million, a rise of 8.4% on the 2018 figure of US$602 million. Customer deposits remained stable at US$1.7 billion. In addition, the number of active retail online banking users tripled in 2018, with average monthly online transaction rising by 52% over the year.

2019 was another strong year for Banco ABC Brasil, with the development of its corporate banking strategy and a new focus on expanding its middle market segment along with digitising its customer service proposition and operations. Booking an operating profit of BRL 621 million and BRL 32.6 billion total assets volume, Banco ABC Brasil is well positioned to take advantage of the recovering economy of Brazil.

Directors' Report (continued)

Strategic Priorities

The Bank's transformation, driven by four strategic value drivers, accelerated in 2019, leaving us well placed for future growth and returns. These value drivers - significantly growing our Corporate client base, building Transaction Banking, globalising and optimising the Financial Institutions franchise, and digitising the Bank, have progressed significantly and added momentum to our revenues and asset growth.

To grow our Corporate client base, we continue to intensify our global and local coverage model across our core and network markets, as well as deepen our product capabilities. We continue to enhance our cross-sell focus across ABC's network markets of Europe, Americas and Asia, serving our client's financing needs to and from our core MENA markets.

Expanding on our build-out of Transaction Banking, we are reinforcing our existing Trade Finance business with processes being globalised and harmonised to extract more from current capabilities, whilst we develop an entirely new platform from which to digitally offer trade finance, and supply chain finance, enhancing our capabilities in open account, payables and factoring. We also prioritised focus on cash management across core markets, serving to add another major product line to our client service proposition while diversifying the Bank's funding sources.

In other wholesale product areas, underpinning our Corporate client acquisition strategy, our Financial Markets business also performed strongly seeing increased client flows underpinned by proactive risk management, product diversification via bespoke solutions and a strengthening of its collaborative client centric model. The Capital Markets business significantly outperformed the market in 2019, despite low corporate activity and syndication volumes across core markets. We underwrote and distributed more syndicated loans for corporates and FIs as a direct result of increased collaboration. Debt Capital Markets team did a number of high volume and well-noted transactions. Our franchise enhancing Specialised Finance business had a remarkable year arranging and underwriting high-profile transactions across our core markets.

Likewise, our Islamic finance franchise had a successful year supporting its significant client base across our network and product capability.

One of ABC's strengths remains its Financial Institutions business, and we continue to prioritise, globalise and optimise both strategic and correspondent FI relationships to ensure the Group's funding, transaction and clearing capabilities are reinforced through effective partnerships, extending our customer reach across the globe.

Turning to our retail operations, our strategy has progressed across the Bank ABC branch network, with efficiencies made at branches in Jordan, Egypt, Tunisia and Algeria, which include the addition of digital facilities, and following a review of our branch network, the rollout of a new branch experience and the relocation of a number of branches to achieve greater efficiencies.

On our final strategic value driver, the key achievements in our digital strategy in 2019 have been highlighted earlier. Bank ABC intends to remain at the forefront of innovation and digital banking transformation in the MENA region, deploying the levels of investment necessary to build the advanced capabilities such as APIs, AI and Agile techniques that will secure the Bank for the future – recognising the radical transformation that is necessary for our industry.

Operational efficiency and resilience

Underpinning the focus on our digital strategy, is investment in our core technology platforms. The Bank has adopted a cloud-first strategy, which will continue to evolve in 2020, with enterprise data, risk and disaster recovery protocols taking centre stage. Our cyber security protocols were also reviewed in 2019, resulting in investments in new tools and systems to monitor potential risk and the provision of patches for updates and enhancements.

On regulation, the Bank has welcomed and planned for effective compliance in all CBB directives, which in 2019 included liquidity integrated stress testing, operational risk modules, data protection regulations and transition from LIBOR. Moreover, SWIFT, the new GPI Global Payments Initiative was rolled out in Bahrain in 2019 and will be rolled out across the network in 2020 and 2021.

Continuing the Group's progress on enhancing our corporate governance framework, we have strengthened procedures with a new Group Risk Committee, which oversights on the most material issues the Group faces such as Cyber security, ESG issues, climate change, etc.

2020 Outlook

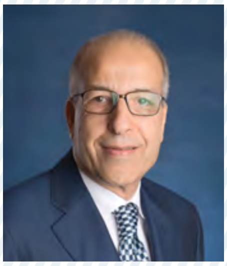
Looking ahead, the international economic outlook for 2020 remains uncertain, with the World Bank forecasting that global economic growth may achieve 2.5% (albeit before the full impact of the Coronavirus (COVID-19) outbreak is absorbed). Nevertheless, our strategy remains constant and we will continue to transform the Bank to achieve digital leadership recognising the disruptive forces affecting our industry and region. We will focus on achieving ever-greater levels of Group-wide efficiencies through process harmonisation, whilst technologies such as Artificial Intelligence and Cloud based facilities will strengthen the provision of services across the Group.

While we look forward for continued growth of Bank ABC's business, my fellow Directors and I take this opportunity to express our deep appreciation to our two principal shareholders, the Central Bank of Libya and the Kuwait Investment Authority, for their support. We also thank our shareholders for their faith and trust in the Bank's strategy for robust, sustainable growth towards becoming MENA's leading international bank. Special thanks also go to the management and employees of Bank ABC for their great efforts during 2019.

We look forward to sharing a productive and successful 2020 with you.

Saddek Omar El Kaber
Chairman

Board of Directors



Mr. Saddek Omar El Kaber
Chairman

‡ >|<

MBA and MS in Public Accounting, University of Hartford, Connecticut, USA.

Governor of the Central Bank of Libya and Chairman of ABC International Bank plc, U.K. Previously, Mr. El Kaber was the Deputy Chief Executive Officer of ABC International Bank plc, U.K., and Chairman and General Manager of UMMA Bank, Libya. Mr. El Kaber has held past key positions in a number of banks and financial institutions including being the Deputy Chairman of the Board of Arab Banking Corporation-Algeria, Country Manager and CEO of Arab Banking Corporation-Tunisia and a Director of Arab Financial Services Company B.S.C.(c). He joined the Board of Arab Banking Corporation (B.S.C.) in December 2011. He has more than 35 years of experience in international finance and banking.

Mr. Mohammad Abdulredha Saleem
Deputy Chairman

RC GC ‡ >|<

Bachelor of Business Administration-Finance from Kuwait University.

Treasurer of Kuwait Investment Authority since 2006. Chairman of the Audit Committee of Warba Bank (Kuwait) since 2016. He served previously in the State of Kuwait as Chairman and Board Member of audit and investment committees of various companies including Kuwait Investment Company, Gulf Custody, Kuwait Real Estate Holding, Kuwait Flour Mills. He also held membership at the boards of Al Ajial Holding in Casablanca, the Egyptian Kuwaiti Real Estate Development Co. in Cairo, the Tourism and Conference Co. in Tunis, and the Yemeni Kuwaiti for Real Estate Development Company in Sana'a. Mr. Saleem has more than 30 years' experience in the financial and investment field.

Mr. Khaled Al Hassoun
Director

AC RemCo ‡ >|<

Bachelor's degree in Business Management (Marketing), Kuwait University.

Head of Real Estate at the Kuwait Investment Authority (KIA), which he joined in 1986. Mr. Khaled AlHassoun is Chairman of the Board of Directors of Tourism Projects Company in Kuwait. He previously represented KIA on the boards of directors in a number of companies such as Arab Investment Company (2012-2018), Kuwait Finance House (2007-2017), Moroccan Kuwaiti Consortium for Development (2004-2012), Livestock Transport and Trading Company (2001-2007), Kuwait Small Projects Development Company (1999-2001), Egyptian Kuwaiti Real Estate Development Company (1999-2007), Algerian Kuwaiti Investment Fund (1999-2000), Arab Industry and Mining Company (1998-2000), Agricultural Food Products Company (1996-2000) and Al-Tamdeen Real Estate Company (1996-1997).

Dr. Anwar Ali Al Mudhaf
Director

AC RemCo RC ‡ §

PhD in Finance, Peter F. Drucker Graduate School of Management, Claremont Graduate University, California, USA.

Former Chairman and CEO of Al-Razzi Holding Company; Chairman of Banco ABC Brasil S.A.; Chairman of Ahli United Bank-Kuwait; Chairman of Sama Educational Company; Director of the Board of Governors of the Oxford Institute for Energy Studies. Dr. Al Mudhaf has formerly served as a Lecturer in Corporate Finance, Investment Management and Financial Institutions at Kuwait University; Chairman of the International Bank of Asia in Hong Kong; Director of the Board of Directors of the Public Institution for Social Security (PIFSS); Advisor to the Finance and Economic Affairs Committee at Kuwait's Parliament; Member of the Economic Task Force dealing with the implications of the 2008 Global Financial Crisis on Kuwait; Vice Chairman in Al Mal Investment Company; and a Director of Al Ahli Bank in Kuwait; and Member of the Board of Directors of the Public Authority for Applied Education. Dr. Al Mudhaf joined Arab Banking Corporation in 1999 and has more than 21 years of experience in banking and finance.

Dr. Yousef Abdullah Al Awadi KBE
Director

AC GC RC ‡ §

BA Economics, American University of Beirut, Lebanon; Post Graduate Diploma in Financial Planning, Arab Planning Institute, Kuwait; MA and PhD Economics, University of Colorado, USA.

Chief Executive Officer of YAA Consultancy, Kuwait. Previously he was the Chief Executive Officer of Gulf Bank, Kuwait, and President and CEO of the Kuwait Investment Office, London. Dr. Al Awadi is also a Director of ABC International Bank plc, UK, Chairman of Arab Banking Corporation Egypt, and a Director of Fidelity International Funds. Dr. Al Awadi has formerly served as a member of the International Advisory Board of Goldman Sachs and the Higher Planning Council in Kuwait, in addition to board directorships of many public and private sector entities regionally and internationally. In January 2005, Dr. Al Awadi was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire KBE. He joined the Board of Arab Banking Corporation (B.S.C.) in 2010 and has more than 40 years of experience in banking, international finance and investment management.

AC	Member of the Audit Committee
GC	Member of the Corporate Governance Committee
RemCo	Member of the Remuneration Committee
RC	Member of the Risk Committee
‡	Non-Executive
§	Independent
>|<	Non-independent

Dr. Tarik Yousef
Director

AC GC ‡ >|<

PhD in Economics, Harvard University, USA.

Senior Fellow in the Global Economy & Development Program at the Brookings Institution since 2006. Member of the Board of Directors of the Central Bank of Libya since 2012. Former Chief Executive Officer of Silatech between 2011 and 2015 and the Founding Dean of the Dubai School of Government between 2006 and 2010. Dr. Yousef worked at Georgetown University in Washington DC between 1998 and 2006 as Professor of Economics in the Edmund Walsh School of Foreign Service and Sheikh Al-Sabah Chair of Arab Studies at the Centre for Contemporary Arab Studies. His policy experience includes working as Economist in the Middle East and African Departments of the International Monetary Fund, Visiting Senior Economist in the Office of the Chief Economist of the Middle East and North Africa Region of the World Bank between 2002 and 2005 and Senior Advisor for the Millennium Project at the UN between 2004- 2005. Dr. Yousef joined the Board of Arab Banking Corporation (B.S.C.) in 2015. He has 20 years of experience in the finance and business fields.

Mr. Bashir Omer
Director

AC RC RemCo ‡ §

BA in Accounting, Benghazi University, Libya, MBA in Financial Management, University of Hull, U.K.

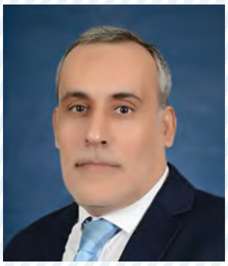
General Manager of the Libyan Long Term Investment Portfolio, Libya. Mr. Omer is also the Deputy Chairman of Arab Banking Corporation Jordan and Board Member of Pak Libya Holding Co. Previously he served on the Boards of the Libyan Foreign Bank and the Libyan Foreign Investment Co. Mr. Omer joined the Board of Arab Banking Corporation (B.S.C.) in 2014. He has more than 25 years of experience in banking, investment and finance.

Dr. Farouk El Okdah
Director

GC ‡ §

PhD in Business and Applied Economics, Wharton School, University of Pennsylvania; MBA in Finance, Wharton School, University of Pennsylvania; Master of Accounting with Honors, Cairo University; BA in Accounting, Ain Shams University, Egypt.

Former Governor and Chairman of the Central Bank of Egypt and former Chairman and CEO of the National Bank of Egypt. Dr. El Okdah was also former Vice President of Bank of New York (US). He is the Non-Executive Chairman of the National Bank of Egypt (UK) Limited, Non-Executive Chairman of the Union de Banques Arabe et Francaises (UBAF) and former Member of the Board of Directors of Egypt Air, Egypt. Dr. El Okdah joined the Board of Arab Banking Corporation (B.S.C.) in 2014. He has more than 35 years of experience in banking and finance.



Mr. Ali Al Ashhab
Director

RC ‡ >|<

MSc in Economics, The Higher Education Academy – Tripoli, Libya.

Director of the Financial Markets Department and Member of the Investment Committee at the Central Bank of Libya. Previously, Mr. Alashhab held key positions at the Central Bank of Libya including being the Deputy Director of Investments in the Financial Markets Department, Portfolio Manager in the Reserves Department, and Assistant Head of Division in the Banking Operations Department. Mr. Alashhab has been with the Central Bank of Libya since 1996, and his 20 years' experience is primarily in the financial markets and money and capital markets.

Head Office Management

Dr. Khaled S. Kawan
Group Chief Executive Officer

Ph.D. (Doctorat D'Etat) in Banking Laws, University of Paris (Sorbonne), France.

Dr. Kawan joined Bank ABC in June 1991. He was Group Legal Counsel until December 2009, when he was appointed Deputy Group Chief Executive. Dr. Kawan was appointed Group Chief Executive Officer of Bank ABC in October 2013. He represents the Bank ABC Group as Chairman of the Board of ABC Islamic Bank E.C. He is also a Director of ABC International Bank plc and has more than 25 years of banking experience.

Mr. Sael Al Waary
Deputy Group Chief Executive Officer

B.Sc. (Hons) degree in Computer Sciences, University of Reading, United Kingdom.

Mr. Al Waary is the Deputy Group Chief Executive Officer of Bank ABC Group, with 35 years of banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. Mr. Al Waary is Chairman of Arab Banking Corporation Jordan, Chairman of the Arab Financial Services Company B.S.C.(c), Chairman of ila Bank Advisory Board and Vice Chairman of Arab Banking Corporation Egypt. He has previously served on the Board of Banco ABC Brasil.

Mr. Brendon Hopkins
Group Chief Financial Officer

Chartered Accountant (ICAEW), Chartered Tax Advisor (CIOT), MBA, Henley Management College, BSc (hons) Industrial Mathematics, University of Birmingham.

Mr. Hopkins joined in 2014 as Group CFO for the ABC Group, with responsibility for Finance, Strategy, Change Management, M&A, Balance Sheet Management, Taxation and Investor Relations. He has more than 30 years previous experience in the financial services sector, including periods with Standard Chartered Bank, Deloitte and Guardian Royal Exchange. His previous senior roles at Standard Chartered Bank included Chief Executive Officer, Europe and Group Head, Strategy, Western Hemisphere. He is also a Director on the Board of Banco ABC Brasil and is Chairman of the Board of Governors of St Christopher's School, Bahrain.

Mr. Ismail Mokhtar
Group Chief Operating Officer

Master's degree in Management - Economic, Sciences and Management University - Tunisia.

Ismail Mokhtar has had a number of senior roles with Bank ABC for over two decades. He served Bank ABC in Tunisia as the Deputy General Manager and Chief Operating Officer before moving to the Head Office in Bahrain as Business Catalyst, project coordinator at Group Chief Operating Officer's Office in 2015. He was appointed Regional MENA COO in May 2018. Before joining Bank ABC, Mr. Mokhtar was market analyst at Banque Nationale Agricole (Tunisia) until 1999 and Government Bond Desk at the Treasury Department of Banque Nationale Agricole (Tunisia) from which he moved on to Bank ABC (Tunisia) in 2001. Mr. Mokhtar got promoted in August 2019 to a new role, Group Chief Operating Officer to support the delivery of the key support areas across the Group and oversees the Functional and Country COOs across the Group. Mr. Mokhtar represents the Bank ABC Group as Director of Bank ABC in Jordan and Director of Bank ABC Algeria.

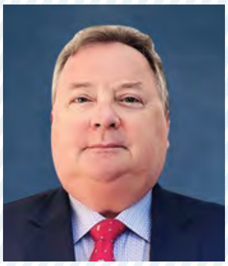
Mr. Christopher Wilmot
Group Treasurer

Mr. Wilmot joined Bank ABC in June 2016 with responsibility for the bank's Corporate Treasury, Financial Markets and Capital Markets businesses. He is a senior banker with more than 30 years of treasury, investment and financial markets experience, covering both conventional and Islamic banking disciplines, of which the last 22 years have been within the MENA region. He joined the Bank ABC Group from First Gulf Bank, Abu Dhabi, where he was a member of the executive management team responsible for managing the bank's overall liquidity, wholesale funding strategy, proprietary investment and global markets businesses. Prior to joining FGB, Mr. Wilmot held Group Treasurer positions with Ahli United Bank, Bahrain, and Saudi Hollandi Bank, Riyadh (ABN Amro Group). His many career achievements include the opening of the Saudi Arabian domestic debt capital markets with the inaugural Lower Tier II subordinated debt issuance in 2005, overseeing the conversion of Bank of Kuwait and Middle East to a Shari'a compliant bank in 2010 and achieving industry recognition for developing FGB's debt raising platform through receiving Global Capital's Award for "Most Impressive Borrower-Middle East" in 2015.

Mr. Amr ElNokaly
Acting Group Head of Wholesale Banking

Bachelor of Arts & Commerce Degree from Helwan University, and completed the Harvard Business School Program on Investment Appraisal, Risk Analysis & Project Finance.

Mr. ElNokaly joined Bank ABC in 2018 as Global Head of Corporates, and he is currently serving as the Acting Group Head of Wholesale Bank. He leads and manages delivery of Bank ABC's wholesale banking capabilities through a single platform to the Bank's clients within its network of 15 countries of presence, and non-presence markets. His leadership drives formulating and executing business strategies, driving performance, developing customer relationships, and building franchise values for the Group. Mr. ElNokaly serves on Arab Banking Corporation Egypt S.A.E. as non-executive Board Member. Prior to joining Bank ABC Group, from 1996 to 2003 he was with Citigroup Egypt as Resident Vice President. He served as Senior Vice President – Corporate Banking Division Head at Mashreq Bank U.A.E from 2003 to 2018 and at Union of Banks Federation of U.A.E. as Chairman of Wholesale Banking Committee for two years from 2015 to 2017. Mr. ElNokaly is a banking professional with extensive expertise mainly focusing on Corporate and Investment Banking, where he has held product management and client coverage positions spanning North Africa, Middle East, Asia, Europe, and U.S.A. He led teams into origination and structuring of multi-billion dollar and award-winning transactions in different sectors through his 25 years' banking career. As part of his career assignments, he also led strategic initiatives such as primary bank, client centricity, and employee engagement.



Mr. Stephen Thomson
Acting Group Head of Credit & Risk

MBA with specialisation in system thinking from the University of Westminster Business School.

Mr. Thomson joined Bank ABC in 2016 as Group Chief Credit Officer. Prior to joining Bank ABC he served as Country Risk Officer for Saudi Arabia and Bahrain for JPMorgan, where his remit was to manage the risk associated with the establishment of the Saudi Arabian branch and securities business and oversee the credit risk associated with the bank's business for both Saudi Arabia and Bahrain. During the 15 years prior to joining Bank ABC, Mr. Thomson held senior credit and risk roles for ABNAmro in London covering the bank's wholesale corporate banking, asset securitization, commercial property and private bank portfolios. Whilst stationed in Amsterdam he oversaw the credit risk for the Far-East financial institution portfolio before moving to Tokyo as Country Risk Officer covering the commercial bank portfolio and securities trading business. In 2009 Mr. Thomson relocated to the Middle East with Saudi Hollandi Bank and was responsible for credit risk in both Riyadh and Jeddah across large corporate enterprises, family owned conglomerates, trading companies and medium sized enterprise portfolios. Prior to joining ABNAmro Mr. Thomson held credit risk and corporate banking positions with the Bank of New York, the Bank of Yokohama and Barclays Bank in the City of London.

Mr. Johan Hundertmark
Group Chief Auditor

Chartered Accountant (NBA), Chartered Financial Controller (VRC), MSc (hons) Business Economics, University of Tilburg, Certified Internal Auditor.

Mr. Hundertmark is a Chartered Accountant and member of Royal Netherlands Institute of Chartered Accountants who trained with Ernst & Young and KPMG in the Netherlands. He is also a Chartered Financial Controller Netherlands Institute of Financial Controllers and he holds a Master of Science in Business Economics at the University of Tilburg. He was trained at KPMG as Chartered Accountant before joining ABN Amro Bank N.V. He was appointed Senior Vice President for the bank before accepting the Chief Audit Executive role at its subsidiary Saudi Hollandi Bank in Riyadh, Saudi Arabia. He joined Deutsche Bank AG in Sydney, Australia, in 2008 as Head of Audit for Australia and New Zealand and transferred to Singapore as the Head of Audit for Singapore and ASEAN in August 2012, where he was also responsible for the audit of Corporate and Investment Banking for the Asia-Pacific region. Mr. Hundertmark joined the Bank ABC Group in July 2016 as Group Chief Auditor. He has 25 years of experience in the finance field.

Bank ABC Group Organisational Chart

- Board of Directors
  - Board Secretary – Abdelkhalig Shaib
  - The Board Audit Committee
    - Group Audit – Johan Hundertmark
  - The Board Risk Committee
  - Group Chief Executive Officer – Dr. Khaled Kawan
    - Deputy Group Chief Executive Officer – Sael Al Waary
      - Geographies
        - Bahrain Business Units
        - Bank ABC Islamic
        - MENA Units
          - Bank ABC Algeria
          - Bank ABC Tunisia
          - Bank ABC Egypt
          - Bank ABC Jordan
        - Europe & America
          - Bank ABC Europe
          - New York Branch
        - Libya Office
        - Dubai Branch
        - Singapore Branch
      - ila Bank (Retail Branch- Bahrain) – *Digital, Mobile-only Bank*
      - Group Human Resources
      - Group Legal Counsel
      - Group Innovation
      - Group Digital Banking & Retail
      - Group Corporate Communications
      - Arab Financial Services Company
      - Group Chief Operating Officer – Ismail Mokhtar
        - Group Operations
        - Group Information Technology
        - Group Cybersecurity
        - Group Corporate Services
    - Group Wholesale Banking – Amr ElNokaly (Acting)
      - Corporate Coverage
      - Financial Institutions Coverage
      - Specialised Finance
      - Real Estate Finance
      - Islamic Banking
      - Transaction Banking
    - Group Treasury & Financial Markets – Christopher Wilmot
      - Corporate Treasury
      - Financial Markets
      - Capital Market
      - Asset Management/Custody
    - Group Chief Financial Officer – Brendon Hopkins
      - Group Finance
      - Balance Sheet Management
      - Group Strategy
      - Investor Relations
      - Change Management
      - Accounts & Expenses Management
    - Group Compliance – Andrew Wilson (Acting)
    - Banco ABC Brasil
    - Group Credit & Risk – Stephen Thomson (Acting)
      - Head of Risk Management
        - Market Risk
        - Credit Risk
        - Operational Risk
        - Risk Systems
        - Regulatory Risk & Analytics
        - IT & Cyber Risk
      - Group Chief Credit Officer
        - Group Credit
        - Remedial Loans
        - Retail Risk
        - Islamic Risk
      - Group Asset Quality Review
      - Economics

Group Performance
(US$ million)

The ABC Group

2019 Highlights	ABC Parent (ABC B.S.C.)	ABC Group
Total Assets	16,635	30,068
Total Non-trading investments	3,706	5,836
Total Loans and advances	5,667	16,452
Total Deposits	9,812	20,962
Shareholders' Funds	4,031	4,031

MENA Subsidiaries

2019 Highlights	ABC Algeria	ABC Jordan	ABC Egypt	ABC Tunisie
Total Assets	640	1,608	831	369
Total Non-trading investments	-	454	141	28
Total Loans and advances	405	893	262	213
Total Deposits	434	1,271	697	326
Shareholders' Funds	165	222	112	27
Number of Branches	24	26	27	17

Wholesale Banking and Other Subsidiaries

2019 Highlights	ABC Int'l Bank plc	Banco ABC Brasil	ABC Islamic Bank	AFS
Total Assets	3,988	8,093	2,068	91
Total Non-trading investments	73	632	818	-
Total Loans and advances	2,969	4,922	1,085	-
Total Deposits	2,797	5,970	1,670	1
Shareholders' Funds	653	1,005	373	48
Number of Branches	4	11	-	-

Financial Highlights

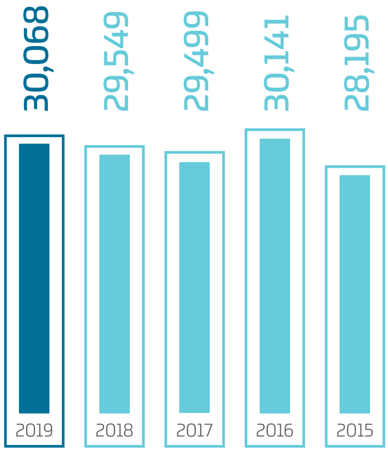
	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
Earnings (US$ million)					
Net interest income	**564**	559	556	538	502
Other operating income	**301**	258	313	327	227
Total operating income	**865**	817	869	865	729
Profit before credit loss expense, taxation and non-controlling interests	**341**	343	407	429	308
Credit loss expense	**(82)**	(79)	(96)	(92)	(70)
Profit before taxation and non-controlling interests	**259**	264	311	337	238
Net profit for the year from continuing operations	**194**	202	193	183	180
Financial Position (US$ million)					
Total assets	**30,068**	29,549	29,499	30,141	28,195
Loans and advances	**16,452**	14,884	15,329	14,683	13,958
Placements with banks and other financial institutions	**2,051**	2,991	3,170	4,130	4,313
Trading securities	**507**	977	1,051	711	534
Non-trading investments	**5,836**	5,661	5,599	5,635	5,535
Shareholders' funds	**4,031**	3,862	3,930	3,826	3,773
Ratios (%)					
Profitability					
Net interest margin	**2.0**	2.1	2.0	1.9	1.9
Cost: Income ratio (costs as % of gross operating income)	**61**	58	53	50	58
Net profit as % of average shareholders' funds	**4.9**	5.2	5.0	4.8	4.8
Net profit as % of average assets	**0.65**	0.71	0.65	0.61	0.63
Dividend cover (times)	**2.08**	2.17	2.07	1.96	-
Capital					
Risk-weighted assets (US$ million)	**25,741**	23,977	24,045	23,737	23,537
Capital base (US$ million)	**4,609**	4,352	4,504	4,538	4,573
Risk asset ratio - Tier 1	**16.9**	17.2	17.7	17.5	17.3
Risk asset ratio – Total	**17.9**	18.2	18.7	19.1	19.4
Average shareholders' funds as % of average total assets	**13.2**	13.4	13.1	12.8	13.3
Loans and advances as a multiple of shareholders' funds (times)	**4.1**	3.9	3.9	3.8	3.7
Total debt (including non-controlling interests) as a multiple of shareholders' funds (times)	**6.5**	6.7	6.5	6.9	6.5
Borrowings as multiple of shareholders' funds (times)	**0.52**	0.52	0.55	1.12	1.05
Assets					
Loans and advances as % of total assets	**54.7**	50.4	52.0	48.7	49.5
Securities as % of total assets	**21.1**	22.5	22.5	21.1	21.5
Impaired loans as % of gross loans	**3.7**	4.0	3.5	4.1	3.4
Aggregate provisions as % of impaired exposures*	**101.9**	100.7	103.2	90.3	120.9
Loans provisions as % of gross loans	**3.6**	3.7	3.6	3.7	4.1
Impaired securities as a % of gross non-trading debt securities**	**1.3**	1.8	2.1	2.1	2.2
Securities provisions as a % of gross non-trading debt instruments**	**1.54**	2.10	2.05	2.02	2.12
Liquidity					
Liquid assets ratio	**35.4**	39.1	37.6	45.4	43.3
Deposits to loans cover (times)	**1.3**	1.4	1.3	1.4	1.3
Share information					
Basic Earnings per share - Profit for the year	**$0.06**	$0.07	$0.06	$0.06	$0.06
Dividends per share - Cash	**$0.03**	$0.03	$0.03	$0.03	-
Net asset value per share	**$1.30**	$1.24	$1.26	$1.23	$1.21
Capitalisation (US$ million)					
Authorised	**3,500**	3,500	3,500	3,500	3,500
Issued, Subscribed and fully paid-up	**3,110**	3,110	3,110	3,110	3,110
Treasury shares	**(6)**	(4)	-	-	-

* Comparative years prior to 2018 represent the loan loss provisions as a % of impaired loans (prior to IFRS 9 adoption).

** Comparative years prior to 2018 represent the Impaired securities / securities provisions as a % of gross non-trading securities includes equity (prior to IFRS 9 adoption).

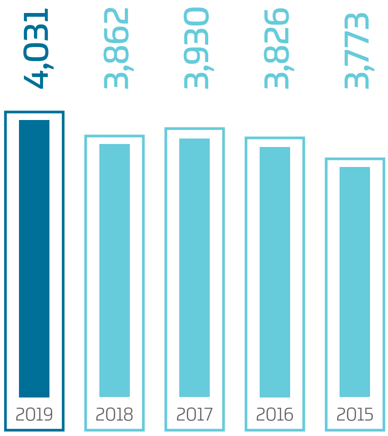
Total Assets
(US$ million)

30,068



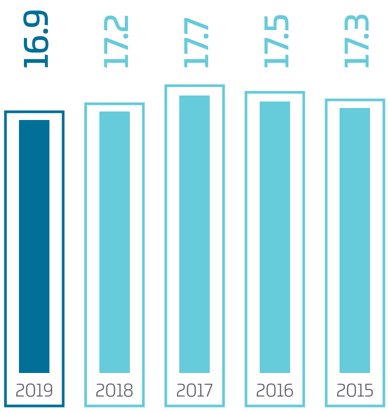
Shareholders' Funds
(US$ million)

4,031



Risk Asset ratio - Tier 1
(%)

16.9



"2019 has been a remarkable year for the Bank's transformation strategy, with significant investment and growth in human capital, digital, services and operating structures, showcasing progress during a year of global economic uncertainty."

- Saddek Omar El Kaber

Review of Operations

In 2019, we had a year of robust financial results, demonstrating good progress in the Group's strategy. Factoring the economic backdrop and significant cost investments, headline reported net profit was US$194 million compared to US$202 million in 2018, but grew by 2% on an underlying basis (adjusting for FX impact and other one-off items).

Dr. Khaled Kawan
Group Chief Executive Officer

STRATEGIC DELIVERY

Our review of operations for the 2019 reporting year, opens on the significant achievements to **"Digitise the Bank"** (a key strategic value driver of our refreshed strategy), which culminated with the launch of ila our new digital, mobile-only bank in Bahrain.

ila (which means 'to' in Arabic) is a purely digital bank; it is only available as a smartphone app, featuring an entirely digital onboarding process. This represents a very exciting new chapter for Bank ABC – not only because it is the Group's first retail offering in Bahrain and the only digital mobile-only bank in the Kingdom - but also because it has come together through Group-wide collaboration, under the oversight of a first-class advisory board on which a number of global experts are sitting. The ila management and implementation team have taken perspectives put forward by specialists within ABC Labs, our centre for innovation – including in-house computational linguistics and data analysis – as well as a significant contribution from Group Retail Banking, and our colleagues at AFS, all acting under the guidance of the ila advisory board.

ila is a standard bearer for fintech solutions within the Group and the wider region, being ground-breaking in the way the customer will be supported by fantastic automated banking features, multi-currency capabilities, a social media and online community-banking-based approach and an AI-powered digital assistant "Fatema", the de facto "face" of ila and a unique way to position the futuristic nature of the brand.

On our strategic value driver to **"Significantly Grow our Corporate Client Base"** and increase our cross-network, cross-product and fee-based revenues, we have seen the number of new active corporate clients increase and we have increased our share of wallet from existing customers, broadly across all our core and network markets, meeting all the targets for the year.

On **"Building Transaction Banking"**, we initiated work on digital client onboarding and automating trade finance business by launching a major initiative to upgrade the Group's TB capabilities to digitise processes, improve automation and system capabilities, and introduce new cash management services on payments and liabilities management.

Our final strategic value driver on **"Optimising Financial Institutions"** made significant progress in prioritising resources and capitalising on key relationships essential in delivering our FI strategy. Despite challenges related to geopolitics and trade finance volumes, there were bright spots across our FI network such as in Egypt. In 2019, we also introduced the non-bank financial institutions business and strengthened key strategic relationships in this segment.

Underpinning our overall GWB operations and further progressing our digital agenda, our Financial Markets business advanced the preparations for the launch of Bank ABC's new real-time, currency trading platform ABC Edge, which will provide customers with real-time FX price-market making, sophisticated risk management tools and improved STP – another important strategic avenue towards generating new clients and revenues for the Group.

FINANCIAL PERFORMANCE

In 2019, we had a year of robust financial results, demonstrating good progress in the Group's strategy. Factoring the economic backdrop and significant cost investments, headline reported net profit was US$194 million compared to US$202 million in 2018, but grew by 2% on an underlying basis (adjusting for FX impact and other one-off items). We also saw our headline total operating income rise by 6% to US$865 million, compared to US$817 million in 2018, with underlying growth of 4%.

Impairment charges stood at US$82 million compared with the US$79 million reported for the same period last year reflecting proactive credit management and conservative underwriting practices. The ratio of impaired loans to gross loans at 3.7% improved from the 2018 year-end levels of 4.0%, and normalises to 2.9%, when long-standing legacy fully provided loans are adjusted for. Provisions coverage against the aggregate impaired exposures remained comfortable at 102%.

The Group's total assets stood at US$30.1 billion at the end of the December 2019, compared to US$29.5 billion at the 2018 year-end including an increase of 2% growth in total assets, bolstered by particularly strong growth in Q4. Loans and advances grew during the period to US$16.5 billion, reflecting the Bank's continuing emphasis on a prudent use of balance sheet; and deposits at the end of the period were at US$21 billion, compared to US$20.7 billion at 2018 year-end. The Bank achieved greater diversification and improvements on the quality of its deposit base throughout the year and its capital adequacy ratios remained strong at 17.9%, being predominately CET1.

Over the following pages, we describe in more detail the events of 2019 across our business lines, markets, technologies, products and supporting activities.

GLOBAL BUSINESS LINES

Global Wholesale Banking

GWB continued to strengthen its model as a truly integrated international wholesale bank headquartered in the MENA region and with a network across Asia, Europe and the Americas. The client base significantly expanded throughout the year; and GWB continued its development of exciting new solutions for clients whilst delivering higher returns on capital. The global approach that has developed as a result of the Bank's focus on clients, products and geographies, has allowed for a more cohesive service and organic cross-sell activity within the Group.

In the earlier update on strategic priorities, we covered key developments in our primary strategic value drivers relating to GWB – Digitise the Bank, Significantly Grow our Corporate Client Base, Building Transaction Banking and Optimising Financial Institutions. Continuing achievement in these areas will continue to be a major focus for growth in 2020 and beyond. In particular we will place primary focus on our digital capabilities, such as the launch of systematised client onboarding and KYC, automated trade and supply chain finance facilities and more advanced cash management services on payments and liabilities management - pooling, netting and sweeping etc.

Turning to some other areas of our GWB product lines, Group Specialised Finance (GSF) moved through a challenging yet highly productive period in 2019. In a subdued market, 2019 saw excellent performance, with a year-on-year uptick of around 25%. Several large deals enabled the business line to showcase its expertise in tailor-made solutions with the deployment of innovative

Review of Operations (continued)

repayment profiles and flexible covenants. Deals included Alba, Gulf Air, Royal Jordanian, BAPCO, Bahrain Steel and Oman Telecom (amongst others).

Islamic Finance also performed exceptionally well in 2019, achieving an increase of 16% for net profit and a 19% increase in the balance sheet. Despite geopolitical and economic concerns across our core markets, the Islamic Finance business focused very heavily on Sukuk issuances and syndicated transactions with ten new sukuk transactions closing in 2019, contributing to an overall total operating income increase of over 10%.

Group Treasury and Financial Markets

From a markets perspective, 2019 was a very different year than anticipated. Our targets set for the year were predicated on US interest rates rising; however, as Q1 progressed it became increasingly apparent that the economic outlook was deteriorating and that the interest rate cycle was turning. As is normal in these periods of transition, market volatility rises with the increased uncertainty and leads to opportunities for our Group Treasury and Financial Markets division.

Our Corporate Treasury was quick to adapt to this new and unexpected operating environment. Whilst a surplus of capital led to a reduction in earnings, proactive management of interest rate risk through the hedging of longer dated liabilities helped protect the downside risk. As we continued to focus on maintaining healthy liquidity ratios, in compliance with Basel 3 and CBB regulations, we were able to improve the diversification of our liabilities whilst, at the same time, increasing the customer liability base in line with the Group strategy. We launched a new Certificate of Deposit programme, which witnessed strong investor demand with a high rollover rate and we are now planning to expand the size of the programme. As we enter 2020 our Corporate Treasury's priorities remain focused on the stability and diversification of our liabilities to support Group strategy whilst maintaining sufficiently liquidity to meet any market challenges and meet all of our liquidity ratios.

Financial Markets saw very strong performance across Sales, Trading and Marketable Securities. Improved collaboration with the client coverage teams in Wholesale Banking and growth in client acquisition laid the foundation for increased demand for market-based risk management solutions (both conventional and Islamic). Our Sales and Trading platform saw a significant increase in transactional flows across derivatives, commodities and credit. Our relative-value and active management approach to our fixed income Marketable Securities portfolio also reaped significant rewards throughout the year, surpassing financial objectives while also achieving our goals in diversifying the portfolio exposure across geographies and sectors.

Our Capital Markets businesses continued to witness strong growth across Debt Capital Markets (DCM) and Loan Syndications & Distribution (for both conventional and Islamic products), once again exceeding their target objectives. The Syndications team completed 21 primary transactions (including the Islamic Sukuks noted above) and remained active in the secondary market. The ability to warehouse underwriting positions, actively make markets in the secondary market and the strengthening of relationships with investors enabled the Bank to continue our 'Originate to Distribute' approach to manage our capital effectively.

A significant milestone in 2019 saw us underwrite one third of a US$ 1.5 billion 8-year refinancing facility for ALBA, which was 1.6 times oversubscribed. Significant transactions were also successfully executed for clients across MENA and Turkey such as Bank Dhofar, Nama Holding Company, NOGA Holding and Ziraat Participation Bank. Looking ahead, the large increase in our underwriting ceiling provides the Bank with the ability to take on more syndicated loans or bilateral facilities transactions in 2020, making us relevant to clients through the provision of meaningful funding when it is needed, whilst also having a view to distribution at a later stage.

DCM has been actively covering key origination geographies and has built a reputation as a strong regional player for our sovereign, institutional and corporate clients across MENA and Turkey. The team also expanded the product suite in 2019 and undertook Liability Management exercises, Private Placements and underwriting Additional Tier 1 (AT1) bonds/Sukuk. Key transactions were successfully executed for Government of Sharjah (as Joint Lead Manager and Bookrunner for US$ 1 billion Sukuk), Sharjah Islamic Bank (as JLM and Bookrunner for US$ 500 million AT1 Sukuk), Burgan Bank (as JLM and Bookrunner on US$ 500 million AT1 Bond), Bank of Sharjah (as JLM, Bookrunner and Dealer Manager on US$ 500 million Bond and Tender Offer), Emirates Strategic Investment Co (as JLM and Bookrunner on US$ 600 million debut senior Sukuk) and BBK (as JLM and Bookrunner on US$500 million senior Bond).

Looking ahead, Financial and Capital Markets revenue will continue to benefit from the Group's strategy of growing the number of corporate clients that will lead to an increase in fee-based and higher returning products and services.

“GWB continued to strengthen its model as a truly integrated international wholesale bank headquartered in the MENA region and with a network across Asia, Europe and the Americas. The client base significantly expanded throughout the year; and GWB continued its development of exciting new solutions for clients whilst delivering higher returns on capital.”

Review of Operations (continued)

GEOGRAPHIC MARKETS

MENA

The combined operating profit for our MENA units is $62mn with a loan book that reached US$1,825 million, a rise of 4% on the 2018 figure of US$1,750 million. Customer deposits rose to US$2,588 million, a rise of 6% on 2018 figure. In addition, the number of active retail online banking users almost tripled in 2019, with average monthly online transaction rising by 52% YOY.

Turning to a view on individual markets. In **Tunisia**, the nation's economy grew by only around 1%, with growing public debt. Despite this backdrop, Bank ABC Tunisia saw total income grow by 40% and, after the roll out of ABC Digital, there was a significant rise in the number of customers, and the Bank's newly launched merchant acquiring terminals secured a significant number of clients within the first three months. The unit also maintained its history lar cost of credit and retained a capital adequacy ratio of a little over 20%.

For **Algeria**, 2019 was a year of unprecedented economic and political turbulence, with a near stagnation of the country, which drastically affected the economy. Within this environment, Bank ABC Algeria managed to maintain a steady TOI of US$35mn comparing to 2018 and generate a resilient net profit of US$13.7mn through a stiff control on expenses and close monitoring of the business. Also, in such atmosphere the liquidity in the market was drying and Bank ABC Algeria managed to increase its customer deposits by 10% from US$394 YE 2018 to US$434 YE 2019, thanks to the joint effort deployed by all departments who worked hand in hand to better satisfy our customers in difficult times by facilitating access to the Bank through our Digital Platform and using our commercial expertise in Retail and Wholesale banking in terms of customer centricity.

In **Egypt**, we saw a remarkable YoY growth of 66% in the number of new credit cards issued, we remained one of the fastest growing banks for auto loans and on the wholesale banking side, Bank ABC Egypt generated cross-border transactions in excess of US$0.6 billion in 2019. In line with the Group's digitisation strategy, our online platform ABC Digital, launched with 20% of customers signing up with 43% activating and using the service. Bank ABC Egypt also expanded its customer segmentation with growth of non-bank FI including market finance, mortgage companies, and new products such as Trade Debt Distribution. Bank ABC Egypt should be credited with making such significant progress in a year when interest rates were cut by 4% (in several stages) and inflationary pressures caused by the depreciation of the US$ against the Egyptian Pound of more than 10%.

Throughout 2019, the local economy in **Jordan** continued to face challenges arising from the instability and political tension in the region, which adversely impacted the Jordanian economic activity in all sectors, limiting the growth rate of the Jordanian economy to 1.9% of GDP during the first half of 2019, compared to 2.0% during the same period in 2018. Despite these challenges and their impact on various economic sectors, Bank ABC in Jordan managed to maintain its total income in 2019, which reached JD41.5 million, compared to JD42.1 million in 2018. The Bank also managed to increase its net credit facilities portfolio in 2019 by 1.14%; bringing it to JD621 million, compared to JD614 million in the previous year and customers' deposits increased by 2.78% to JD666 million, compared to JD648 million in 2018. Bank ABC in Jordan also continued to develop digital offerings by strengthening of online banking platform (ABC Digital) and increased contactless payment services. Additional measures to boost operational efficiency were made with the move to ACH and RTGS systems for payments with the help of closed network (VPN) created by the Central Bank of Jordan.

Bank ABC Europe (ABCIB)

2019 was a good year for ABCIB with total ABCIB operating income in 2019 rising to an all-time high of £86.7 million, - just edging ahead of the previous record of £83.8 million set in 2018. This was driven by a robust year on year performance of Global Transactional Banking & Credit Lending, which remains the primary division and core focus of strategy, generating around 66% of total Bank revenues.

ABCIB maintained an excellent position within Trade Finance flows between the Eurozone exporters and MENA countries, delivering tailored services and trade solutions within traditional markets, especially for the North Africa region. The Bank continues to leverage its deep understanding and risk capacity for complicated markets to provide valued services to corporate clients.

The performance also has to be viewed as particularly positive, considering the year was characterised by an unprecedentedly prolonged period of uncertainty in the UK/Europe zone, largely reflecting the state of BREXIT negotiations and the subsequent political hiatus.

Inevitably, business and investor confidence were undermined, negatively impacting both new business flows and investor appetite, the latter particularly apparent with respect to the Bank's Real Estate activities, which generated revenues below 2018's record outturn, but still above the level recorded in 2017. With 2019 displaying further BREXIT-related weakening of investor confidence in the UK commercial real estate sector, deal flow proved more limited whilst intense competition for this smaller pool of transactions put downward pressure on yields. However, revenues from Shari'a financings, a key focus on strategy, held up and was comparable to previous years.

In its principal and vital day-to-day role of managing the Bank's overall funding and liquidity positions, Treasury continued to ensure that ABCIB remained comfortably within all relevant regulatory and prudential funding and liquidity guidelines throughout the year. Underlying progress was evident, including the successful introduction of the 'Flagstone' platform for attracting client deposits, whilst preparations continued with respect to new regulatory requirements and in relation to the digital FX platform to be introduced in 2020.

Banco ABC Brasil

Having emerged from a significant and sustained recession in 2017, expectations at the start of 2019 were that we were moving into a period of confidence with forecasts of GDP growth of around 2.5%. However, interest rates in Brazil continued to fall from a 2016 high of 14.25% to 4.5% in 2019 following 4 consecutive cuts from the Central Bank. Despite this, the expanded credit portfolio expanded by 15% in BRL terms, with broad based growth across all the Corporate segments.

Banco ABC Brasil Recurring Net Income in BRL increased by 6.8% explained by an increase in NII from improved lending volumes and uptick in fee-based revenues from Investment Banking and Treasury. This was complemented by a major strategy review to introduce a new focus of the business to a Middle Market corporate proposition with a focus on digitisation of operations to ensure the new segment can be serviced in an effective way. New product lines such as Equity Capital Markets (ECM) and Project Finance Advisory have also been launched adding to the existing Debt Capital Markets and M&A. These developments provided BAB with a strong platform to create options for more growth in 2020 and beyond.

Arab Financial Services

As part of its 2019 strategy, AFS diversified its client base and built on its value-added services to strengthen its Core Business. AFS Core Business successfully delivered contactless cards, commercial cards and tokenisation solutions for multiple clients in the region while also participating in, and supporting, the development of the mobile platform for ila Bank, in conjunction with the Bank's innovation function. AFS also launched a global, outbound telemarketing Contact Centre in Bahrain, in partnership with UK-based firm, Decimal Factor, while, in tandem, delivering significant growth in its existing multilingual insurance services outbound Contact Centre in Oman.

After securing Central Bank of Bahrain approvals in 2018 to launch AFS Merchant Acquiring Services, the Company's 2019 strategy also focused on realising rapid growth in this business segment. AFS Merchant Acquiring Services significantly increased in both presence and market share. It now has more than 10,000 state-of-the-art Android-based POS terminals in Bahrain and Oman, offering broad payments acceptance including credit, debit, contactless, Apple Pay, Samsung Pay and other digital wallets. AFS daily volumes have reached record levels across both markets – with 38% and 10% live POS market share, and 20% and 9% spends market share, in Bahrain and Oman respectively. In addition, AFS became the first acquirer in Bahrain to obtain the certification for POS contactless transactions. Building further traction, AFS Merchant Acquiring Services has signed to enter the Seychelles market in partnership with the Bank ABC Group. This will be bolstered by the addition of new value-added services such as a dynamic currency conversion facility, lending products for merchants based on their POS receivables and an e-commerce payment gateway solution to support merchants wishing to expand into the digital space.

In fintech, the Company's 2019 strategy focused on delivering long-term value to its digital wallet solution in Bahrain, bwallet. bwallet has now amassed over 100,000 registered customers, with over 5,000 acceptance terminals in the market and daily spends reaching record levels in 2019. This growth was supported by the launch of new value-added wallet features such as international remittance, international prepaid mobile top up, telecommunication bill payment and bill splitting. bwallet is now the leading digital wallet solution in terms of merchant payments in Bahrain, with a wide range of merchant offers available to its users. Alongside this, the AFS fintech offering in 2019 expanded to include a digital wallet in Oman, eFloos, and Bahrain's first digital payroll solution, Al Rateb, all of which will deliver enhanced and tailored services going forward.

SUPPORTING OUR BUSINESS OBJECTIVES

Throughout 2019, the second phase of the Bank's reorientation towards the introduction of a global client model, saw changes to soft infrastructure such as new management information systems, new client specific reporting processes, changes to human resources practices and job titles; and the development of a corporate culture that promotes collaboration, cross-selling and partnership across the Group. We have seen this work very well in 2019 across GTB, Treasury and the development of digital initiatives with Bank ABC Innovation Lab.

Review of Operations (continued)

The launch of the Bank's new ABC Innovation Lab in 2019 should rightly be seen as a major milestone in the Bank's strategic and operational journey. It has given rise to a new generation of thinking within the Bank, equipping the Group with state-of-the-art digital intellectual property that can be deployed across every aspect of the Business. As noted earlier, it has been fundamental in the development of the Bank's first digital Mobile-only retail bank in Bahrain, ila.

The Bank's modernisation agenda also progressed well in 2019, with extensive refurbishment of the Bahrain headquarters and upgrades to the Group's offices in every country, creating open plan office spaces designed to promote a culture of collaboration and team-work. The renovations also include refitting of electrical and digital infrastructure; while Jordan Head Office project is progressing well and will likely be completed during 2020, Tunisia purchased land in the new financial city for the development of its new offices. To celebrate the renovation of the twin tower HQ in Bahrain, Nigerian-American contemporary artist Victor Ekpuk was commissioned to create a 5.4 metre sculpture to reflect Bahrain's rich heritage, multicultural fabric and the nation's people. 'The Face' is a visual centrepiece of the façade to the entrance to the twin towers and is representative of Bank ABC's commitment to equality and diversity as well as its firm belief in the strong potential of the country's young talent.

The Group-wide implementation of the Bank's new centralisation agenda progressed in 2019, including on components of our compliance model, taking in Algeria and Jordan. All of the Bank's units (with the exception of Brazil, which maintains its own) are now centralised through the Group Transaction Monitoring Unit. Critical operations processes are being centralised, and the Bank continues to refine its Group-wide training programmes from its centralised HR function. We also continued to embed the process optimisation methodology 'Lean Six Sigma', which was rolled out to Egypt, Tunisia and Algeria, driving efficiency savings and improving the customer experience, by empowering the individual in a target-driven culture and the elimination of waste.

The Group's internal training resource, ABC Academy, made progress in 2019 and is scheduled for completion in March 2020. It provides us with the ability to proactively enhance skills development and capabilities for all staff, particularly new joiners and the younger employees. ABC Academy also provides for upskilling manager level employees in areas such as performance management and employee engagement. Human Resources also launched 'Talking Talent' in 2019, a new system designed to help the individual employee systemically develop their own career plans on top of the individual development plans that are developed between line managers. Together these provide a comprehensive and structured roadmap to development.

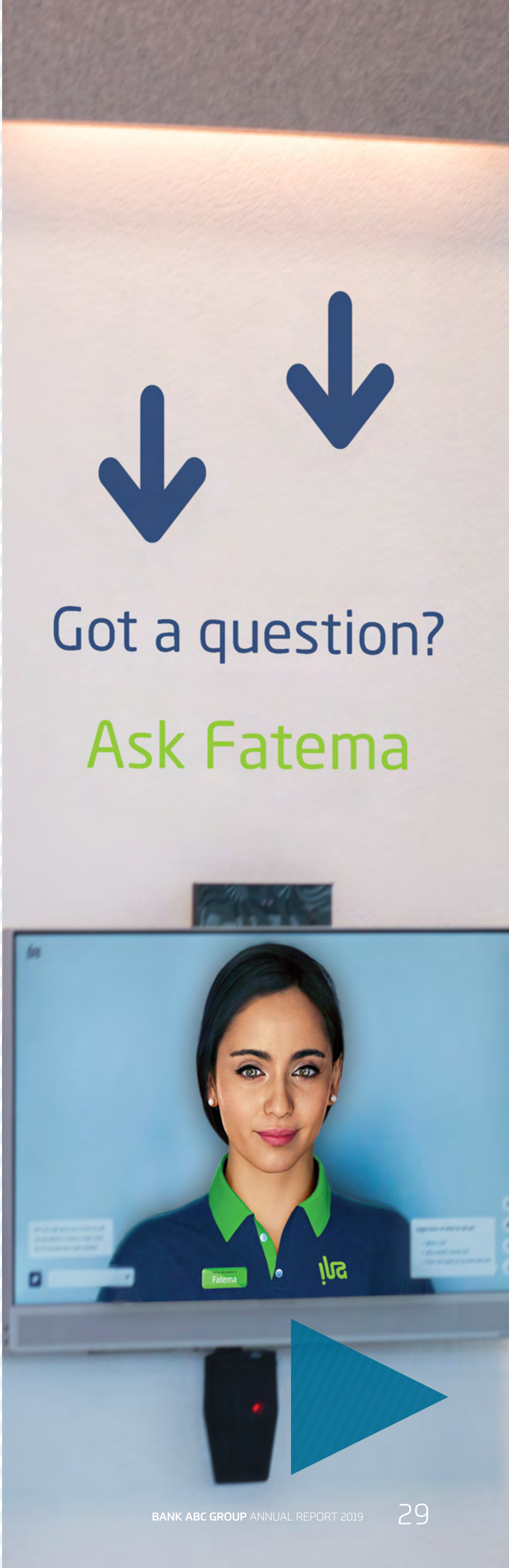
We have been mindful of not just developing talent within the organisation but also promote academic and professional development in our communities as well, to create a competent workforce of future. To that effect Bank ABC ran a Summer School as part of a Scholarship programme, designed and delivered by Bank ABC staff, in collaboration with the Bahrain Institute of Banking and Finance (BIBF), for academically high-achieving students from the MENA region. The intensive summer school programme was designed to enhance the participants' chances of admission into a top-tier international university, and generally to accelerate the development of talented students from the region. 12 students participated in the programme (two Algerians, one Libyan, five Jordanians, and four Bahrainis) out of which seven were girls and five boys. The top-ranking students from the programme have been given a conditional offer of university sponsorship from Bank ABC, provided they meet the university's very specific, and highly demanding criteria.

The Bank also sponsored Bahrain Bourse's (BB) 'The Smart Investor' programme that aims at equipping the youth with financial concepts related to money management, savings, and smart financial planning, through awareness workshops in schools and interactive educational activities, targeting elementary school students across the Kingdom of Bahrain. Additionally, Bank ABC also participated in BB's TradeQuest challenge, which is geared to provide school and university students with realistic experiences simulating local and international financial markets.

To conclude, I would like to thank all Bank ABC employees for their spirit, enthusiasm, unwavering commitment and great efforts during 2019, which are instrumental as we transform not just our 40-year-old institution but the region's banking industry. We look forward to another exciting and fruitful year for the Bank and continue this growth momentum into the next decade.

Dr. Khaled Kawan
Group Chief Executive Officer

"The combined operating profit for our MENA units is $62mn with a loan book that reached US$1,825 million, a rise of 4% on the 2018 figure of US$1,750 million. Customer deposits rose to US$2,588 million, a rise of 6% on 2018 figure. In addition, the number of active retail online banking users almost tripled in 2019, with average monthly online transaction rising by 52% YOY."



Corporate Governance

In order to execute international best practices in banking principles, Bank ABC has incorporated a robust Corporate Governance mechanism enabling accountability and fairness in all our transactions.

Corporate Governance

(All figures stated in US$ unless otherwise indicated)

Arab Banking Corporation B.S.C. ("Bank ABC") follows internationally-recognised best practice principles and guidelines, having in place a corporate governance system that provides an effective and transparent control framework that is fair and accountable.

The Central Bank of Bahrain ("CBB") licenses Bank ABC as a conventional wholesale bank. Incorporated in 1980 as a Bahrain joint stock company, Bank ABC has an authorised capital of US$3.5 billion and a paid-up capital of US$3.11 billion as at 31 December 2019 (31 December 2018: US$3.11 billion).

Bank ABC communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained website. In particular, it reports its profits on an annual, semi-annual and quarterly basis.

At least the last five years' consolidated financial statements are available on the Bank ABC corporate website.

Shareholders

Bank ABC's shares have been listed on the Bahrain Bourse since 1990. The Central Bank of Libya ("CBL"), one of Bank ABC's founding shareholders, owns a majority of the shares. The CBL increased its shareholding to 59.37% in 2010 by participating in that year's capital increase and acquiring the Abu Dhabi Investment Authority's 17.72% shareholding. The Kuwait Investment Authority, another of Bank ABC's founding shareholder, continues to own 29.69% of the shares. Each of the foregoing shareholders is either a governmental entity or is (directly or indirectly) owned by a governmental entity in its jurisdiction of establishment. International and regional investors hold the remaining shares of Bank ABC.

The following table shows the ownership structure of Bank ABC as at 31 December 2019:

Name of Shareholder	Percentage Shareholding	Nationality
Central Bank of Libya	59.37%	Libyan
Kuwait Investment Authority	29.69%	Kuwaiti
Other shareholders with less than 5% holdings	10.94%	Various
Total	**100%**	

The following table shows the distribution of shareholdings as at 31 December 2019 and 31 December 2018.

	2019			2018		
% of shares held	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**	No. of shares	No. of shareholders	% of total outstanding shares
less than 1%	**128,344,432**	**1,301**	**4.1**	128,344,432	1,312	4.1
1% up to less than 5%	**211,976,668**	**3**	**6.8**	211,976,668	3	6.8
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**-**	**-**	**-**	-	-	-
20% up to less than 50%	**923,289,191**	**1**	**29.7**	923,289,191	1	29.7
50% and above	**1,846,389,709**	**1**	**59.4**	1,846,389,709	1	59.4
Total	**3,110,000,000**	**1,306**	**100.0**	3,110,000,000	1,317	100.0

Bank ABC's Corporate Governance Charter

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2010 (the "Code"), which the Ministry of Industry, Commerce and Tourism of the Kingdom of Bahrain issued in March 2010. The Code applies to companies with shares listed on the Bahrain Bourse, including Bank ABC. The CBB Corporate Governance Requirements and the Code took full effect at the end of 2011. The Board of Directors adopted the Bank ABC Corporate Governance Charter in December 2010 (the "Corporate Governance Charter"), which substantially reflects the CBB Corporate Governance Requirements and the Code as they have evolved. The Corporate Governance Charter is displayed on the Bank ABC corporate website and deals with a number of corporate governance related matters, including:

- the role and responsibilities of the Board and its committees
- the responsibilities of Directors to Bank ABC and the shareholders
- the appointment, training and evaluation of the Board
- remuneration of the Board and of Bank ABC employees
- Bank ABC's management structure
- communications with shareholders and the disclosure of information to relevant stakeholders
- the detailed mandates of each of the committees of the Board.

Recent Corporate Governance Changes

In July 2019, the Group Nomination and Compensation Committee Charter was amended and the name of the Nomination and Compensation Committee was changed to "Remuneration Committee" in line with the Central Bank of Bahrain's regulations and the Bahrain Corporate Governance Code, and this is without prejudice to its terms of reference and mandate as laid out in the Company's Corporate Governance Charter.

Additionally, the Group Audit Committee Charter was amended in July 2019 to align it with the requirements of the Central Bank of Bahrain's regulations (Module HC – 6.4) which requires the compliance function to directly report to the board or a designated board committee and administratively to the GCEO. The Group Audit Committee is responsible to the Board for the integrity and effectiveness of the Group's system of financial and accounting controls and practices.

Compliance with CBB Corporate Governance Requirements and the Code

Bank ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2019, save that the Chairman of the Board was not an independent Director, and the Corporate Governance Committee was comprised of less than three independent Directors (although the majority of Directors were independent) which is contrary to the non-mandatory guidance included in the CBB Corporate Governance Requirements and the Code.

BOARD OF DIRECTORS

Responsibilities of the Board

Bank ABC has previously adopted both a corporate governance charter for the Board and charters for the various Board committees (the "Bank ABC Board Mandates"). The Bank ABC Board Mandates are displayed on the Bank ABC corporate website. The Board of Directors is responsible for the overall direction, supervision and control of the Bank ABC Group. In particular, the Board's responsibilities include (but are not limited to):

a) those responsibilities assigned to the Board by the Articles of Association of Bank ABC

b) establishing Bank ABC's objectives

c) Bank ABC's overall business performance

d) monitoring management performance

e) the adoption and annual review of strategy

f) monitoring the implementation of strategy by management

g) causing financial statements to be prepared which accurately disclose Bank ABC's financial position

h) convening and preparing the agenda for shareholder meetings

i) monitoring conflicts of interest and preventing abusive related-party transactions

j) assuring equitable treatment of shareholders, including minority shareholders

k) the adoption and review of management structure and responsibilities

l) the adoption and review of the systems and controls framework

m) overseeing the design and operation of the remuneration systems of the Bank ABC Group and ensuring that such systems are not primarily controlled by the executive management of the Bank ABC Group.

The Board meets regularly to consider key aspects of the Group's affairs, strategy and operations.

The Board exercises its responsibilities for best practice management and risk oversight mainly through the Board Risk Committee, which oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards and risk policies.

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

Appointment of Directors

The shareholders appoint the Board for a term of three years, with the current term of the Board commencing on 24th March 2019 and terminating in March 2022. At the 2019 year end, there were nine Directors on the Board, with diverse and relevant skills, who worked well together as a team. Collectively, they exercised independent and objective judgement in meeting their responsibilities.

In accordance with Bank ABC's Articles of Association, a shareholder or group of shareholders holding 25% or more of the share capital may nominate Directors proportionate to their respective shareholdings. Other Directors are elected.

In accordance with the Bank ABC Board Mandates, each proposal for the election or re-election of a Director shall be accompanied by a recommendation of the Board, and a summary of the advice of the Remuneration Committee (see the description of role of the Remuneration Committee in this report).

The Board also has the power under Bank ABC's Articles of Association to appoint new directors and fill any Board vacancies that may arise, subject to such appointments being subsequently ratified by shareholders.

When a new Director is inducted, the Chairman, or Bank ABC's Legal Counsel or Compliance Officer, or other individual delegated by the Chairman, reviews the Board's role and duties with that person. In particular, they describe the legal and regulatory requirements of the Bank ABC Board Mandates, the Code and the CBB Corporate Governance Requirements. The Chairman of the Board (or other individual delegated by the Chairman of the Board) ensures that each new Director is provided with a comprehensive induction pack providing requisite materials to ensure his contribution to the Board from the beginning of his term.

Bank ABC has a written appointment agreement with each Director. This describes the Director's powers, duties, responsibilities and accountabilities, as well as other matters relating to his appointment including his term, the time commitment envisaged, the Board committee assignments (if any), Directors' remuneration and expense reimbursement entitlement, and Directors' access to independent professional advice when needed.

Assessment of the Board

The Bank ABC Board Mandates require that the Board evaluates its own performance each year, as well as the performance of each Board committee and individual Director. This evaluation includes:

a) assessing how the Board operates

b) evaluating the performance of each Board committee in light of its specific purposes and responsibilities, which shall include reviews of the self-evaluations undertaken by each Board committee

c) reviewing each Director's work, his attendance at Board and Board committee meetings, and his constructive involvement in discussions and decision making

d) reviewing the Board's current composition against its desired composition in order to maintain an appropriate balance of skills and experience, and to ensure planned and progressive refreshing of the Board

e) recommendations for new Directors to replace long-standing Directors, or those Directors whose contribution to Bank ABC or its Board committees (such as the Group Audit Committee) is not adequate.

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ended on 31 December 2019.

Independence of Directors

The Bank ABC Board Mandates include detailed criteria to determine whether a Director should be classified as independent or not. The Bank ABC independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

Bank ABC had four independent, non-executive Directors and five non-independent, non-executive Directors as at 31 December 2019. The CBB Corporate Governance Requirements require that at least a one-third of Bank ABC's Board of Directors is independent and also require that certain Board committees (including the Group Audit Committee and the Remuneration Committee) be comprised of a certain number of Directors, a certain proportion of independent Directors and/or that such Board committees be chaired by an independent Director. Bank ABC is now fully compliant with such requirements. The CBB Corporate Governance Requirements also state that it is preferable for the Chairman of the Board to be an independent Director, whereas the Chairman of the Board is, in fact, classified as a non-executive, non-independent Director.

As a rule, Directors do not have any direct or indirect material interest in any contract of significance with Bank ABC, or any of its subsidiaries, or any material conflicts of interest. This remained the case in 2019.

The Bank ABC Board Mandates require that any transaction that causes a Director to have a material conflict of interest must be unanimously approved by the Board (other than the relevant Director). Each Director is required to inform the entire Board of any actual, or potential, conflicts of interest in their activities with, or commitments to, other organisations as they arise, and to abstain from voting on these matters. Disclosures shall include all material facts.

Each Director has a legal duty of loyalty to Bank ABC, and can be personally sued by Bank ABC or shareholders for any violation.

Compensation & interests of Directors

The general remuneration policy of Bank ABC with regard to Directors is included in the Bank ABC Board Mandates (as set out on the Bank ABC corporate website). The compensation for members of the Board of Directors consists of the following elements:

a) attendance fees payable to members attending different Board and Board committee meetings

b) monthly retainer

c) allowance to cover travelling, accommodation and subsistence while attending Board and Board committee meetings.

The remuneration structure for the Board of Directors is designed to reinforce its independence. In line with good corporate practice, this means that the Directors are paid a fee which is based on their role and time commitment only. Directors do not receive variable pay (annual or longer-term) or significant benefits. The remuneration of Directors is neither determined nor based on the performance of Bank ABC or the Bank ABC Group. The aggregate remuneration paid to Board members in 2019 amounted to US$1,870,216 (2018: US$1,846,138), which was divided between the three elements as follows:

Board remuneration 2019	(US$)
Monthly Retainer Fee	1,195,000
Attendance Allowance	118,500
Travel Allowance (Per Diem & Airfare)	556,716
Total	**1,870,216**

The aggregate remuneration paid to the members of the Remuneration Committee with respect to their membership of such committee for the year 2019 was US$20,000, which sum is included in the monthly retainer fee (2018: US$20,000).

No Director owned or traded Bank ABC shares in 2019.

BOARD COMMITTEES

The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its committees and all Directors have access to senior management, external consultants and advisors. The Board Secretary is responsible for ensuring that the Board procedures, and applicable rules and regulations, are observed.

The Board has delegated specific responsibilities to a number of Board committees. Each such committee has its own formal written charter, which is set out in full in the Corporate Governance Charter. The main Board committees are:

- The **Board Risk Committee**, which is responsible for the review and approval of the Group's Credit and Risk Policies. The Committee reviews and makes recommendations to the Board regarding the annual risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, while ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy. The Board Risk Committee meets not less than three times a year.

- The **Corporate Governance Committee**, which assists the Board in shaping and monitoring the Group's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluating the Group's compliance with them. The Corporate Governance Committee meets not less than once a year.
- The **Group Audit Committee**, which is responsible to the Board for the integrity and effectiveness of the Group's system of financial and internal controls. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the appointment of the Group Chief Internal Auditor. The Group Audit Committee meets not less than four times a year.
- The **Remuneration Committee**, which is responsible for the formulation of the Group's executive and staff remuneration policy, as well as senior management appointments, ensuring that Bank ABC's remuneration levels remain competitive so it can attract, develop and retain the skilled staff needed to meet its strategic objectives. The Committee also ensures that the remuneration policy and philosophy of Bank ABC and the ABC Group are aligned with Bank ABC's long-term business strategy, business objectives, risk appetite, values and long-term interests, while recognising the interests of relevant stakeholders. The Remuneration Committee meets not less than twice per year.

The Board has also delegated specific responsibilities for reviewing and overseeing the implementation of the strategy for Bank ABC and the Bank ABC Group to an ad-hoc Board Strategy Committee which shall meet as required to be effective.

As at 31 December 2019, the members of each of the Board committees were as set out in the following table:

Board Committee	Member Name	Member Position	Classification of Director
The Board Risk Committee	Mr. Bashir Omer	Chairman	Independent
	Mr. Mohamad Saleem	Member	Non-Independent
	Dr. Anwar Al Mudhaf	Member	Independent
	Dr. Yousef Al Awadi	Member	Independent
	Mr. Ali Al Ashhab	Member	Non-Independent
The Corporate Governance Committee	Dr. Farouk El Okdah	Chairman	Independent
	Mr. Mohamad Saleem	Member	Non-Independent
	Dr. Tarik Yousef	Member	Non-Independent
	Dr. Yousef Al Awadi	Member	Independent
The Group Audit Committee	Dr. Yousef Al Awadi	Chairman	Independent
	Dr. Anwar Al Mudhaf	Member	Independent
	Mr. Bashir Omer	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
	Mr. Khaled Al Hassoun	Member	Non-Independent
The Remuneration Committee	Dr. Anwar Al Mudhaf	Chairman	Independent
	Mr. Khaled Al Hassoun	Member	Non-Independent
	Mr. Bashir Omer	Member	Independent

Attendance of Directors

The details of Directors' 2019 attendance at Board and Board committee meetings are set out in the following table:

Board Members	Board Meetings	The Board Risk Committee	The Corporate Governance Committee	The Group Audit Committee	The Remuneration Committee
Mr. Saddek Omar El Kaber Chairman	6(6)	N/A	N/A	N/A	N/A
Mr. Hilal Al Mutairi Deputy Chairman	2(2)[1]	N/A	N/A	N/A	N/A
Mr. Abdullah Al Humaidhi Director	2(2)[2]	N/A	1(1)[3]	N/A	1(1)[4]
Mr. Ahmed Ferjani Director	2(2)[5]	2(2)[6]	N/A	N/A	N/A
Mr. Ali Al Ashhab Director	4(4)[7]	4(4)[8]	N/A	N/A	N/A
Dr. Anwar Al Mudhaf Director	6(6)	6(6)	N/A	6(6)	3(3)
Mr. Bashir Omer Director	6(6)	6(6)	N/A	6(6)	3(3)
Dr. Farouk El Okdah Director	6(6)	N/A	1(1)	N/A	N/A
Mr. Khaled Al Hassoun Director	4(4)[9]	N/A	N/A	5(5)[10]	2(2)[11]
Mr. Mohammad Saleem Deputy Chairman	4(4)[12]	4(4)[13]	1(1)[14]	N/A	N/A
Dr. Tarik Yousef Director	6(6)	N/A	2(2)	6(6)	N/A
Dr. Yousef Al Awadi Director	6(6)	6(6)	2(2)	6(6)	N/A

Figures in brackets indicate the maximum number of meetings during the period of membership. "N/A" indicates that a Director was not a member of the relevant Board committee during 2019.

1 Retired from the Board on 24 March 2019
2 Retired from the Board on 24 March 2019
3 Retired from the Corporate Governance Committee on 24 March 2019
4 Retired from the Remuneration Committee on 24 March 2019 and therefore has only attended one meeting.
5 Retired from the Board on 24 March 2019
6 Retired from the Board Risk Committee on 24 March 2019
7 Appointed to the Board on 24 March 2019
8 Appointed to the Board Risk Committee on 24 March 2019
9 Appointed to the Board on 24 March 2019
10 Appointed to the Audit Committee on 24 March 2019
11 Appointed to the Remuneration Committee on 24 March 2019
12 Appointed to the Board on 24 March 2019
13 Appointed to the Board Risk Committee on 24 March 2019
14 Appointed to the Corporate Governance Committee on 24 March 2019 and therefore has only attended one meeting.

Corporate Governance (continued)

(All figures stated in US$ unless otherwise indicated)

Meeting dates during 2019:

The Board and its committees meet as frequently as is necessary for them to discharge their respective responsibilities, but the Board meets no less than four times a year. The Group Audit Committee meets no less than four times a year, the Remuneration Committee meets no less than twice a year, the Board Risk Committee meets no less than three times a year, and the Corporate Governance Committee meet no less than once a year.

The Board Strategy Committee meets as required to be effective. In 2019, no meeting of the Board Strategy Committee was held.

The details of the dates of the Board and Board committee meetings in 2019 are set out below:

	Dates of Meetings
Board	10 February 2019 24 March 2019 24 March 2019 (New Term) 22 July 2019 23 & 24 November 2019 22 December 2019
The Board Risk Committee	9 February 2019 23 March 2019 26 June 2019 30 October 2019 23 November 2019 5 December 2019
The Corporate Governance Committee	24 March 2019 22 December 2019
The Group Audit Committee	4 February 2019 18 April 2019 27 June 2019 31 October 2019 5 December 2019 22 December 2019
The Remuneration Committee	9 February 2019 22 July 2019 21 December 2019

INTERNAL CONTROLS

The Board of Directors is responsible for establishing and reviewing the Group's system of internal control. The Board receives minutes and reports from the Board Risk Committee ("BRC") and the Group Audit Committee, identifying any significant issues relating to the adequacy of the Group's risk management policies and procedures, as well as reports and recommendations from the Corporate Governance Committee and the Remuneration Committee. The Board then decides what action to take.

Management informs the Board regularly about how the Group is performing versus budget, identifying major business issues and examining the impact of the external business and economic environment.

Day-to-day responsibility for internal control rests with management. The key elements of the process for identifying, evaluating and managing the significant risks faced by the Group can be summarised as:

- a well-defined management structure - with clear authorities and delegation of responsibilities, documented procedures and authority levels - to ensure that all material risks are properly assessed and controlled
- internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures in controlling them and reporting on them
- a robust compliance function including, but not limited to, anti-money laundering and anti-insider trading policies
- an internal audit function, exercised through Group Audit, which reports to the Group Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by the Group, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of Group departments and business units
- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval, and
- a Group Risk Management function, comprising overarching Head Office risk management committees and a dedicated risk management support group.

Management structure

The Group Chief Executive Officer, supported by Head Office management, is responsible for managing the day-to-day operations of Bank ABC. There is a clear segregation of duties in the Group Organisational Chart.

Senior managers did not hold or trade any shares in Bank ABC during 2019. The management organisation chart is included in page 16.

COMPLIANCE

Bank ABC is committed to complying with all applicable rules and regulations across all of its businesses and geographies, including the requirements of the Central Bank of Bahrain and those of all relevant regulators. The Group Compliance Officer (GCO) oversees, together with local heads of compliance and MLROs, all regulatory compliance at Group level and within the units. The GCO reports directly to the Group Audit Committee and the Group Chief Executive Officer (Group CEO).

Reflecting the increasing requirements and expectations of regulators, correspondent banks and stakeholders, the Bank invests significantly in managing compliance risks and capacity and capability continue to improve across the Group.

Centralisation of the investigation and dispositioning of the Bank's SWIFT message screening alerts with the Group transaction monitoring unit (TMU) is now complete. Message screening alerts are managed under dual control and, where needed, alerts are escalated to unit MLROs for review and resolution. A number of other key activities such as the management of screening lists, changes to good guys, ongoing fine tuning of screening algorithms and the development and testing of system changes are also handled at the centre as part of our global compliance model. We will continue to expand and leverage this model to take advantage of the specialised skillsets and resources available at Head Office.

The Bank is committed to ensuring that all staff are aware of and equipped to discharge their compliance related responsibilities and to this end the Bank continues to invest in its group-wide training programme. In collaboration with external industry leading vendors e-learning training is provided to new joiners and refresher courses to all staff in areas critical for risk management such as conflicts management, conduct, financial crime and sanctions compliance. To provide more in-depth knowledge to relevant stakeholders, the Bank also offers roles-based training, in classroom and via WebEx, to compliance officers, MLRO teams, TMU personnel, business teams and other relevant staff.

Corporate Governance (continued)

(All figures stated in US$ unless otherwise indicated)

The Group Compliance Oversight Committee (GCOC) continues to oversee the compliance function across the Bank and has expanded its remit to oversee matters related to business reputational risk while also adding additional focus around conduct related issues. To support the GCOC, Compliance and Financial Crime Committees (CFCCs), under the chairmanship of the head of the local unit, meet on at least a quarterly basis to discuss clients, transactions, regulatory issues and relevant topics. Standard Compliance and Financial Crime management information and issue tracking are part of the CFCCs and GCOC's agendas periodically.

The Bank deploys standard solutions across Group units for automated message screening, risk rating, off-line client name and static data screening and transactions monitoring. Alerts generated by these automated systems are analysed and, where appropriate, suspicious activity reports are filed with relevant authorities. The Bank continues to review and finetune its systems on an ongoing basis. As part of this commitment a third-party review of the Bank's client static data screening engine was conducted during the year and recommendations to further enhance efficiency and effectiveness were implemented. A review of the Bank's transaction screening scenarios to ensure alignment with best practice is also well advanced.

Compliance issues including execution of relevant action plans and closure are monitored and tracked via the Governance, Risk, Compliance system (GRC) tool. GRC is also integrated with operational risk and audit issue management, giving ABC management a holistic risk management governance capability.

EXTERNAL AUDITORS

1. In 2019, the Bank ABC Group paid its external auditors US$1,788,000 in audit fees on a global basis.
2. Non-audit services were specifically pre-approved by the Audit Committee and provided by the external auditors including, but not limited to, anti money laundering reviews, prudential information reports reviews, quarterly reviews and tax related services amount to US$1,092,000 on a global basis.
3. Ernst & Young have expressed their willingness to continue as the auditors of the Group for the year ending 31 December 2020. Bank ABC's management, based on evaluation of services provided by its external auditors, has recommended the appointment of Ernst & Young and a resolution proposing their reappointment will be presented at the annual general meeting to be held in March 2020.

POLICY ON THE EMPLOYMENT OF RELATIVES AND APPROVED PERSONS

Bank ABC has a Board approved Policy on Employment of Relatives and Connected Persons. This Policy aims to ensure that Bank ABC has transparency in relation to the employment of relatives and Connected Persons in order to prevent actual, or perceived, conflicts of interest.

The Policy sets out that no relatives or near relatives of any Bank ABC employee, Executive or Board Member may enter into employment with Bank ABC. Exceptional approvals may be granted by an independent panel following a full and fair selection process.

REMUNERATION POLICIES OF BANK ABC IN COMPLIANCE WITH THE REQUIREMENTS OF THE CBB

Senior management and staff receive compensation based on several fixed elements, covering: salary, allowances and benefits, as well as variable, performance-related elements.

In January 2014, the Central Bank of Bahrain (CBB) issued new rules relating to the remuneration of approved persons and material risk-takers and others, which were subsequently amended later during 2014 (the "CBB Sound Remuneration Practices"). Bank ABC has implemented remuneration policies and procedures to cover both Bank ABC and Bank ABC Islamic, which are compliant with the CBB Remuneration Rules.

Bank ABC reviewed its remuneration practices and redesigned its variable compensation scheme in order to be fully compliant with the CBB's requirements. Key changes to Bank ABC's remuneration systems and governance processes were made to comply with the CBB regulations and included:

i. Ensuring the risk framework is extensive and captured in decisions around variable pay, including confirming risk-adjustments to any bonus pool.

ii. Separating control functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee.

iii. Introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons.

iv. Introducing deferral arrangements that defer the appropriate amount of variable remuneration for the Group Chief Executive Officer (GCEO), deputies, top five most highly-paid business line employees, material risk takers and approved persons.

v. Introducing clawback and malus policies that apply to variable remuneration.

While maintaining the same Variable Compensation Scheme (VCS) and bonus multiples tables, further changes to the Employees' Performance Management System were introduced in early 2016 to encourage behaviours that will help fulfil the Group's strategic goals. Variable pay now depends on a more extensive matrix of factors, rather than just the income generated. These added factors facilitate measuring the quality of the income rather than just its magnitude. In addition, other non-financial factors have also been added as part of the performance matrix.

The Remuneration Committee (RemCo) reviews and approves Bank ABC's remuneration policy structure on an annual basis. Where rules on compensation exist in other jurisdictions in which Bank ABC operates, Bank ABC's Group policy is to take necessary steps to comply with local market regulations that are applicable to our foreign subsidiaries and branches. Where no rules are applicable, ABC adopts best local market practices.

A distinct and separate bonus pool has been created to reinforce the safeguarding role and independence of staff in Control Functions, and is measured by the impact and quality of their safeguarding role. These measures are based on department-specific objectives and targets, which are independent of company financial performance.

Bank ABC conducts business within a set of overarching goals and limits that, together, define its risk appetite and tolerance. This is approved by the Board Risk Committee as part of the Group Risk Strategy, which complements the budgets and strategic plans proposed by the business. The Bank's bonus pool is subject to potential adjustments based on the review of the RemCo, in the respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

Variable compensation and performance management are linked. Performance expectations are clearly articulated for revenue-generating, support and control functions. Individual bonus payments reflect Group, business unit and individual performance.

Bank ABC has adopted a remuneration deferral policy in line with the CBB Sound Remuneration Practices. This defers a required amount of the variable remuneration for the GCEO, deputies, top five most highly-paid business line employees, defined material risk takers and approved persons.

Bank ABC has also adopted a malus policy, which allows any form of deferred variable remuneration to be reduced or cancelled in specific and exceptional circumstances. Exceptional circumstances are defined as material events. They may include a material restatement of the Bank's financial statements, the discovery of significant failures in risk management or exposure to material financial losses at Group, business unit or individual level. In respect of unvested awards, and depending on each specific circumstance, malus may be applied to either that portion of unvested awards linked to the performance year in question or the total outstanding set of unvested awards.

A clawback policy has been introduced to allow Bank ABC to recover part, or all, of the awards already paid to an employee or former employee if a material event is discovered. Clawback provisions may be enforced upon the discovery of an employee's, or former employee's, accountability or responsibility for, or direct implication in, material events that may bring the Bank into serious disrepute. Additionally, they may be enforced in the event of individual criminal or other substantial misconduct.

The design of the Bank's reward structure aligns pay outcomes with prudent risk management and sound governance practices. The mix of an individual employee's pay, allowances and variable compensation is dictated by the nature of the role he/she holds. Variable pay for the relevant employees is delivered using a blend of cash and equity-linked instruments. It may be paid up-front in cash or deferred in accordance with the Bank's deferral policy. With Board approval, the variable pay multiples may be reviewed from time to time to ensure competitiveness with the market.

The remuneration disclosures have been reviewed and approved by the RemCo, which has confirmed they are aligned to the CBB rulebook requirements.

Bank ABC takes risk seriously. Reward practices embed and reinforce the Bank's desired risk culture, and risk behaviours directly impact variable pay, based on the following principles:

i. Financial performance is not the sole measure of performance; both quantitative and qualitative approaches are used to measure risk; bonus pools are adjusted for all types of risk, both tangible and intangible, reflecting both Group and business unit performance.

ii. Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.

iii. Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.

Corporate Governance (continued)

(All figures stated in US$ unless otherwise indicated)

In addition, Bank ABC has a process for assessing the performance of senior management against a set of pre-agreed audit, risk & compliance (ARC) objectives, which are cascaded down in the organisation. Their pay is linked to long-term profitability and sustainable value.

Pay principles

The following 'pay principles' apply at Bank ABC and govern all current and future remuneration decisions. These principles have been approved by the RemCo.

Principle	Theme
Principle 1	We pay for performance
Principle 2	We take risk seriously
Principle 3	We think long-term
Principle 4	Pay decisions are governed effectively
Principle 5	Clear and simple
Principle 6	Competitive, sustainable and affordable

Principle 1 | We pay for performance

Approach

- Performance expectations are clearly articulated for revenue-generating, support and control functions.
- Pay and performance management are linked.
- Bank ABC rewards performance that delivers its strategy, and that delivers the behaviours, cultures and ways of working that underpin doing business with the Bank.

Delivery

- Group and / or business unit underperformance can result in no bonus pool.
- Bonuses can be diminished (or nil) in light of poor Group, business unit or individual performance.
- Individual bonus payments reflect Group, business unit and individual performance.
- Group and business units are expected to meet demanding but achievable performance targets.
- Low performance ratings for any employee can result in no bonus.
- High performing business units may pay bonuses, even if the Group underperforms.
- Bank ABC differentiates high performance from average or low performance.
- Bonuses can be paid for non-profitable business units in start-up or turn-around phases.
- Bonus calculations reflect a measure of the appropriate behaviours which support doing business with Bank ABC.
- Control functions are measured on the impact and quality of their safeguarding role.
- Pay for employees engaged in control functions promotes impartiality and objectivity – it ensures that all employees at Bank ABC take risk seriously.
- Bonuses can be paid to control function employees who exercise their roles effectively, even in light of poor Group or business unit performance.

Principle 2 | We take risk seriously

Approach

- Reward practices embed and reinforce Bank ABC's desired risk culture.
- Risk behaviours directly impact variable pay.

Delivery

- Financial performance is not the sole measure of performance.
- Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.
- Bonus pools are adjusted for all types of risk, both tangible and intangible, which are reflected in both Group and business unit performance.
- Both quantitative and qualitative approaches are used to measure risk.
- Pay for material risk takers is significantly weighted towards variable pay.
- Material risk takers' performance is rewarded using a mix of cash and equity (or an equity-linked vehicle) to reflect their influence on the Bank's risk profile.
- Risk behaviours of material risk takers have a direct impact on variable pay outcomes.

Principle 3 | We think long-term

Approach

- Pay is linked to long-term profitability and sustainable value.

Delivery

- Deferral mechanisms are used for approved persons / material risk takers.
- Deferral mechanisms include an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly-paid employees is deferred for three years.
- 40% of variable pay for material risk takers and approved persons (paid over BHD100,000) is deferred for three years.

- No form of guaranteed variable remuneration can be granted, except in exceptional circumstances, for a period of no more than one year following hire.
- Unvested deferred bonuses can be recovered in light of discovering past failures in risk management, or policy breaches, that led to the award originally being granted.
- Participation in deferral is reviewed on an annual basis, subject to meeting the minimum requirements under the CBB rules.

Principle 4 | Pay decisions are governed effectively

Approach

- Variable pay schemes are owned and monitored by the RemCo.
- The RemCo oversees remuneration practices across the Bank.

Delivery

- The RemCo oversees the design and delivery of variable pay across the Bank.
- The RemCo reviews and approves the Bank's remuneration policy on an annual basis.
- The GCEO and senior management do not directly own or control remuneration systems.
- The RemCo reviews and approves bonus pools and payouts across the Bank, and reviews and approves the pay proposals for material risk takers and approved persons.
- Risk and Compliance provide information to the RemCo before it determines the bonus pool and Group performance.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track global compliance with Group remuneration policy.

Principle 5 | Clear and simple

Approach

- Reward communications are clear, user-friendly and written in plain language.
- The aims and objectives of the new VCS are clear and transparent.

Delivery

- Clearly communicate what is meant by malus and clawback, and the instances in which these provisions could be applied.
- Open and easy access to the variable pay policy, plan rules and relevant communications.

Principle 6 | Competitive, sustainable and affordable

Approach

- The VCS helps to attract and retain high-calibre talent.
- The VCS structure can be maintained over the long term, and its total cost is always affordable to the Bank.

Delivery

- Bonus pools vary year-on-year, based on Group performance, external market conditions, the internal climate and affordability.
- Individual pay opportunities are driven by the external market and internal positioning.

Application of pay principles

Bank ABC will remunerate covered employees to attract, retain and motivate sufficient talent to safeguard the interests of the Bank and its shareholders, while ensuring the Bank avoids paying more than necessary. The remuneration systems fairly reward performance delivered within the risk appetite of the Bank, over an appropriate time horizon, to align with risk.

Variable remuneration is paid according to the scheme on the below categorisation:

- **Approved persons in business lines:** For the GCEO and the five most highly-paid business line employees, variable pay in 2019 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Approved persons in control functions:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other material risk takers:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other staff of Bahrain operations:** The variable pay was paid fully in cash up front.

Remuneration arrangements are structured to promote sound risk behaviours. Their performance is measured against a range of financial and non-financial factors related to risk. Employees categorised as approved persons in control functions have their remuneration measured independently of the business that they oversee, so ensuring sufficient independence and authority. All variable pay is subject to malus and clawback.

Corporate Governance (continued)

(All figures stated in US$ unless otherwise indicated)

REMUNERATION

a) 2019

Employee Group	Number of Employees (as on 31/12/19)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	10	10.4	5.3
Approved Persons in Control Functions	24	10.3	3.1
Other Material Risk Takers	72	17.6	5.8
Other staff of Bahrain operations not covered above	330	41.2	10.8
Total	**436**	**79.5**	**25.0**

Employee-related expenses such as government charges, recruitment agency fees, etc. related to Head Office staff are excluded from the above table.

	Variable Remuneration Details*			
Employee Group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved Persons in Business Lines	2.2	0.4	0.1	2.5
Approved Persons in Control Functions	1.7	-	0.3	1.2
Other Material Risk Takers	3.4	-	0.5	1.9
Other staff of Bahrain operations not covered above	10.8	-	-	-
Total	**18.1**	**0.4**	**0.9**	**5.6**

*no guaranteed bonus was awarded in 2019

	Sign on bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved Persons in Business Lines	-	-	-	-
Approved Persons in Control Functions	-	-	1	0.05
Other Material Risk Takers	-	-	1	0.10
Other staff of Bahrain operations not covered above	-	-	14	2.01
Total	**-**	**-**	**16**	**2.16**

		Shares		
Deferred awards	Cash US$ million	Number	US$ million	Total US$ million
Opening Balance	1.3	12.3	14.3	15.6
Awarded during the period	0.4	5.6	6.5	6.9
Paid out/released through performance adjustments	(0.4)	(4.8)	(6.2)	(6.6)
Closing Balance	**1.3**	**13.1**	**14.6**	**15.9**

b) 2018

Employee Group	Number of Employees (as on 31/12/18)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	10	8.7	4.8
Approved Persons in Control Functions	18	9.3	3.2
Other Material Risk Takers	70	16.1	4.7
Other staff of Bahrain operations not covered above	296	39.1	10.0
Total	**394**	**73.2**	**22.7**

Employee-related expenses such as government charges, recruitment agency fees, etc. related to Head Office staff are excluded from the above table.

	Variable Remuneration Details*			
Employee Group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved Persons in Business Lines	2.0	0.4	0.1	2.3
Approved Persons in Control Functions	1.7	-	0.3	1.2
Other Material Risk Takers	3.0	-	0.3	1.4
Other staff of Bahrain operations not covered above	10.0	-	-	-
Total	**16.7**	**0.4**	**0.7**	**4.9**

*no guaranteed bonus was awarded in 2018

	Sign on bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved Persons in Business Lines	-	-	-	-
Approved Persons in Control Functions	1	0.35	1	0.2
Other Material Risk Takers	-	-	2	0.4
Other staff of Bahrain operations not covered above	-	-	7	1.0
Total	**1**	**0.35**	**10**	**1.6**

		Equity-Linked Instruments		
Deferred awards	Cash US$ million	Number	US$ million	Total US$ million
Opening Balance	1.3	12.6	15.0	16.3
Awarded during the period	0.4	4.5	5.6	6.0
Paid out/released through performance adjustments	(0.4)	(4.8)	(6.3)	(6.7)
Closing Balance	**1.3**	**12.3**	**14.3**	**15.6**

Risk Management

All financial transactions inherently involve an element of risk. Wide ranging and effective risk management mechanisms are foundational to responsible banking.

Risk Management

Executive summary

The disclosures in this section comprises of the Group's capital and risk management disclosures as of 31 December 2019.

The disclosures in this section are in addition to the disclosures set out in the consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS).

The principal purpose of these disclosures is to meet the disclosure requirements required by the Central Bank of Bahrain (CBB) directives on public disclosures under the Basel III framework. This section describes the Group's risk management and capital adequacy policies and practices – including detailed information on the capital adequacy process and incorporates all the elements of the disclosures required under Pillar III. It is organised as follows:

- An overview of the approach taken by Bank ABC (Arab Banking Corporation (B.S.C.)) ["the Bank"] and its subsidiaries [together "the Group"] to Pillar I, including the profile of the risk-weighted assets (RWAs) according to the standard portfolio, as defined by the CBB.
- An overview of risk management practices and framework at the Bank with specific emphasis on credit, market and operational risks. Also covered are the related monitoring processes and credit mitigation initiatives.
- Other disclosures required under the Public Disclosure Module of the CBB Rulebook Volume 1.

The CBB supervises the Bank on a consolidated basis. Individual banking subsidiaries are supervised by the respective local regulator. The Group's regulatory capital disclosures have been prepared based on the Basel III framework and Capital Adequacy Module of the CBB Rulebook Volume 1.

For regulatory reporting purposes under Pillar I, the Group has adopted the standardised approach for credit risk, market risk and operational risk.

The Group's total risk-weighted assets as of 31 December 2019 amounted to US$25,741 million (2018: US$23,977 million), comprising 87% credit risk, 7% market risk and 6% operational risk. The total capital adequacy ratio was 17.9% (2018: 18.2%), compared to the minimum regulatory requirement of 12.5%.

1. The Basel III framework

The CBB implemented the Basel III framework from 1 January 2015.

The Basel Accord is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by a bank's eligible capital funds.
- **Pillar II** addresses a bank's internal processes for assessing overall capital adequacy in relation to material sources of risks, namely the Internal Capital Adequacy Assessment Process (ICAAP). Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- **Pillar III** complements Pillar I and Pillar II by focusing on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

a. Pillar I

Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio (CAR) of 12.5% and a Tier 1 ratio of 10.5%. Tier 1 capital comprises of share capital, reserves, retained earnings, additional Tier 1 instrument, non-controlling interests, profit for the year and cumulative changes in fair value.

In case the CAR of the Group falls below 12.5%, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target should be submitted to the CBB. The Group has defined its risk capacity above the CBB thresholds. The Group will recourse to its recovery planning measures prior to the breach of its Board approved risk capacity.

The CBB allows the following approaches to calculate the RWAs (and hence the CAR).

Credit risk	Standardised approach.
Market risk	Standardised, internal models approach.
Operational risk	Standardised, basic indicator approach.

The Group applies the following approaches to calculate its RWAs:

- **Credit risk – Standardised approach:** the RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.
- **Market risk – Standardised approach.**
- **Operational risk – Standardised approach:** regulatory capital is calculated by applying a range of beta coefficients from 12% - 18% on the average gross income for the preceding three years – applied on the relevant eight Basel defined business lines.

b. Pillar II

Pillar II comprises of two processes, namely:

- an Internal Capital Adequacy Assessment Process (ICAAP); and
- a Supervisory Review and Evaluation Process (SREP).

The ICAAP incorporates a review and evaluation of all material risks to which the Bank is exposed to and an assessment of capital required relative to those risks. The ICAAP compares this against available capital resources to assess adequacy of capital to support the business plan and withstand extreme but plausible stress events. The ICAAP and the internal processes that support it should be proportionate to the nature, scale and complexity of the activities of a bank.

The CBB's Pillar II guidelines require each bank to be individually assessed by the CBB in order to determine an individual minimum capital adequacy ratio. Pending finalisation of the assessment process, all the banks incorporated in the Kingdom of Bahrain are required to maintain a 12.5% minimum capital adequacy ratio and a Tier 1 ratio of 10.5% for the consolidated group. This already includes a 2.5% of capital conservation buffer as part of Pillar 1 capital requirements.

The SREP is designed to review the arrangements, strategies, processes and mechanisms implemented by a bank to comply with the requirements laid down by the CBB, and evaluates the risks to which the bank is/could be exposed. It also assesses risks that the bank poses to the financial system.

The SREP also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks, in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types, which are not covered by the minimum capital requirements in Pillar I, include concentration risk, liquidity risk, interest rate risk in the banking book, climate change risk, pension obligation risk, strategic risk and reputational risk. These are covered either by capital, or risk mitigation processes under Pillar II.

c. Pillar III

Prescribes how, when and at what level information should be disclosed about an institution's risk management and capital adequacy assessment practices.

Pillar III complements the minimum risk based capital requirements and other quantitative requirements (Pillar I) and the supervisory review process (Pillar II), and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent basis. The disclosures comprise detailed qualitative and quantitative information.

The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures, and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The Group's disclosures meet the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on and off-balance sheet.

2. Group structure and overall risk and capital management

a. Group structure

The parent bank, Arab Banking Corporation (B.S.C.) (known as Bank ABC), was incorporated in 1980 in the Kingdom of Bahrain and operates under a conventional wholesale banking license issued by the CBB.

The consolidated financial statements and capital adequacy regulatory reports of the Bank and its subsidiaries have been prepared on a consistent basis.

2. Group structure and overall risk and capital management (continued)

a. Group structure (continued)

The principal subsidiaries as of 31 December 2019, all of which have 31 December as their year-end, are as follows:

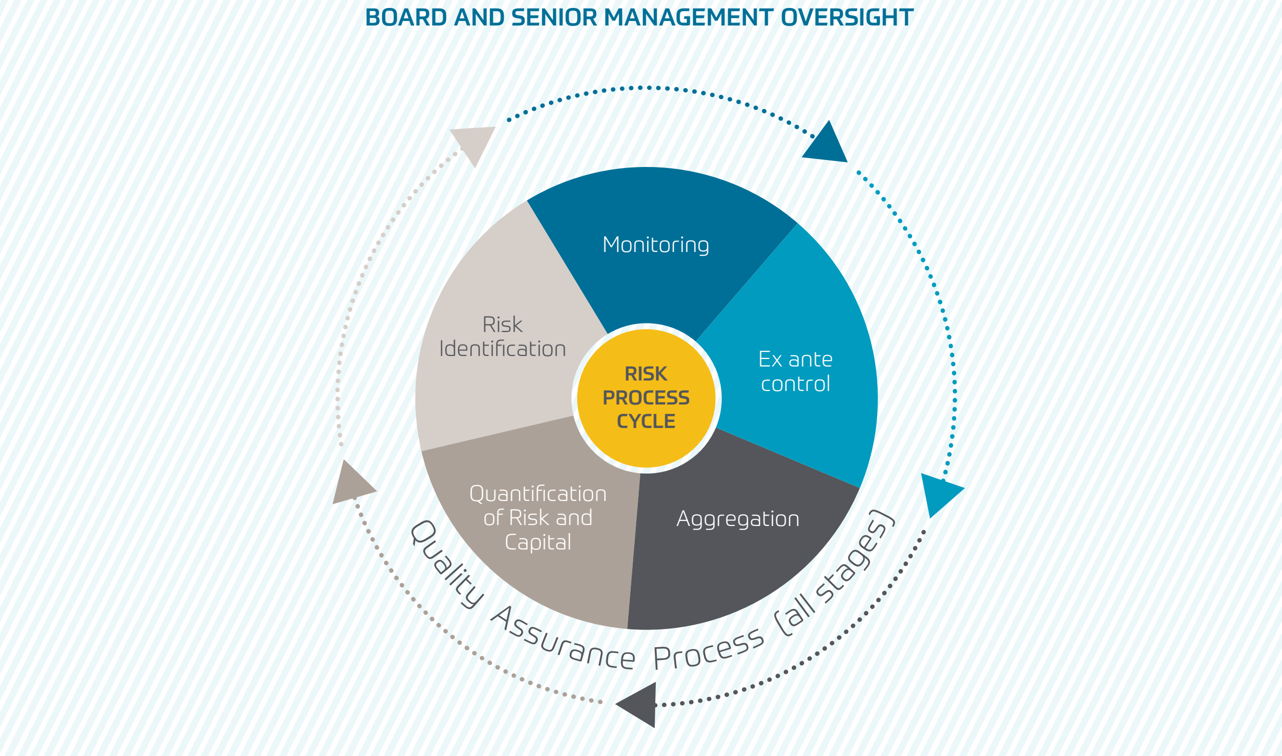
	Country of incorporation	Shareholding % of Arab Banking Corporation (B.S.C.)
ABC International Bank plc	United Kingdom	100.0
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
Banco ABC Brasil S.A.	Brazil	61.1
Arab Banking Corporation - Algeria	Algeria	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
Arab Banking Corporation - Tunisie	Tunisia	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	60.3

b. Risk and capital management

Risk is inherent in the Group's activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit, market, liquidity, interest rate, operational, legal, IT and strategic risks, as well as other forms of risk inherent in its financial operations.

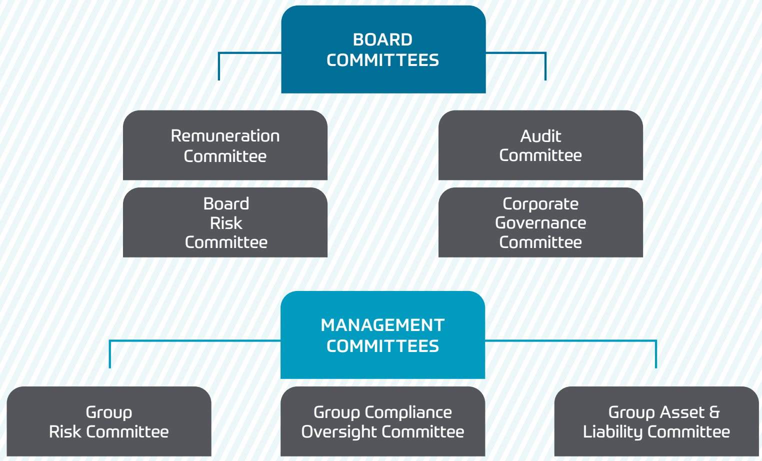
The Group has continued to invest in strengthening its risk management infrastructure. This includes credit, market and operational risk identification processes; risk measurement and stress testing models and rating systems; and a strong business process to monitor and control these risks. Figure 1 outlines the various congruous stages of the risk process.

FIGURE 1: RISK PROCESS CYCLE



The Board of Directors, under advice from the Board Risk Committee (BRC), sets the Group's Risk Strategy/Appetite and Policy Guidelines. Executive management is responsible for their implementation.

FIGURE 2: RISK MANAGEMENT GOVERNANCE STRUCTURE



Within the broader governance infrastructure, the Board Committees carry the main responsibility for best practice management and risk oversight. At this level, the BRC oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards, and risk policies and standards. The current committee structure provides for the GRC and GALCO reporting to the Board Risk Committee and the GCOC to Audit Committee.

The primary objectives of the **Group Risk Committee (GRC)** is to define, develop and monitor the Group's overarching risk management framework taking into account the Group's strategy and business plans. In addition, the GRC is responsible for highlighting, discussing and monitoring key regulations, both local and international, as applicable to the risk management framework where the Group operates. The GRC reports relevant matters to the BRC, advising and informing them as required on the Group's risk exposures and framework and on key regulatory and risk matters. The GRC is assisted by technical sub-committees to manage credit risk (Group Credit Committee, operational risk (Group Operational Risk Committee), operational resilience (Group Operational Resilience Committee), Group risk management framework, policies & procedures, tracking and monitoring of risk appetite, management of Group model risk and risk systems (Group Risk Governance and Analytics Committee).

The **Group Asset and Liability Committee (GALCO)** is responsible for defining Asset & Liability management policy, which includes capital, liquidity & funding and market risk in line with the Risk Appetite Framework. GALCO monitors the Group's capital, liquidity & funding and market risks, and the Group's risk profile in the context of economic developments and market volatility. GALCO is assisted by technical sub-committees for Capital & Liquidity Management.

The **Group Compliance Oversight Committee (GCOC)** is responsible for strengthening the focus on compliance within the Group's risk management framework. GCOC is the senior oversight committee Group-wide for compliance risks and policies, and reports to the Group Audit Committee.

The Group's subsidiaries are responsible for managing their own risks through local equivalents of the head office committees described above with appropriate Group oversight.

The **Credit & Risk Group (CRG)** is the second line function responsible for centralised credit policy and procedure formulation, risk models, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, remedial loans management and the provision of analytical reports to senior management. Additionally, it identifies market and operational risks arising from the Group's activities,

Risk Management (continued)

2. Group structure and overall risk and capital management (continued)

b. Risk and capital management (continued)

and makes recommendations to the relevant central committees about appropriate policies and procedures for managing these risks. The Group Assets Quality Review team, which is part of the CRG conducts an independent second line review of the risk assets of the Bank.

The **Group Balance Sheet Management (GBSM)** function is responsible for capital planning and management, coordinating ICAAP, efficient capital allocation through administering risk adjusted return on capital (RAROC), liquidity planning and analysis, structural funding assessment, developing ILAAP, dynamic Balance Sheet modeling to assess potential emerging impact on capital and liquidity metrics and facilitating Balance Sheet Optimisation.

c. Internal Audit

Group Internal Audit functions as a third line of defence and has a reporting line, independent of management, directly to the Board Audit Committee. The primary objective of Group Audit is to provide an independent opinion and review on the design and operating effectiveness of the control environment across the group on all aspects of risk management, including adherence to Bank's policies and procedures. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit.

d. Risk taxonomy

The Group's risk taxonomy is a common set of risk categories and definitions intended to ensure adequate risk identification and ownership across the Group. The risk categories cover both financial and non-financial risks, and roles and responsibilities are defined for each identified risk category to ensure continued monitoring and risk assessment. The taxonomy is reviewed on an annual basis to ensure that the risk categories reflect the Group's current main risks.

Risk in Pillar I

Pillar I addresses three specific types of risks, namely credit, market and operational risk. Pillar I forms the basis for calculation of regulatory capital.

CREDIT RISK

Credit risk is the risk that a customer or counterparty to a financial asset, fails to meet its contractual obligations, and causes the Bank to incur a financial loss. It also includes the risk of decline in the credit standing of the borrower, as reflected by the credit ratings. While such decline may not imply default, it increases the probability of the default of the customer and hence attracts higher capital. The goal of credit risk management is to manage the credit risk portfolio in line with the approved Group Risk Appetite Standards.

The Group's portfolio and credit exposures are managed in accordance with the Group Credit Policy, which applies Group-wide qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk. The Group's banking subsidiaries are governed by specific credit policies that are aligned with the Group Credit Policy, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs.

The first level of protection against undue credit risk is provided by the Group's portfolio risk limits for counterparty, country and industry concentration. The GCC set these limits and allocates them between the Group and its banking subsidiaries.

A tiered hierarchy of delegated approval authorities, based on the risk rating of the customer under the Group's internal credit rating system, controls credit exposure to individual customers or customer groups.

Credit limits are prudent, and the Group uses standard mitigation and credit control techniques.

The Group employs a Risk-Adjusted Return on Capital (RAROC) measure to evaluate risk/reward at the transaction approval stage.

The following measures, collectively, constitute the three lines of defence against undue risk for the Group:

Business unit account officers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks, within the framework developed and maintained by the CRG which functions as the second line of defence.

Group Internal Audit functions as a third line of defence as defined in Sections **2.c**.

The Group's retail lending is managed under a framework that carefully considers the whole credit cycle and is offered under product programmes, which are approved through a robust product approval process and governed by specific risk policies. The framework is in line with industry best practice and meets regulatory requirements. One of the framework's key objectives is to safeguard the overall integrity of the portfolios and to ensure that there is a balance between risk and reward, while facilitating high-quality business growth and encouraging innovation.

On 1 January 2018, the Group adopted International Financial Reporting Standard 9 Financial Instruments (IFRS 9). The standard incorporates a forward-looking expected credit loss (ECL) approach. The Group is required to record an allowance for expected losses for all loans and other debt type financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank groups its financial assets into Stage 1, Stage 2 and Stage 3, based on the IFRS 9 methodology, as described below:

- **Stage 1 – (12 months ECL):** For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default event occurring within the next 12 months is recognised.
- **Stage 2 – (Lifetime ECL - not credit impaired):** For exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.
- **Stage 3 – (Lifetime ECL - credit impaired):** Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under IAS 39, the Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised.

A financial asset is classified as impaired (Stage 3), when there is objective evidence that the asset is impaired/defaulted.

Credit exposures that are impaired/defaulted (Stage 3 assets) are segregated and supervised more actively by the CRG's Remedial Loans Unit (RLU). Subject to minimum loan loss provision levels mandated under the Group Credit Policy, specific provisions in respect of impaired assets are based on estimated potential losses, through a quarterly portfolio review and adequacy of provisioning exercise.

As part of enhancing its robust risk management infrastructure, the Bank is in the process of enhancing its reporting capabilities. The Bank is further enhancing its IFRS 9 reporting capabilities by investing into a strategic solution with Business Intelligence capabilities which will enable improved reporting.

MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to support its business strategy will be impacted by changes in interest rates, equity prices, credit spreads, foreign exchange rates and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is measured, monitored and controlled by the CRG, with strategic oversight exercised by GALCO. The CRG's Market Risk (MR) unit is responsible for the development and implementation of market risk policy, the risk measurement and monitoring framework, and the review of all trading and investment products / limits before submission to GALCO. The MR includes market risk and middle office.

The Group classifies market risk as follows:

- **Trading market risk** arises from movements in market risk factors that affect short-term trading.
- **Non-trading market risk in securities** arises from market factors affecting securities held for long-term investment.

Risk Management (continued)

2. Group structure and overall risk and capital management (continued)

d. Risk taxonomy (continued)

MARKET RISK (CONTINUED)

- **Non-trading asset and liability risk** exposures, also defined as interest rate risk in the Banking Book (IRRBB), arise where the re-pricing characteristics of the Group's assets do not match those of its liabilities.

The Group adopts a number of methods to monitor and manage market risks across its trading and non-trading portfolios. These include:

- Value-at-Risk (VaR) (i.e. 1-day 99th percentile VaR using the "historical simulation" methodology).
- Sensitivity analysis (i.e. basis-point value (BPV) for interest rates and 'Greeks' for options).
- Stress testing / scenario analysis.
- Non-technical risk measures (e.g. nominal position values, stop loss vs. profit or loss, and concentration risk).

As a reflection of the Group's risk appetite and the Market risk management framework, limits are established against the aforementioned market risk measures. The BRC approves these limits annually and the MR reports on them daily. The MR reports risk positions against these limits, and any breaches, to the senior management, the GALCO and the BRC as required.

Currency rate risk

The Group's trading book has exposures to foreign exchange risk arising from cash and derivatives trading. Additionally, structural balance sheet positions relating to net investment in foreign subsidiaries expose the Group to foreign exchange risk. These positions are reviewed regularly and an appropriate strategy for managing structural foreign exchange risk is established by the GALCO. Group Treasury is responsible for executing the agreed strategy.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The most prominent market risk factor for the Group is interest rates. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

Equity price risk

Equity position risk arises from the possibility that changes in the prices of equities, or equity indices, will affect the future profitability, or the fair values of financial instruments. The Group is exposed to equity risk in its trading position and investment portfolio, primarily in its core international and GCC markets.

Equity positions in the banking book	
Quoted Equities	5
Unquoted Equities	5
	10
Unrealised loss at 31 December 2019	(2)

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal Processes, People & Systems or from External events, including fraud. This definition includes legal risk and information technology (IT) & cyber risk but excludes strategic risk.

Bank ABC's operational risk is measured and managed in accordance with its Operational risk policies, standards and processes. The assessment of Operational Risk includes consideration of regulatory impact, reputational impact, and impact on clients, staff and operations, in addition to financial impact.

Proven methodologies and current practices are employed for the management of operational and other related risks adapted to the Group's size, nature, complexity and risk profile.

Bank ABC's Operational Risk Management Framework outlines our approach to the;

- Measurement and management of operational risk appetite and capital.
- Identification, measurement and management of operational risks that may impede the Group's ability to achieve its strategic objectives and vision.

- Identification and escalation of operational risk incidents in order to mitigate potential financial loss, regulatory impacts and reputational damage.

The key components of Bank ABC's operational risk management framework are listed below:

- Governance - The governance structure provides clearly defined roles and responsibilities for overseeing and reviewing operational risk exposure and its management.
- Risk & Control Self-Assessments (RCSA) - The RCSA process provides a structured approach for the identification, assessment and management of operational risks that could prevent Bank ABC from meeting its strategic and business objectives. The framework defines requirements for understanding and managing the operational risk implications of projects.
- Issue and Action Plan management - The Issue and Action Plan management process encompasses the identification and management of issues, which relate to control deficiencies or gaps, to ensure that they are effectively addressed through action plans.
- Key Risk & Performance Indicators (KIs) - The framework defines requirements and processes for KIs, which are objective measures used by management to monitor the risk and control environment. Currently, there are a number of group-wide key risk indicators covering key business and supporting processes.
- Incident Management - Incident management involves identifying operational risk incidents, capturing them in the GRC Tool and escalating them to appropriate levels of management. Early identification and ownership supports the ability to mitigate any immediate impacts, address the root causes, and devise management actions required to strengthen the control environment. The threshold for reporting loss events is a gross impact of US$50.
- Reporting - Regular reporting of operational risk information to governance bodies and senior management is used to support timely and proactive management of operational risk and enable transparent and formal oversight of the risk and control environment.
- The Group has an approach for control testing by the first line of defence and providing assurance over the results of the controls tested by the second line of defence.

In addition to the above, there are Group-wide standards which provide clarity and guidance on specific aspects.

The Group has implemented a Governance, Risk and Compliance solution. This group-wide solution is being shared by Audit, Risk and Compliance to track, manage and report the risks and issues identified.

Legal risk

Examples of legal risk include inadequate documentation, legal and regulatory incapacity, insufficient authority of a counterparty and contract invalidity/unenforceability. Group Legal Counsel bears responsibility for identification and management of this risk. They consult with internal and external legal counsels. All major Group subsidiaries have their own in-house legal departments, acting under the guidance of the Group Legal Counsel, which aims to facilitate the business of the Group, by providing proactive, business-oriented and creative advice.

The Group is currently engaged in various legal and/or regulatory matters which arise in the ordinary course of business. Bank ABC does not currently expect to incur any liability with respect to any actual or pending legal and/or regulatory matter which would be material to the financial condition or operations of the Group.

Operational risk tolerance

The Group has expressed operational risk tolerance in the Board Approved Group Risk Appetite Statement in terms of gross loss amounts related to operational risk events.

In addition, the Group uses a quantitative and qualitative risk rating scale to classify actual and potential non-financial risks as 'critical', 'significant', 'moderate' or 'minor'. Timeframes have been defined within which action plans must be prepared for the treatment of control weaknesses, rated 'critical', 'significant' or 'moderate'.

In line with the Board-led Group risk appetite statement, operational risk tolerance is set and monitored by the Board.

Operational Resilience:

Operational resilience is the ability of the Bank to carry out its mission or business despite the occurrence of operational stress or disruption, protecting its customers,

Risk Management (continued)

2. Group structure and overall risk and capital management (continued)

d. Risk taxonomy (continued)

OPERATIONAL RISK (CONTINUED)

Operational Resilience: (continued)

shareholders and ultimately the integrity of the financial system. The operational resilience framework includes a set of techniques that allow people, processes and informational systems to adapt to changing patterns, respond to and recover from factors that may hinder the Bank from functioning.

The Bank adheres to the three lines of defence model for the management of operational resilience risk. The business (first line of defence) is supported by an independent Cyber, IT Risk Management Departments reporting to Group Head of Risk (second line of defence). The management of operational resilience risk is subject to independent review by Internal Audit (third line of defence).

The Group Operational Resilience Committee ("GORC") assists the Group Risk Committee with the oversight of the Bank's Operational resilience framework. It oversees:

- Information security, including Cyber security
- Business Continuity, Disaster Recovery and Crisis Management
- Fraud Risk Management
- Data Protection/Privacy Risk
- Outsourcing and Vendor Management (External dependencies)

Information Technology, including Cyber Risk

Given the importance of Information Technology (IT) within the Group and the increasing Cyber risks, a Cyber & IT Risk Management function is in place under Risk Management. The role of Cyber & IT Risk Management is to identify risks within Information Technology and Information Security, and to ensure adequate controls are in place to mitigate these risks. The Group has adopted CoBIT 5 as a reference control framework for IT.

For Cyber & Information Security, the Group adopted ISO27001, SWIFT CSP, CIS20 and more recently is deploying the CMMi™ Cybermaturity platform to enhance its Cybersecurity posture and give more visibility on its exposure to Cyber risks. The Group obtained the PCI-DSS certification for its newly launched mobile-only Digital Bank in Bahrain (ila Bank).

Business Continuity Disaster Recovery and Crisis Management

The Group has robust business continuity plans in place to meet local and international regulatory obligations, and to protect the Group's business functions, assets and employees. The business continuity plans cover various local and regional risk scenarios, (including Cyber risk scenarios). The business continuity plans are kept up to date in order to deal with changes in the internal and external environment at both Group and unit level. Furthermore, all relevant stakeholders receive appropriate training to ensure that they understand their roles and responsibilities when business continuity plans are activated.

The Group also has a Crisis Management framework in place that ensures information is communicated efficiently and effectively to all stakeholders in case of a severe incident.

Fraud Risk Management

Bank ABC has a Fraud Risk Management function in place. This function is responsible for the development and maintenance of the Fraud Risk Management strategy. The function is tasked to facilitate the identification of various types of external and internal fraud risks and incidents impacting the Bank through structured deep dive assessments.

Data Protection/Privacy Risk

Bank ABC had appointed consultants to enhance its Data Privacy framework to ensure compliance with the Bahrain Personal Data Protection Law (BDPL). To expedite implementation of the recommendations, the Bank has set up a project team under the supervision of the GORC. The scope includes ensuring compliance with the BDPL and extends to data privacy laws of UK, Europe, Singapore, Brazil and the MENA region.

Outsourcing and Vendor Management

Bank ABC has an established standard process for outsourcing of activities including the identification of major risks related to material outsourcing. The standards stipulate appropriate processes to manage the entire outsourcing life cycle. This includes preparation of a fit for purpose business case, stringent vendor selection processes, assessment of the vendor's operational resilience, etc. Risks related to this function are monitored in the Group Operational Resilience Committee.

For occurrences of fraud an incident response management process is in place, root cause analysis is performed and corrective actions are implemented. The function also undertakes the responsibility for timely reporting of incidents to Bahrain's local regulator – Central Bank of Bahrain (CBB) as per the latest regulatory guidelines issued in October 2018.

Risk in Pillar II

LIQUIDITY RISK

Liquidity risk is the risk that maturing and encashable assets may not cover cash flow obligations (liabilities) as they fall due, without incurring unacceptable costs or losses. The Group's Liquidity Management Framework **(GLMF)** ensures that the Group proactively manages liquidity and structural funding risks that fosters stable balance sheet to support prudent business growth while having the ability to withstand a range of liquidity stress events. The Group has carried out a detailed assessment to identify all material sources of liquidity and funding risks and have assessed appropriate levels of required Liquid Asset Buffers. The Group's liquidity risk appetite sets appropriate liquidity metrics to monitor all sources of material liquidity risks. The Group's liquidity risk appetite framework extends to all entities within the Group.

All subsidiaries of the Group manage principally on a self-funded basis to meet their liquidity and funding requirements.

The GLMF ensures that the key risk indicators are monitored proactively and regularly reported to the senior management. The Bank regularly conducts liquidity stress testing that ensures **Liquidity Survival Horizon (LSH)** is always maintained.

The Group also carries out a comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) exercise that includes, amongst other things, scenario-based stress tests to evaluate the robustness of the liquidity management framework and the effectiveness of the contingency funding plan. The Group's Liquid Asset Buffer **(LAB)** and the Group's Contingency Funding Plan **(GCFP)** ensure that the Group can withstand potential liquidity shocks and market disruptions.

The Group maintains High Quality Liquid Assets **(HQLA)** at prudent levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of surplus liquidity, its principal sources of liquidity being its high quality liquid assets and marketable securities.

The LSH metric is used to manage and monitor liquidity on a daily basis. The LSH represents the minimum number of days the Group can survive the combined outflow of all deposits and contractual draw downs, under normal market conditions.

A maturity gap report, which reviews mismatches, is used to monitor medium and long term liquidity.

INTEREST RATE RISK IN BANKING BOOK

The Group measures and controls IRRBB using a number of qualitative and quantitative measures. Qualitative measures include a thorough assessment of the impact of changes in interest rates on the Bank's banking instruments during the annual budget and capital planning process. Current and expected future interest rates are integral components driving the annual business planning process.

Quantitative measures employed include limits, interest rate sensitivity gap analysis, and stress testing to measure and control the impact of interest rate volatility on the Bank's earnings and economic value of equity. These measures are applied separately for each currency and consolidated at the Group's level. The gap analysis measures the interest rate exposure arising from differences in the timing and/or amounts of loans and deposits in pre-specified time bands. Stress tests include the impact of parallel and non-parallel shifts in interest rates on banking activities. All these measures are reported to the GALCO on a regular basis. As of 31 December 2019, a 200 basis points (2%) parallel shift in interest rates (floored to zero% for down scenario) would potentially impact the Group's earnings by US$28 million (representing <5% of Net Interest Income) and economic value equity impact of US$93 million (< 3% of Tier 1 capital).

Risk Management (continued)

2. Group structure and overall risk and capital management (continued)

d. Risk taxonomy (continued)

Risk in Pillar II (continued)

INTEREST RATE RISK IN BANKING BOOK (CONTINUED)

US$ million	Less than 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Non-interest bearing	Total
ASSETS							
Liquid funds	1,712	122	40	-	-	-	1,874
Trading securities	199	26	-	4	4	274	507
Placements with banks and other financial institutions	1,441	494	1	50	-	65	2,051
Securities bought under repurchase agreements	545	615	201	37	-	-	1,398
Non-trading investments	890	859	479	309	3,249	50	5,836
Loans and advances	7,934	4,348	2,002	977	1,185	6	16,452
Other assets	-	-	-	-	-	1,950	1,950
TOTAL ASSETS	**12,721**	**6,464**	**2,723**	**1,377**	**4,438**	**2,345**	**30,068**
LIABILITIES & EQUITY							
Deposits from customers	9,134	4,121	615	2,041	422	333	16,666
Deposits from banks	2,328	894	202	342	113	18	3,897
Certificates of deposit	11	253	28	81	26	-	399
Securities sold under repurchase agreements	495	465	-	-	48	-	1,008
Taxation & Other liabilities	-	-	-	-	-	1,987	1,987
Borrowings	717	911	385	-	67	-	2,080
Total equity	-	-	-	-	-	4,031	4,031
TOTAL LIABILITIES & EQUITY	**12,685**	**6,644**	**1,230**	**2,464**	**676**	**6,369**	**30,068**
OFF B/S ITEMS							
Foreign exchange contracts	(2)	1	3	3	(5)	-	-
Interest rate contracts	(390)	1,952	(174)	1,141	(2,529)	-	-
TOTAL OFF B/S ITEMS	**(392)**	**1,953**	**(171)**	**1,144**	**(2,534)**	**-**	**-**
Interest rate sensitivity gap	(356)	1,773	1,322	57	1,228	(4,024)	-
Cumulative interest rate sensitivity gap	(356)	1,417	2,739	2,796	4,024	-	-

The interest rate gap analysis set out in the table above assumes that all positions run to maturity, i.e., no assumptions on loan prepayments. Deposits without a fixed maturity have been considered in the 'less than one month' bucket.

CONCENTRATION RISK

Credit concentration risk is the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions. The Group assesses the concentration risk under its ICAAP and makes an appropriate capital assessment for this risk.

Country risk or Cross-border risk arises from the uncertainty relating to a counterparty, not being able to fulfil its obligations to the Bank, due to political/ geo-political or economic reasons.

Industry risk is the risk of adverse developments in the operating environment for a specific industry segment leading to deterioration in the financial profile of counterparties operating in that segment and resulting in increased credit risk across this portfolio of counterparties.

In order to avoid excessive concentrations of risk, Group risk appetite, policies and procedures include specific guidelines to focus on country, industry and counterparty limits, and the importance of maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Under the single obligor regulations of the CBB and other host regulators, the CRG and its local equivalents have to obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

As of 31 December 2019, the Group's exposures in excess of the 15% obligor limit to individual counterparties were as shown below:

US$ million	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
Counterparty A	963	-	963
Counterparty B	718	-	718

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, standards and codes of conduct applicable to the Bank's activities.

Front-line functions within the units are responsible for the management of their specific compliance risks and control environment. The compliance function is responsible for assuring, on an ongoing basis, that key compliance related control processes within the first line of High Quality Liquid Assets are in place and operating effectively.

REPUTATIONAL RISK

Reputational risk is multidimensional and reflects the perception of market participants. It exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of the entity's internal risk management processes, as well as the manner and efficiency with which management responds to external influences.

The Bank implements a robust governance and management framework, which has a significant involvement of senior management to proactively address any risk(s) to the Bank's reputation. Furthermore, the management believes that reputation risk requires active administration and involvement of senior members of the Bank as against setting aside capital for its management.

CLIMATE CHANGE RISK

Climate change risk is the financial risk that arises from the impact of adverse changes in climate and specifically global warming. The risks are of two types, (i) the speed and cost of the required transition of the global economy

Risk Management
(continued)

2. Group structure and overall risk and capital management (continued)

d. Risk taxonomy (continued)

Risk in Pillar II (continued)

CLIMATE CHANGE RISK (CONTINUED)

to a low-carbon economy (ii) the impact of global warming on countries' economies, infrastructure and security.

This risk is in active consideration by the BRC and Senior Management towards providing appropriate governance and direction in setting up frameworks to better manage this risk. As Climate Risk becomes more definitive and crystallises into an area of distinct opportunities and risk, it shall be managed through the specific risk category in the Risk Taxonomy. Further, the intention of the Bank is to monitor and include Climate Risk related scenario as part of ICAAP to assess the impact of Climate Risk on the Bank's overall risk profile.

e. Monitoring and reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, and on a monthly or quarterly basis for credit and operational risk. Risk reporting is regularly made to senior management, the BRC, and the Board. The BRC receives internal risk reports covering all relevant risks.

As part of the capital management framework, capital adequacy ratios for the Group and its subsidiaries are reported to GALCO, the BRC, and the Board on a regular basis.

3. Regulatory capital requirements and the capital base

The Group manages its capital structure and maintains capital based on its strategic business plans taking into account anticipated economic conditions and the risk characteristics of its activities. The objective is to maintain a strong capital base to support the risks inherent in our businesses and markets, meeting both local and consolidated regulatory capital requirements at all times.

The Group manages the capital position through various measures that include administering a dividend policy that balances financial stability and growth objectives with shareholders returns; raising capital via equity, AT1 and subordinated debt instruments. based on a set of defined capital triggers; risk distribution or risk participation to reduce capital demand; and deleveraging to create capital capacity.

The determination of dividend payout will depend upon, amongst other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support growth (organic and inorganic), regulatory capital requirements, approval from the CBB and applicable requirements under Bahrain Commercial Companies Law, as well as other factors that the Board of Directors and the shareholders may deem relevant.

No changes have been made in the objectives, policies and processes from the previous year.

The Group's total capital adequacy ratio as of 31 December 2019 was 17.9% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.9% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)	
Credit risk	22,412
Market risk	1,690
Operational risk	1,639
Total	**25,741**
Tier 1 ratio	**16.9%**
Capital adequacy ratio	**17.9%**

The Group ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits detailed in the Bank's Board-approved risk appetite statement under the strategic risk objective "Solvency".

Each banking subsidiary in the Group is directly regulated by its local banking supervisor, which sets and monitors local capital adequacy requirements. The Group ensures that each subsidiary maintains sufficient levels of capital.

The Tier 1 and total capital adequacy ratio of the significant banking subsidiaries (those whose regulatory capital amounts to over 5% of the Group's consolidated regulatory capital) under the local regulations were as follows:

Subsidiaries (over 5% of Group's regulatory capital)	Tier 1 ratio	CAR (total)
ABC Islamic Bank (E.C.)	29.0%	30.0%
ABC International Bank Plc*	17.0%	18.7%
Banco ABC Brasil S.A.*	14.0%	16.9%

* CAR has been computed after mandatory deductions from the total of Tier 1 and Tier 2 capital.

The management believes that there are no impediments on the transfer of funds or reallocation of regulatory capital within the Group, subject to restrictions to ensure minimum regulatory capital requirements at the local level.

a. Capital requirement for credit risk

For regulatory reporting purposes, the Group calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel III capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk weightings. Under the standardised approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external credit rating agencies approved by the CBB. The Group uses ratings assigned by Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence.

Provided below is a counterparty asset class-wise breakdown of the Credit RWA and associated capital charge. The definition of these asset classes (as per the standard portfolio approach under the CBB's Basel III Capital Adequacy Framework) is set out in section **4**.

Credit exposure and risk-weighted assets

US$ million	Gross credit exposure	Funded exposure	Unfunded exposure	Eligible collateral	Eligible guarantees	Risk-weighted assets	Capital charge
Cash	31	31	-	-	-	2	-
Claims on sovereigns	5,813	5,725	88	68	164	401	50
Claims on public sector entities	2,154	1,939	215	77	7	1,351	169
Claims on multilateral development banks	681	681	-	-	18	71	9
Claims on banks	6,846	5,831	1,015	1,248	565	3,336	417
Claims on corporate portfolio	16,552	13,832	2,720	669	193	15,456	1,932
Regulatory retail exposures	731	691	40	-	-	548	69
Past due loans	143	143	-	1	-	149	19
Residential retail portfolio	2	2	-	2	-	1	-
Equity portfolios	32	32	-	-	-	67	8
Other exposures	846	651	195	-	-	1,030	129
	33,831	**29,558**	**4,273**	**2,065**	**947**	**22,412**	**2,802**

Monthly average gross exposures and the risk-weighted assets for the period ended 31 December 2019 were US$33,733 million and US$21,171 million respectively.

Risk Management (continued)

3. Regulatory capital requirements and the capital base (continued)

b. Capital requirement for market risk

In line with the standardised approach to calculating market risk, the capital charge for market risk is as follows:

US$ million	RWA	Period-end Capital Charge	Capital charge - Minimum*	Capital charge - Maximum*
Interest rate risk	489	61	45	91
- Specific interest rate risk	12	1	1	23
- General interest rate risk	477	60	44	68
Equity position risk	33	4	3	4
Foreign exchange risk	1,168	146	135	146
Options risk	-	-	-	-
Total	**1,690**	**211**	**183**	**241**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories during the year ended 31 December 2019.

c. Capital requirement for operational risk

The Group applies the "Standardised Approach" for calculating its Pillar I operational risk capital. As of 31 December 2019, the total capital charge in respect of operational risk was US$205 million. A breakdown of the operational risk capital charge is provided below:

US$ million Basel Business Line	Average 3 years gross income	Beta factors	Capital charge	RWA
Corporate finance	22	18%	6	50
Trading and sales	211	18%	59	474
Payment and settlement	27	18%	8	61
Commercial banking	508	15%	119	952
Agency services	-	15%	-	-
Retail banking	51	12%	10	77
Asset management	11	12%	2	17
Retail brokerage	5	12%	1	8
Total	**835**		**205**	**1,639**

d. Capital base

The Group's capital base primarily comprises:

i) **Tier 1 capital:** share capital, treasury shares, reserves, retained earnings, additional Tier 1 capital, non-controlling interests, profit for the year and cumulative changes in fair value; and

ii) **Tier 2 capital:** eligible subordinated term debt and expected credit losses.

The portion of Tier 1 and Tier 2 instruments attributable to non-controlling interests are added to the respective capital tiers in accordance with the regulatory definitions.

The issued and paid-up share capital of the bank is US$3,110 million at 31 December 2019, comprising 3,110 million shares of US$1 each.

The Additional Tier 1 (AT1) capital includes the eligible portion of a perpetual financial instrument issued by a subsidiary of the bank. The total issue amounted US$113 million at 31 December 2019. This instrument meets all the threshold conditions for inclusion in AT1 as per CBB requirements, except for the trigger for write-down under certain circumstances.

Against the CBB's requirement of 7% CET 1 ratio as the trigger for write-down / conversion into equity this instrument has a trigger of 5.125% of CET 1 ratio for permanent extinction in compliance with the local regulations and requirements. However, the instrument has features that enable coupon suspension (without cumulating) upon insufficiency of profits.

This has been approved by its local regulator for inclusion in AT1 capital of the Group. The impact on the Group's capital is immaterial.

The detail of this issue is described in appendix PD 3.

Tier 2 capital represent the surplus over the regulatory minimum capital stipulated by the CBB.

The Group's capital base and risk-weighted assets is summarised below:

Capital base and Risk-weighted assets (RWA)	US$ million
Capital base	
CET 1	4,262
AT 1	96
Total Tier 1 capital	4,358
Tier 2	251
Total capital base	**4,609**
Risk-weighted assets	
Credit risk	22,412
Market risk	1,690
Operational risk	1,639
Total Risk-weighted assets	**25,741**
CET 1 ratio	16.6%
Tier 1 ratio	16.9%
Capital adequacy ratio	17.9%

The details about the composition of capital are provided in appendices PD1 and PD2.

Risk Management (continued)

4. Credit risk - Pillar III disclosures

a. Definition of exposure classes

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the standard portfolio approach under the CBB's Basel III Capital Adequacy Framework, covering the standardised approach for credit risk.

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

I. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and other GCC sovereigns are risk-weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above, are risk-weighted based on their external credit ratings.

II. Claims on public sector entities (PSEs)

Bahrain PSEs, as defined by the CBB rulebook, are assigned a 0% risk weighting. Other sovereign PSEs, where claims are denominated in the relevant domestic currency and for which the local regulator has assigned a risk weighting of 0%, are assigned a 0% risk weighting by the CBB. PSEs other than those mentioned above are risk-weighted based on their external credit ratings.

III. Claims on multilateral development banks (MDBs)

All MDBs are risk-weighted in accordance with the banks' external credit ratings, except for those members listed in the World Bank Group, which are risk-weighted at 0%.

IV. Claims on banks

Claims on banks are risk-weighted based on the external credit ratings assigned to them by external rating agencies. However, short-term claims on locally-incorporated banks are assigned a risk weighting of 20% where such claims on the banks are of original maturities of three months or less, and are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in the Kingdom of Bahrain, with original maturities of three months or less and denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows such preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

V. Claims on the corporate portfolio

Claims on the corporate portfolio are risk-weighted based on external credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

VI. Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), provided they meet the criteria stipulated in the CBB's Rulebook.

VII. Past due loans

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk-weighted as follows:

- 150% risk weighting when specific provisions are less than 20% of the outstanding amount of the loan; and
- 100% risk weighting when specific provisions are greater than 20% of the outstanding amount of the loan.

VIII. Residential retail portfolio

Lending fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, is risk-weighted at 75%. However, where foreclosure or repossession with respect of a claim can be justified, the risk weighting is 35%.

IX. Commercial mortgage

Claims secured by mortgage on commercial real estate are subject to a minimum of 100% risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

X. Equity portfolios

Investments in listed equities are risk weighted at 100% while those in unlisted equities are risk weighted at 150%. Significant Investment in the common shares of unconsolidated financial institutions are risk weighted at 250% if lesser than the threshold as required by the CBB's Basel III Capital Adequacy Framework.

XI. Other exposures

These are risk weighted at 100%. Deferred tax assets arising from temporary differences are risk weighted at 250%.

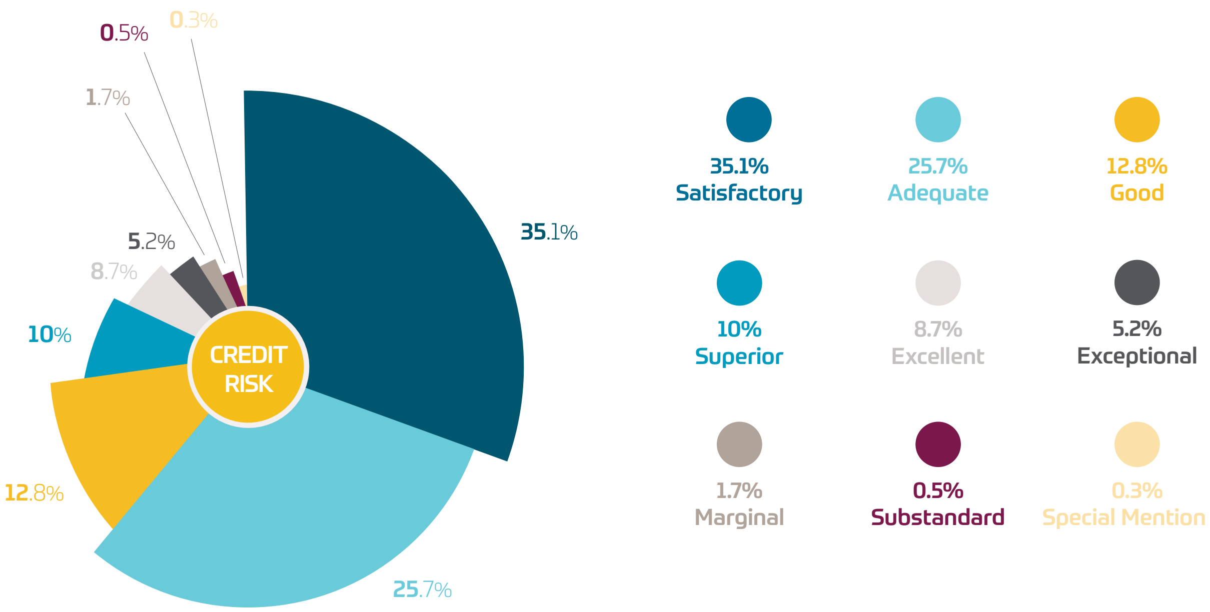
b. External credit rating agencies

The Group uses external credit ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence (accredited external credit assessment institutions). The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ million	Net credit exposure (after credit risk mitigation)	Rated exposure	Unrated exposure
Cash	31	-	31
Claims on sovereigns	5,745	5,541	204
Claims on public sector entities	2,077	851	1,226
Claims on multilateral development banks	681	681	-
Claims on banks	5,598	4,508	1,090
Claims on corporate portfolio	15,883	1,788	14,095
Regulatory retail exposure	731	-	731
Past due loans	142	5	137
Residential retail portfolio	-	-	-
Equity portfolios	32	-	32
Other exposures	846	-	846
	31,766	**13,374**	**18,392**

The Group has a policy of maintaining accurate and consistent risk methodologies. It uses a variety of financial analytics, combined with market information, to support risk ratings that form the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories, and are derived in accordance with the Group's credit policy. They are assessed and updated regularly. Each risk rating class is mapped to grades equivalent to Standard & Poor's, Moody's, Fitch, and Capital Intelligence rating agencies.

The Group's credit risk distribution (based on internal risk ratings) at 31 December 2019 is shown below:



Other grades (Doubtful and Loss) are insignificant.

4. Credit risk - Pillar III disclosures (continued)

c. Credit risk presentation under Basel III

The credit risk exposures detailed here differ from the credit risk exposures reported in the consolidated financial statements, due to different methodologies applied respectively under Basel III and IFRS. These differences are as follows:

- As per the CBB Basel III framework, off balance sheet exposures are converted into on balance sheet equivalents by applying a credit conversion factor (CCF). The CCF varies between 20%, 50% or 100% depending on the type of contingent item.
- The consolidated financial statements categorise financial assets based on asset class (i.e. securities, loans and advances, etc.). This section categorises financial assets into credit exposures as per the "Standard Portfolio" approach set out in the CBB's Basel III Capital Adequacy Framework. In the case of exposures with eligible guarantees, it is reported based on the category of guarantor.
- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel III framework, whereas collateral is not netted in the consolidated financial statements.
- Under the Basel III framework, certain items are considered as a part of the regulatory capital base, whereas these items are netted off against assets in the consolidated financial statements.

d. Credit exposure

Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross credit exposure	Eligible Collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
North America	3,250	220	8	3	63	63
Western Europe	3,722	18	52	52	-	-
Other Europe	1,033	-	16	8	-	-
Arab World	14,824	1,053	373	331	11	11
Other Africa	20	-	-	-	-	-
Asia	1,625	-	-	18	-	-
Australia/New Zealand	154	-	-	-	-	-
Latin America	9,203	774	154	80	-	-
	33,831	**2,065**	**635**	**492**	**74**	**74**

In addition to the above specific ECL the Group has ECL (Stages 1 & 2) amounting to US$171 million.

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

US$ million	North America	Western Europe	Other Europe	Arab World	Other Africa	Asia	Australia/ New Zealand	Latin America	Total
Cash	-	-	-	31	-	-	-	-	31
Claims on sovereigns	1,479	318	19	2,722	-	598	-	677	5,813
Claims on public sector entities	43	56	-	1,736	-	197	1	121	2,154
Claims on multilateral development banks	154	122	-	356	-	49	-	-	681
Claims on banks	366	1,111	869	3,131	2	381	-	986	6,846
Claims on corporate portfolio	1,147	2,045	137	5,543	18	384	153	7,125	16,552
Regulatory retail exposures	-	-	-	603	-	-	-	128	731
Past due loans	5	-	8	42	-	14	-	74	143
Residential retail portfolio	-	2	-	-	-	-	-	-	2
Equity portfolios	-	2	-	30	-	-	-	-	32
Other exposures	56	66	-	630	-	2	-	92	846
Gross credit exposure	**3,250**	**3,722**	**1,033**	**14,824**	**20**	**1,625**	**154**	**9,203**	**33,831**
Eligible collateral	220	18	-	1,053	-	-	-	774	2,065

The ageing analysis of past due loans by geographical distribution can be analysed as follows:

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
North America	5	-	-	-	5
Other Europe	-	-	8	-	8
Arab World	7	13	14	8	42
Latin America	9	1	64	-	74
Asia	14	-	-	-	14
	35	**14**	**86**	**8**	**143**

Risk Management (continued)

4. Credit risk - Pillar III disclosures (continued)

d. Credit exposure (continued)

Industrial sector analysis of exposures

The industrial sector analysis of exposures, impaired assets and the related specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross exposure	Funded exposure	Unfunded exposure	Eligible Collateral	Impaired loans	Specific/ Stage 3 ECL impaired loans	Impaired debt securities	Specific/ Stage 3 ECL impaired debt securities
Manufacturing	3,521	2,861	660	63	86	48	-	-
Mining and quarrying	118	105	13	-	15	7	-	-
Agriculture, fishing and forestry	1,442	1,350	92	-	40	23	-	-
Construction	1,523	1,269	254	92	161	135	-	-
Financial services	12,339	10,865	1,474	1,845	6	6	74	74
Trade	502	427	75	13	154	152	-	-
Personal / Consumer finance	832	782	50	-	37	31	-	-
Commercial real estate financing	528	472	56	-	16	8	-	-
Government	4,106	4,065	41	6	2	2	-	-
Technology, media and telecommunications	559	478	81	-	28	28	-	-
Transport	1,086	955	131	-	7	7	-	-
Energy	1,483	1,272	211	26	-	-	-	-
Utilities	1,581	1,096	485	-	-	-	-	-
Distribution	1,030	968	62	-	-	-	-	-
Retailers	508	393	115	2	-	-	-	-
Other services	2,673	2,200	473	18	83	45	-	-
	33,831	**29,558**	**4,273**	**2,065**	**635**	**492**	**74**	**74**

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

US$ million	Manu-facturing	Mining and quarrying	Agri-culture, fishing and forestry	Cons-truction	Financial services	Trade	Personal / Consumer finance	Commer-cial real estate financing	Govern-ment	Technology, media and telecommuni-cations	Trans-port	Energy	Utilities	Distribu-tion	Retailers	Other services	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31	31
Claims on sovereigns	-	-	-	-	1,964	-	-	-	3,849	-	-	-	-	-	-	-	5,813
Claims on public sector entities	285	23	-	-	470	-	-	-	239	40	217	667	196	-	-	17	2,154
Claims on multilateral development banks	-	-	-	-	681	-	-	-	-	-	-	-	-	-	-	-	681
Claims on banks	-	-	-	-	6,846	-	-	-	-	-	-	-	-	-	-	-	6,846
Claims on corporate portfolio	3,197	87	1,425	1,497	2,353	500	71	520	18	519	869	816	1,385	1,030	508	1,757	16,552
Regulatory retail exposures	-	-	-	-	-	-	731	-	-	-	-	-	-	-	-	-	731
Past due loans	38	8	17	26	-	2	6	8	-	-	-	-	-	-	-	38	143
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Equity portfolios	1	-	-	-	25	-	-	-	-	-	-	-	-	-	-	6	32
Other exposures	-	-	-	-	-	-	24	-	-	-	-	-	-	-	-	822	846
	3,521	118	1,442	1,523	12,339	502	832	528	4,106	559	1,086	1,483	1,581	1,030	508	2,673	33,831

The ageing analysis of past due loans, by industrial sector can be analysed as follows:

US$ million	Less than 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Total
Manufacturing	11	3	22	2	38
Mining and quarrying	8	-	-	-	8
Agriculture, fishing and forestry	-	1	15	1	17
Construction	-	-	25	1	26
Trade	-	1	-	1	2
Personal / Consumer finance	2	1	3	-	6
Commercial real estate financing	-	-	8	-	8
Other services	14	8	13	3	38
	35	14	86	8	143

Risk Management (continued)

4. Credit risk - Pillar III disclosures (continued)

d. Credit exposure (continued)

Maturity analysis of funded exposures

Residual contractual maturity of the Group's major types of funded credit exposures is as follows:

US$ million	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5 - 10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Cash	31	-	-	-	31	-	-	-	-	-	-	31
Claims on sovereigns	2,145	747	355	295	3,542	1,038	1,054	80	-	11	2,183	5,725
Claims on public sector entities	539	157	137	81	914	730	293	-	-	2	1,025	1,939
Claims on multilateral development banks	54	214	53	114	435	225	21	-	-	-	246	681
Claims on banks	1,874	1,174	353	1,174	4,575	1,180	75	-	-	1	1,256	5,831
Claims on corporate portfolio	2,383	1,956	1,451	1,311	7,101	4,986	993	80	-	672	6,731	13,832
Regulatory retail exposures	1	14	7	10	32	218	362	54	17	8	659	691
Past due loans	28	5	4	11	48	87	8	-	-	-	95	143
Residential retail portfolio	-	-	-	-	-	-	1	1	-	-	2	2
Equity portfolios	-	-	-	-	-	-	-	-	-	32	32	32
Other exposures	-	2	1	2	5	6	-	-	-	640	646	651
	7,055	4,269	2,361	2,998	16,683	8,470	2,807	215	17	1,366	12,875	29,558

Maturity analysis of unfunded exposures

In accordance with the calculation of credit risk-weighted assets in the CBB's Basel III Capital Adequacy Framework, unfunded exposures are divided into the following exposure types:

(i) **Credit-related contingent items** comprising letters of credit, acceptances, guarantees and commitments.

(ii) **Derivatives** including futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

In addition to counterparty credit risk, derivatives are also exposed to market risk, which requires a separate capital charge as prescribed under the Basel III guidelines.

The residual contractual maturity analysis of unfunded exposures is as follows:

US$ million	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5 - 10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
Claims on sovereigns	44	18	11	13	86	2	-	-	-	-	2	88
Claims on public sector entities	33	42	13	24	112	100	1	2	-	-	103	215
Claims on banks	138	357	176	92	763	191	45	14	2	-	252	1,015
Claims on corporate portfolio	147	452	316	598	1,513	1,157	49	1	-	-	1,207	2,720
Regulatory retail exposures	-	5	3	7	15	24	1	-	-	-	25	40
Other exposures	-	1	-	-	1	-	-	-	-	194	194	195
	362	**875**	**519**	**734**	**2,490**	**1,474**	**96**	**17**	**2**	**194**	**1,783**	**4,273**

e. Impaired assets and provisions for impairment

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition of an asset by considering the change in the risk of default occurring over the remaining life of the financial instrument. If such evidence exists, the assets are moved to the respective "Stages" mentioned above and appropriate ECLs recognised.

Industry sector analysis of the specific and ECL provisions charges and write-offs

US$ million	Provision (Write-back/recovery)	Write-offs
Manufacturing	18	10
Mining and quarrying	5	-
Agriculture, fishing and forestry	2	-
Construction	25	13
Financial services	2	29
Trade	2	-
Government	(1)	-
Transport	2	8
Personal / Consumer finance	4	-
Other services	11	18
ECL (Stages 1 & 2)	12	-
	82	**78**

Restructured facilities

The carrying amount of restructured facilities amounted to US$267 million as of 31 December 2019.

Risk Management (continued)

5. Off balance sheet exposure and securitisations

a. Credit related contingent items

As mentioned previously, for credit-related contingent items the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF is set at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off-balance sheet notional amounts into an equivalent on-balance sheet exposure.

Undrawn loans and other commitments represent commitments that have not been drawn down or utilised at the reporting date. The nominal amount is the base upon which a CCF is applied for calculating the exposure. The CCF ranges between 20% and 50% for commitments with original maturities of up to one year and over one year respectively. The CCF is 0% for commitments that can be unconditionally cancelled at any time.

The table below summarises the notional principal amounts:

US$ million	Notional Principal
Short-term self-liquidating trade and transaction-related contingent items	2,449
Direct credit substitutes, guarantees and acceptances	3,349
Undrawn loans and other commitments	2,416
	8,214
RWA	**3,059**

At 31 December 2019, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$178 million.

Please refer to note **21** of the consolidated financial statements for detailed disclosures on Credit commitments and contingent items.

b. Derivatives

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Appropriate limits are approved by the Board, and monitored and reported along with the Group Risk Appetite Statement.

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. Additionally, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. The Group participates in both exchange-traded and over-the-counter derivative markets.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations, and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions, and there was no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty as of 31 December 2019.

The aggregate notional amounts for interest rate and foreign exchange contracts as of 31 December 2019 were as follows:

	Derivatives		
US$ million	Interest rate contracts	Foreign exchange contracts	Total
Notional – Trading book	14,162	13,602	27,764
Notional – Banking book	4,638	478	5,116
	18,800	**14,080**	**32,880**
Credit RWA (replacement cost plus potential future exposure)	321	260	581
Market RWA	478	1,167	1,645

c. Counterparty credit risk

Counterparty credit risk (CCR) is the risk that a counterparty to a contract in the interest rate, foreign exchange, equity or credit markets defaults prior to the maturity of the contract.

The counterparty credit risk for derivatives is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book exposures.

In accordance with the credit risk framework in the CBB's Basel III Capital Adequacy Framework, the Group uses the current exposure method to calculate counterparty credit risk exposure of derivatives. Counterparty credit exposure is defined as the sum of replacement cost and potential future exposure. The potential future exposure is an estimate that reflects possible changes in the market value of the individual contract, and is measured as the notional principal amount multiplied by an add-on factor.

In addition to the default risk capital charge for CCR, the Group also holds capital to cover the risk of mark-to-market losses on the expected counterparty risk arising out of over-the-counter derivative transactions, namely a Credit Valuation Adjustment (CVA). The Standardised CVA Risk Capital Charge, as prescribed under CBB's Basel III guidelines, is employed for the purpose. As of 31 December 2019, the CVA capital charge for the portfolio was US$198 million.

6. Capital management

Our strategy and objectives underpin our capital management framework which is designed to maintain sufficient levels of capital to support our organic and inorganic business plans, and to withstand extreme but plausible stress conditions. The capital management objective aims to maintain an optimal capital structure to enhance shareholders' returns while operating within the Group's risk appetite limits and comply with regulatory requirements at all times.

Our approach to capital management is driven by our strategic objectives, considering the regulatory, economic and business environment in our major markets. It is our objective to maintain a strong capital base to support the risks inherent in our businesses and markets, meeting both local and consolidated regulatory and internal capital requirements at all times.

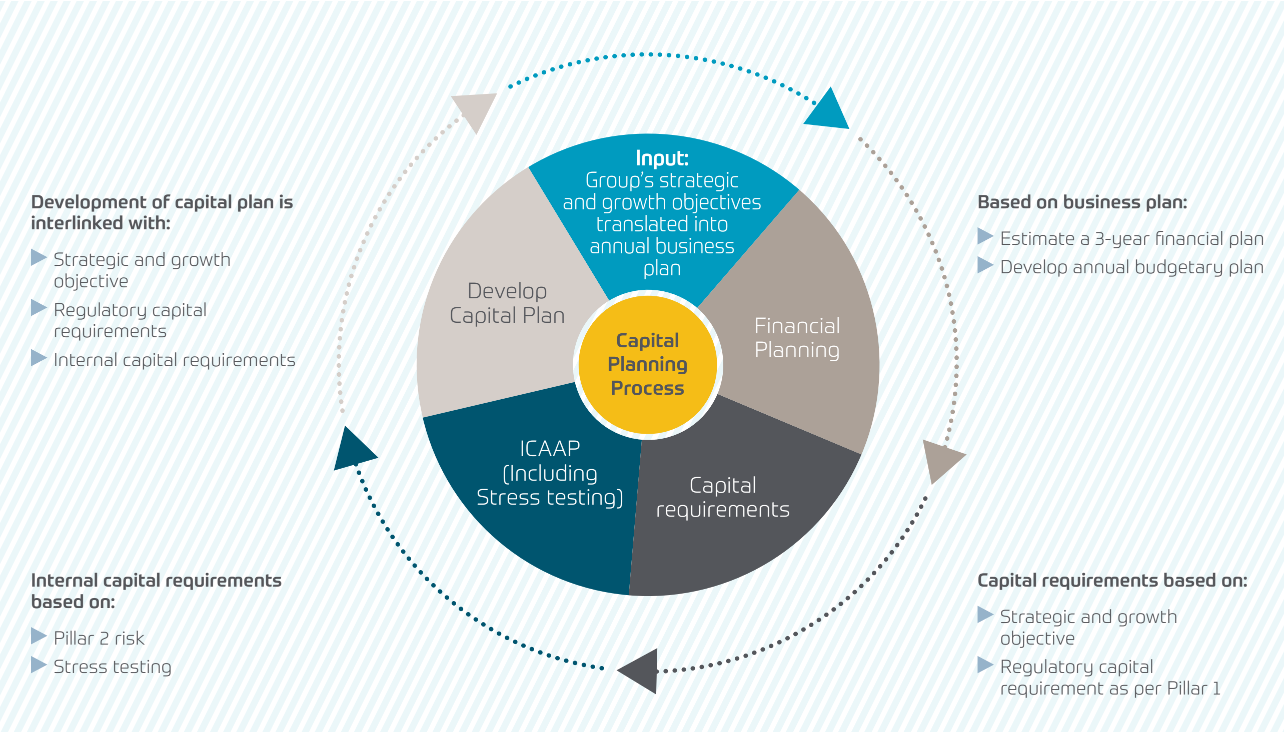
Internal Capital Adequacy Assessment Process (ICAAP)

Our capital management approach is supported by a Capital Management Framework and the Internal Capital Adequacy Assessment Process ('ICAAP'), which enables us to manage our capital in a proactive and consistent manner. The framework incorporates a variety of approaches to assess capital requirements for different material sources of risks and is evaluated on an economic and regulatory capital basis. The Group's ICAAP is designed to:

- Inform the Board of the ongoing assessment of the Bank's risks, and how the Bank intends to mitigate those risks. It also evaluates the current and future capital requirements that is necessary having considered other mitigating factors;
- Ensure that the Bank's capital position remains adequate in the event of an extreme but plausible global and regional economic stress conditions;
- Demonstrate that the Bank establishes and applies a strong and encompassing governance framework in addition to a robust risk and capital management, planning and forecasting process; and
- Provide a forward-looking view, in relation to solvency on the Bank's risk profile to ensure that it is in line with the Board's Risk Appetite limits.

6. Capital management (continued)

Internal Capital Adequacy Assessment Process (ICAAP) (continued)



The ICAAP makes an assessment of capital required for each of the material sources of risks and compares the overall capital requirements for Pillar 1 and Pillar 2 risks against available capital. Our assessment of capital adequacy is aligned to our assessment of risks. These include credit, market, operational, concentration risk (geographic, sectoral and obligor), liquidity risk, pension fund obligation, residual risks, and interest rate risk in the banking book.

In addition to the assessment of capital requirements under Pillar 1 and Pillar 2A of the regulatory capital framework, the Group assesses capital requirements for stress events under Pillar 2B.

Pillar 2A Risks

The Pillar 2A measurement framework for the key risk categories is summarised below:

Material Sources of Risk (Pillar 2A)	Methodology
Credit Risk	Additional capital required for credit risk under ICAAP based on the Foundation Internal Ratings based approach
Concentration Risk - *Name Concentration* - *Sector Concentration* - *Geographic Concentration*	Capital requirements assessed for Name, Sector and Geographic concentration risks using the HHI approach
Counterparty Credit Risk	No capital add-on under ICAAP as Pillar 1 is assessed to be sufficient
Market Risk	The Group uses the 'Historical Simulation Approach' to measure VaR. The key model assumptions for the trading portfolio are: • 2-year historical simulation • 1-year Holding Period • 99% (one tail) confidence interval This is further augmented by a stress analysis under Pillar 2B Pillar 1 capital requirement was deemed sufficient for Market Risk
Operational Risk - *Conduct Risk* - *Non-Conduct Risk*	Based on peak historical losses over a five year period
Liquidity and Funding Risk	Liquidity and funding risk is covered under ILAAP and sufficient Liquid Asset Buffers (LAB) held to address this risk
Interest Rate Risk in the Banking Book (IRRBB)	Capital requirements assessed based on Basel IRRBB 2016 guidelines (BCBS 368)
Pension Obligation Risk	Capital requirements assessed based on an actuarial assessment of pension fund obligations by computing the gap between the present value of all defined pension obligations and the value of the pension fund scheme assets which is complemented with a stressed assessment using a set of stress scenarios
Strategic Risk	Regular review of strategy in view of the changing technology, regulatory and business landscape
Reputational Risk	Robust governance and management framework with significant involvement of senior management to proactively address any risk(s) to the Group's reputation

Risk Management (continued)

6. Capital management (continued)

Pillar 2B - Stress Testing

Pillar 2B represents capital requirements to be assessed through Stress Testing and Scenario Analysis. Stress testing alerts the Bank's management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. A summary of the approach followed for stress testing is as follows:

To enhance its stress testing, risk management and planning capabilities and to comply with CBB requirements during the year, the bank has implemented Integrated Stress Testing (IST). IST allows the Bank to assess the impact of a continuum of stress scenarios including market-wide, idiosyncratic and combined scenarios on its capital, asset quality, earnings and liquidity. IST also enhances the bank's ability to integrate the feedback loop and interplay between different risks when a stress event occurs.

The market-wide scenarios generated from Moody's data on macro-economic forecasts allow the bank to assess its vulnerabilities under mild, moderate, severe and reverse scenarios using the same macro-variables. Idiosyncratic scenarios have been identified for its material and emerging risks. Bank can now assess the impact of these scenarios or new events for various risk drivers on a multi-dimensional basis, that is, at an entity, country, sector, business area, product, customer or any other applicable level.

Finally, the Bank has leveraged the management actions identified under its ICAAP, ILAAP and RRP processes to complete the impact analysis by assessing the adequacy of these actions to resolve the adverse impact from these scenarios. The results of the IST process will be aligned with the bank's risk appetite setting at an entity and group level. The Bank uses the IST framework to complete its ICAAP.

The ICAAP considers mild, moderate and severe stress scenarios and assesses their impact on its earnings, asset quality, capital and liquidity adequacy. The macroeconomic stress scenarios are sourced from Moody's scenario generator platform.

Impact on capital of the above is assessed and suitable management actions were identified to mitigate the impact of stress while making the overall capital adequacy assessments.

Based on the its assessment, the Group maintains adequate levels of capital buffers to meet its business growth over the planning horizon as well as withstand extreme but plausible stress.

Annual Planning Cycle

Our annual budget results in an assessment of RWA and capital requirements to support the Bank's growth plans and compares this with the available Capital. The annual budget, the 3 year forecasts and the ICAAP are approved by the Board. Regular forecasts of RWA and Capital resources are reviewed and the capital ratios are monitored against these forecasts.

Capital Allocation

The responsibility for Group's capital allocation principles rests with the Group's Management Committee. The capital allocation disciplines are enforced through the Group Balance Sheet Management function that operates under the oversight of the Group Chief Financial Officer. Through our internal governance processes, we seek to maintain discipline over our investment and capital allocation decisions, and seek to ensure that returns on capital meet the Group's management objectives. Our strategy is to allocate capital to businesses and entities to support growth objectives where above hurdle returns have been identified based on their regulatory and economic capital needs.

We manage our new business returns with a Risk Adjusted Return on Capital (RAROC) measure that has been further embedded during the year.

7. Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management, and are based on arm's length rationale.

Please refer to note **27** of the consolidated financial statements for detailed disclosures on related-party transactions.

Exposures to related-parties other than those disclosed in the above mentioned note are as follows:

Claims on shareholders*	80
Claims on directors & senior management	3
Claims on staff	29

**Unfunded exposures after applying CCF.*

8. Material transactions

Transactions requiring approval by the Board include large credit transactions, related party transactions and any other significant strategic, investment or major funding decisions in accordance with Board approved policies and procedures.

APPENDIX I – REGULATORY CAPITAL DISCLOSURES

PD 1: Post 1 January 2019 disclosure template

	Basel III Common Disclosure Template	PIR as on 31 December 2019	Reference
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	3,104	a
2	Retained earnings	876	b
3	Accumulated other comprehensive income (and other reserves)	84	c1+c2+c3+c4+c5
4	*Not applicable*	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	251	d
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,315**	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	18	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3	f
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	32	c6
16	Investments in own shares	-	
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)	-	
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*	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as on 31 December 2019	Reference
	Common Equity Tier 1 capital: instruments and reserves (continued)		
24	*of which: mortgage servicing rights*	-	
25	*of which: deferred tax assets arising from temporary differences*	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**53**	
29	**Common Equity Tier 1 capital (CET1)**	**4,262**	
	Additional Tier 1 capital: instruments		
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)	96	9
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**96**	
	Additional Tier 1 capital: regulatory adjustments		
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	CBB specific regulatory adjustments	-	
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**	-	
44	**Additional Tier 1 capital (AT1)**	**96**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,358**	

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as on 31 December 2019	Reference
Tier 2 capital: instruments and provisions			
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)	80	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	171	h
51	**Tier 2 capital before regulatory adjustments**	**251**	
Tier 2 capital: regulatory adjustments			
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	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**251**	
59	**Total capital (TC = T1 + T2)**	**4,609**	
60	**Total risk-weighted assets**	**25,741**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.6%	
62	Tier 1 (as a percentage of risk weighted assets)	16.9%	
63	Total capital (as a percentage of risk weighted assets)	**17.9%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.5%	
65	*of which: capital conservation buffer requirement*	2.5%	
66	*of which: bank specific countercyclical buffer requirement*	N/A	
67	*of which: G-SIB buffer requirement*	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)	7.6%	

Risk Management (continued)

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as on 31 December 2019	Reference
	National minima including CBB (where different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	9%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	4	
73	Significant investments in the common stock of financials	22	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	121	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	171	h
77	Cap on inclusion of provisions in Tier 2 under standardised approach	280	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	*Current cap on CET1 instruments subject to phase out arrangements*	*N/A*	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	*N/A*	
82	*Current cap on AT1 instruments subject to phase out arrangements*	*N/A*	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	*N/A*	
84	*Current cap on T2 instruments subject to phase out arrangements*	*N/A*	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	*N/A*	

PD 2: Reconciliation of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

US$ million	Balance sheet as in published financial statements	Consolidated PIR data
Liquid funds	1,874	-
Cash and balances at central banks	-	1,672
Placements with banks and similar financial institutions	2,051	3,653
Reverse repurchase agreements and other similar secured lending	1,398	-
Financial assets at fair value through P&L	507	507
Non-trading investments	5,836	-
Investment at Amortised Cost	-	912
Investments at FVOCI	-	4,941
Loans and advances	16,452	16,577
Investment properties	-	-
Interest receivable	-	316
Other assets	1,767	1,411
Investments in associates and joint ventures	-	22
Goodwill and intangible assets	-	18
Property, plant and equipment	183	183
TOTAL ASSETS	**30,068**	**30,212**
Deposits from banks	3,897	7,747
Deposits from customers	16,666	12,816
Certificate of deposits issued	399	399
Repurchase agreements and other similar secured borrowing	1,008	1,008
Interest payable	-	388
Taxation	63	-
Other liabilities	1,466	1,114
Borrowings	2,080	1,841
Subordinated liabilities	-	126
Additional Tier 1 Instrument	-	113
TOTAL LIABILITIES	**25,579**	**25,552**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	927	927
Non-controlling interest	458	458
Expected credit losses	-	171
TOTAL SHAREHOLDERS' EQUITY	**4,489**	**4,660**

Risk Management (continued)

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 2: Reconciliation of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

US$ million	Balance sheet as in published financial statements	Consolidated PIR data	Reference
ASSETS			
Liquid funds	1,874	-	
Cash and balances at central banks	-	1,672	
Placements with banks and similar financial institutions	2,051	3,653	
Reverse repurchase agreements and other similar secured lending	1,398	-	
Financial assets at fair value through P&L	507	507	
Loans and advances	16,452	16,577	
Non-trading investments	5,836	5,853	
Of which investment NOT exceeding regulatory threshold	-	*5,853*	
Interest receivable	-	316	
Other assets	1,767	1,411	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*3*	*f*
Of which deferred tax assets arising from temporary differences	-	*121*	
Investments in associates and joint ventures	-	22	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*22*	
Goodwill and intangible assets	-	18	
Of which goodwill	-	-	
Of which other intangibles (excluding MSRs) phased in at 100%	-	*18*	*e*
Of which MSRs	-	-	
Property, plant and equipment	183	183	
TOTAL ASSETS	**30,068**	**30,212**	

US$ million	Balance sheet as in published financial statements	Consolidated PIR data	Reference
LIABILITIES & SHAREHOLDERS' EQUITY			
Deposits from banks	3,897	7,747	
Deposits from customers	16,666	12,816	
Certificate of deposits issued	399	399	
Repurchase agreements and other similar secured borrowing	1,008	1,008	
Interest payable	-	388	
Taxation	63	-	
Other liabilities	1,466	1,114	
Borrowings	2,080	1,841	
Subordinated liabilities	-	126	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	*126*	
Additional Tier 1 Instrument	-	113	
Of which amount eligible for AT1	-	*44*	*g*
Of which amount eligible for TII	-	*10*	*i*
Of which amount Ineligible	-	*59*	
TOTAL LIABILITIES	**25,579**	**25,552**	
Paid-in share capital	3,110	3,110	
Treasury shares	(6)	(6)	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Treasury shares	(6)	(6)	a
Reserves	927	927	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*857*	*876*	*b*
Net profit for the current year	*194*	*194*	*c1*
Legal reserve	*520*	*501*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(754)*	*(754)*	*c4*
Cumulative changes in fair value	*42*	*42*	*c5*
Pension fund reserve	*(32)*	*(32)*	*c6*
Non-controlling interest	458	458	
Of which amount eligible for CETI	-	*251*	*d*
Of which amount eligible for ATI	-	*52*	*g*
Of which amount eligible for TII	-	*70*	
Of which amount ineligible	-	*85*	
Expected credit losses	-	171	
Of which amount eligible for TII (Maximum %1.25 of RWA)	-	*171*	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,489**	**4,660**	

Risk Management (continued)

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 3: Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments				
1	Issuer	Arab Banking Corporation	Banco ABC Brasil	Banco ABC Brasil
2	Unique identifier	ABC	EI2084396 - USP0763MBW03; Brazilian Central Bank CMN Resolution 3444	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of the Federative republic of Brazil	Laws of the Federative republic of Brazil
Regulatory treatment				
4	Transitional CBB rules	Common Equity Tier 1	N/A	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Tier 2	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Subordinated debt	Perpetual NC 5, Sub-ordinated to all except Shareholders' Equity
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$3,110	US$ nil	BRL 455 (of which US$44 equivalent eligible for AT1)
9	Par value of instrument	US$1	US$1,000	BRL 300,000
10	Accounting classification	Shareholders' equity	Liability- Amortised cost	Liability- Amortised cost
11	Original date of issuance	Various	4-Aug-10	Various during 2019
12	Perpetual or dated	Perpetual	Dated	Perpetual
13	Original maturity date	No maturity	4-Aug-20	No maturity
14	Issuer call subject to prior supervisory approval	Yes	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	No	Yes - conditional
16	Subsequent call dates, if applicable	N/A	N/A	N/A
Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Fixed	Floating
18	Coupon rate and any related index	N/A	7.875	~1.734 times the Selic Rate [1], (at current levels: 7.803% p.a.)
19	Existence of a dividend stopper	N/A	No	No

Disclosure template for main features of regulatory capital instruments				
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Partly discretionary (Insufficiency of profits)
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	N/A	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down feature	No	No	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	CET 1 at %5.125 or below
32	If write-down, full or partial	N/A	N/A	Fully discretionary
33	If write-down, permanent or temporary	N/A	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors and creditors (including subordinated debt) of the Bank	Subordinated to all depositors and creditors of the Bank	AT1 capital bills
36	Non-compliant transitioned features	No	Yes	No
37	If yes, specify non-compliant features	N/A	Non Viability Loss Absorption	N/A

Group Financial Review

Statement of Profit or loss

The Group reported a net profit of US$194 million in 2019, compared with a net profit of US$202 million for 2018.

Net interest income was 1% higher than 2018 at US$564 million (2018: US$559 million). Similarly, non-interest income was higher by 17% to US$301 million as compared to the prior year (2018: US$258 million). The Group continues to have a sharp focus on the Bank's four strategic value drivers and has also simplified the target operating model.

Credit loss expense for the year were US$82 million, compared with the previous year's US$79 million. The Group's net operating income was US$783 million, against US$738 million in 2018.

Operating expenses amounted to US$524 million (2018: US$474 million). Profit before taxation and income attributable to non-controlling interests was, therefore, US$259 million, compared to US$264 million in 2018. Taxation on operations outside Bahrain was US$23 million (2018: US$16 million). After income attributable to non-controlling interests of US$42 million (2018: US$46 million), the net profit for the year was US$194 million (2018: US$202 million).

Sources and uses of funds

The Group's asset profile is predominantly made up of loans, securities and placements. The loans and advances portfolio stood at US$16,452 million (2018: US$14,884 million). Non-trading investments increased by US$175 million to US$5,836 million and money market placements declined by US$940 million to US$2,051 million. Liquid funds increased by US$267 million to US$1,874 million.

Deposits from customers increased by US$241 million to US$16,666 million. Deposits from banks, certificates of deposits and repos totalled US$5,304 million (2018: US$5,517 million) while borrowings totalled US$2,080 million (2018: US$2,012 million).

Total assets of the Group at the end of the year stood at US$30,068 million (2018: US$29,549 million). Average assets for the year were US$29,658 million (2018: US$28,546 million) and average liabilities including non-controlling interests US$25,734 million (2018: US$24,711 million).

Credit commitments, contingent items and derivatives

The notional value of the Group's consolidated off-balance sheet items stood at US$41,094 million (2018: US$33,758 million) comprising credit commitments and contingencies of US$8,214 million (2018: US$9,977 million) and derivatives of US$32,880 million (2018: US$23,781 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$3,640 million (2018: US$3,856 million).

The Group uses a range of derivative products for the purposes of hedging and servicing customer-related requirements, as well as for short-term trading purposes. The total market risk-weighted equivalent of the exposures under these categories at the end of 2019 was US$1,645 million (2018: US$1,520 million). No significant credit derivative trading activities were undertaken during the year.

Geographical and maturity distribution of the balance sheet

The Group's assets are well diversified across mainly the Arab world, the Americas and Western Europe. The Group's liabilities and equity are predominantly in the Arab world 64% (2018: 64%), followed by Latin America 22% (2018: 21%), mainly at the Brazilian subsidiary.

	Financial assets		Liabilities & equity		Loans & advances	
(%)	**2019**	2018	**2019**	2018	**2019**	2018
Arab world	**44**	42	**64**	64	**45**	49
Western Europe	**8**	11	**7**	8	**10**	10
Asia	**7**	6	**2**	2	**3**	3
North America	**9**	11	**2**	2	**3**	3
Latin America	**27**	26	**22**	21	**31**	28
Others	**5**	4	**3**	3	**8**	7
	100	100	**100**	100	**100**	100

An analysis of the maturity profile of financial assets according to when they are expected to be recovered of settled, or when they could be realised, shows that at the end of 2019, 60% (2018: 59%) had a maturity of one year or less. Loans and advances maturing within one year amounted to 63% (2018: 60%). The proportion of liabilities maturing within one year was 53% (2018: 53%).

	Financial assets		Liabilities & equity	
(%)	**2019**	2018	**2019**	2018
Within 1 month	**26**	24	**20**	22
1-3 months	**13**	14	**15**	10
3-6 months	**9**	9	**6**	9
6-12 months	**12**	12	**12**	12
Over 1 year	**34**	37	**27**	29
Undated	**6**	4	**20**	18
	100	100	**100**	100

Distribution of credit exposure

ABC Group's credit exposure (defined as the gross credit risk to which the Group is potentially exposed) as at 31 December 2019 is given below:

(US$ millions)	Funded exposure		Credit commitments & contingent items		Derivatives*	
	2019	2018	**2019**	2018	**2019**	2018
Customer type						
Banks	**5,468**	6,396	**2,048**	3,698	**254**	188
Non-banks	**16,271**	14,470	**5,770**	5,615	**175**	168
Sovereign	**6,379**	6,922	**396**	664	**11**	2
	28,118	27,788	**8,214**	9,977	**440**	358
Risk rating						
1 = Exceptional	**1,338**	2,994	**584**	932	**-**	-
2 = Excellent	**2,803**	2,916	**351**	355	**38**	52
3 = Superior	**2,939**	2,335	**425**	361	**308**	232
4 = Good	**3,589**	4,036	**1,089**	1,438	**16**	62
5 = Satisfactory	**9,224**	8,841	**3,628**	4,482	**46**	7
6 = Adequate	**7,585**	6,165	**1,839**	2,118	**31**	5
7 = Marginal	**463**	270	**178**	177	**1**	-
8 = Special Mention	**34**	41	**73**	86	**-**	-
9 = Substandard	**129**	181	**46**	26	**-**	-
10 = Doubtful	**13**	8	**1**	2	**-**	-
11 = Loss	**1**	1	**-**	-	**-**	-
	28,118	27,788	**8,214**	9,977	**440**	358

* Derivative exposures are computed as the cost of replacing derivative contracts represented by mark-to-market values where they are positive, and an estimate of the potential change in market values reflecting the volatilities that affect them.

Group Financial Review (continued)

Classified exposures and impairment provisions

Impaired loans and off-balance sheet credits are formally defined as those in default on contractual repayments of principal or on payment of interest in excess of 90 days. In practice, however, all credits that give rise to reasonable doubt as to timely collection, whether or not they are in default as so defined, are treated as non-performing and specific provisions made, if required. Such credits are immediately placed on non-accrual status and related interest income reversed. Any release of the accumulated unpaid interest thereafter is made only as permitted by International Financial Reporting Standards.

The total of all impaired loans as at the end of 2019 was US$635 million (2018: US$617 million). ECL allowances including stage 3 provisions at the end of 2019 stood at US$617 million (2018: US$564 million).

The total of all impaired securities as at the end of 2019 was US$74 million (2018: US$102 million). ECL allowances including stage 3 provisions at the end of 2019 stood at US$91 million (2018: US$121 million).

The ageing analysis of impaired loans and securities is as follows:

Impaired loans

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	57	22	35
3 months to 1 year	91	77	14
1 to 3 years	263	177	86
Over 3 years	224	216	8
	635	**492**	**143**

Impaired securities

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	74	74	-
	74	**74**	**-**

Group capital structure and capital adequacy ratios

The Group's capital base of US$4,609 million comprises Tier 1 capital of US$4,358 million (2018: US$4,134 million) and Tier 2 capital of US$251 million (2018: US$218 million). The consolidated capital adequacy ratio as at 31 December 2019, calculated in accordance with the prevailing Basel III rules, was 17.9% (2018: 18.2%), well above the 12.5% minimum set by the Central Bank of Bahrain. The capital adequacy ratio comprised predominantly Tier 1 ratio of 16.9% (2018: 17.2%), well above the 10.5% minimum set by the Central Bank of Bahrain.

All ABC Group subsidiaries meet the capital adequacy requirements of their respective regulatory authorities.

Factors affecting historical and/or future performance

The Bank has greatly benefitted from the implementation of its strategic intent and focus on the four value drivers, which are to Significantly Increase the Number of Corporate Clients, Streamline the FI Business, Grow, Modernise and Harmonise Transaction Banking; and Digitise the Bank. The application of these value drivers has delivered on the Bank's objective of driving a global wholesale banking business, through global coverage, new products and a root-and-branch reform of soft infrastructure. The Bank's strengths capabilities in secondary market distribution during subdued primary market activity will enable it to trade well during the coming period. In addition, the underwriting book increased in size from US$1 billion to US$1.5 billion – this leaves the Bank strategically well placed to enjoy growth throughout 2020 and beyond.

Regional geopolitical conditions

Regional geopolitical conditions worsened towards the end of 2019 and in to the start of 2020. The nature of these developments may give rise to oil price volatility and general economic uncertainty over the coming period. Shareholders should take confidence from the Bank's performance in 2019, which was partially driven by greater geographic diversification and the roll out of non-bank financial institutions business. The Group's capital strength and investments in digital FinTech solutions also leave the Bank well-placed to weather regional instabilities.

Energy Prices

Global energy markets remained relatively stable throughout 2019 despite significant global economic concerns, particularly the U.S. – China trade war, Middle East geopolitics and the ongoing impact of American shale. OPEC sees demand for its oil falling in 2020 as non-OPEC producers take market share owing to its policy of output restraint. It forecasts that growth in global demand will be unchanged next year, however, the IMO 2020 regulations may boost demand for middle distillates. It is also worth noting that Chinese markets began 2020 under the cloud of Novel Coronavirus, the severity of which will almost certainly hit activity and commodity prices in Q1.

Stability of financial markets

Financial markets remained steady in 2019, despite the ongoing U.S. – China trade war, Brexit negotiations, cuts to the Federal Reserve interest rate and extremely low growth in the Eurozone. Looking ahead, Brexit developments present investors in Europe with greater clarity and the signing of a trade deal between the United States and China in January 2020 will serve to calm trade frictions and arrest signs of a global slowdown.

Foreign currencies

Bank ABC was exposed in 2019 as the Federal Reserve defied expectations and cut rates. However, whilst a surplus of capital led to a loss of earnings, Bank ABC's hedged longer dated liabilities protected the Treasury from the downside risk. The Group takes appropriate steps to hedge against such fluctuations.

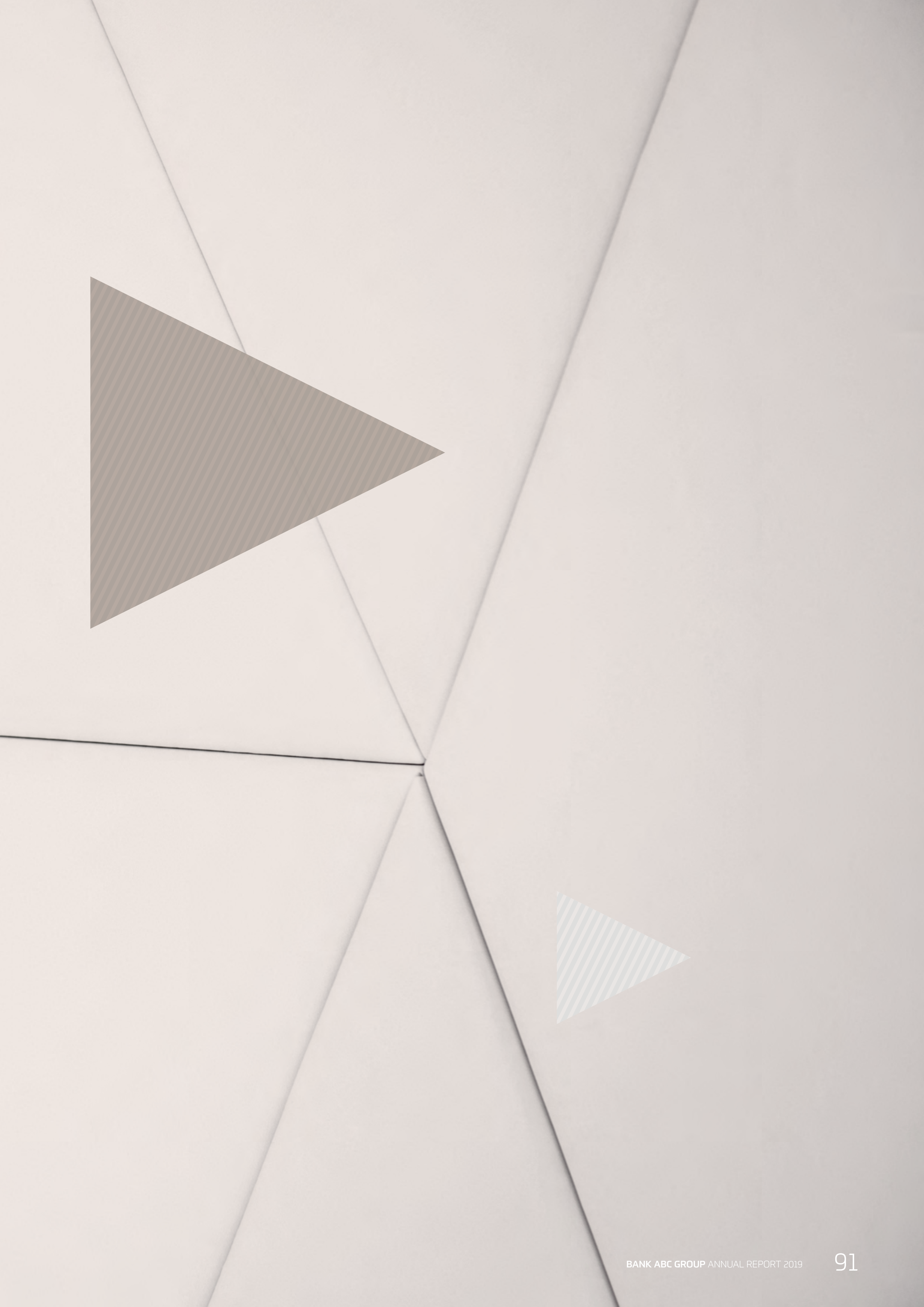
Volatility of currency markets

Managing risk attached to FX is a fundamental part of the Bank's risk management approach, which is supported by a very healthy balance sheet, a conservative framework of limits and tight controls.

Interest rate levels

Whilst the Group's net interest rate revenue can be negatively affected by interest rate changes, this largely affects its equity earnings, as lending and marketable securities holdings are based predominantly on floating and short-term interest rates. They are, therefore, largely insulated from interest rate swings.

Consolidated Financial Statements



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.)

EY
Building a better working world

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

Tel: +973 1753 5455
Fax: +973 1753 5405
C.R. No. 29977

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arab Banking Corporation (B.S.C.) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the 'Auditor's responsibilities for the audit of the consolidated financial statements' section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment provision for loans and advances and other financial assets subject to credit risk

Description of key audit matter	How the key audit matter was addressed in the audit
The process for estimating impairment provision on loans and advances and other financial assets associated with credit risk in accordance with IFRS 9 Financial instruments (IFRS 9) is significant and complex area. IFRS 9 requires use of expected credit loss ("ECL") models for the purposes of calculating impairment loss. ECL model requires the Group to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances and other financial assets subject to credit risk. Because of the complexity of requirements under IFRS 9, significance of judgements applied and the Group's exposure to loans and advances and other financial assets subject to credit risk forming a major portion of the Group's assets, the audit of ECL is a key area of focus.	Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, among others, focused on following: • We assessed: - the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9; - Group's ECL modeling techniques and methodology against the requirements of IFRS 9; - the theoretical soundness and tested the mathematical integrity of the models. • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL models, including models build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions.

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Impairment provision for loans and advances and other financial assets subject to credit risk (continued)

Description of key audit matter	How the key audit matter was addressed in the audit
As at 31 December 2019, the Group's gross loans and advances amounted to US$17,069 million and the related ECL amounted to US$617 million, comprising US$125 million of ECL against Stage 1 and 2 exposures and US$492 million against exposures classified under Stage 3. The basis of calculation of ECL is presented in the summary of significant accounting policies and note **24** to the consolidated financial statements.	• We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on: - Key modeling assumptions adopted by the Group; and - Basis for and data used to determine overlays. • For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and - ECL calculation. • For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; • We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and advances and other financial assets subject to credit risk as required under IFRS 9. We involved our credit risk and IT specialists where their specific expertise was required. Refer to the significant accounting judgements, estimates and assumptions, disclosures of loans and advances and credit risk in notes **4, 9** and **24** to the consolidated financial statements."

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.)

Other information included in the Group's 2019 annual report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 obtained prior to the date of the auditor's 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 consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report on the audit of the consolidated financial statements (continued)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated 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 audit committee 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 audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 legal and regulatory requirements

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

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

b) the financial information contained in the Directors report is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

The partner in charge of the audit resulting in this independent auditor's report is Ashwani Siotia.

Ernst & Young

Partner's registration no: 117

9 February 2020

Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019 (All figures in US$ Million)

	Note	2019	2018
ASSETS			
Liquid funds	6	1,874	1,607
Trading securities	7	507	977
Placements with banks and other financial institutions		2,051	2,991
Securities bought under repurchase agreements	26	1,398	1,668
Non-trading investments	8	5,836	5,661
Loans and advances	9	16,452	14,884
Other assets	11	1,767	1,601
Premises and equipment		183	160
TOTAL ASSETS		30,068	29,549
LIABILITIES			
Deposits from customers		16,666	16,425
Deposits from banks		3,897	4,207
Certificates of deposit		399	39
Securities sold under repurchase agreements	26	1,008	1,271
Taxation	12	63	43
Other liabilities	13	1,466	1,236
Borrowings	14	2,080	2,012
Total liabilities		25,579	25,233
EQUITY	15		
Share capital		3,110	3,110
Treasury shares		(6)	(4)
Statutory reserve		520	501
Retained earnings		1,051	966
Other reserves		(644)	(711)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		4,031	3,862
Non-controlling interests		458	454
Total equity		4,489	4,316
TOTAL LIABILITIES AND EQUITY		30,068	29,549

The consolidated financial statements were authorised for issue by the Board of Directors on 9 February 2020 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Khaled Kawan
Group Chief Executive Officer

The attached notes **1** to **33** form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019 (All figures in US$ Million)

	Note	2019	2018
OPERATING INCOME			
Interest and similar income	16	1,460	1,472
Interest and similar expense	17	(896)	(913)
Net interest income		564	559
Other operating income	18	301	258
Total operating income		865	817
Credit loss expense	10	(82)	(79)
NET OPERATING INCOME AFTER CREDIT LOSS EXPENSE		783	738
OPERATING EXPENSES			
Staff		343	316
Premises and equipment		42	38
Other		139	120
Total operating expenses		524	474
PROFIT BEFORE TAXATION		259	264
Taxation on foreign operations	12	(23)	(16)
PROFIT FOR THE YEAR		236	248
Profit attributable to non-controlling interests		(42)	(46)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		194	202
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	31	0.06	0.07

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Khaled Kawan
Group Chief Executive Officer

The attached notes **1** to **33** form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 December 2019 (All figures in US$ Million)

	Note	2019	2018
PROFIT FOR THE YEAR		236	248
Other comprehensive income:			
Other comprehensive income that will be reclassified (or recycled) to profit or loss in subsequent periods:			
Foreign currency translation:			
Unrealised loss on exchange translation in foreign subsidiaries		(25)	(169)
Debt instruments at FVOCI:			
Net change in fair value during the year	15	81	(42)
		56	(211)
Other comprehensive income that will not be reclassified (or recycled) to profit or loss in subsequent periods:			
Net change in pension fund reserve		(2)	3
Net change in fair value of equity securities during the year	15	(2)	-
		(4)	3
Other comprehensive income (loss) for the year		52	(208)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		288	40
Attributable to:			
Shareholders of the parent		261	57
Non-controlling interests		27	(17)
		288	40

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019 (All figures in US$ Million)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit for the year		236	248
Adjustments for:			
Credit loss expense	10	82	79
Depreciation and amortisation		41	23
Gain on disposal of non-trading debt investments - net	18	(13)	(8)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		49	(38)
Trading securities		427	(94)
Placements with banks and other financial institutions		1,016	47
Securities bought under repurchase agreements		205	(375)
Loans and advances		(1,650)	(463)
Other assets		(191)	(387)
Deposits from customers		213	581
Deposits from banks		(298)	1,029
Securities sold under repurchase agreements		(258)	(288)
Other liabilities		270	198
Other non-cash movements		(101)	54
Net cash from operating activities		28	606
INVESTING ACTIVITIES			
Purchase of non-trading investments		(4,234)	(1,977)
Sale and redemption of non-trading investments		4,221	1,875
Purchase of premises and equipment		(42)	(60)
Sale of premises and equipment		4	4
Investment in subsidiaries - net		12	6
Net cash used in investing activities		(39)	(152)
FINANCING ACTIVITIES			
Issue of certificates of deposit - net		360	12
Issue of borrowings		197	262
Repayment of borrowings		(123)	(384)
Repurchase of borrowings	14	(6)	(6)
Dividend paid to the Group's shareholders		(93)	(93)
Dividend paid to non-controlling interests		(23)	(26)
Purchase of treasury shares	15	(2)	(4)
Net cash from (used in) financing activities		310	(239)
Net change in cash and cash equivalents		299	215
Effect of exchange rate changes on cash and cash equivalents		17	(34)
Cash and cash equivalents at beginning of the year		1,341	1,160
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	1,657	1,341

The attached notes **1** to **33** form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2019 (All figures in US$ Million)

	Equity attributable to the shareholders of the parent									"Non-controlling interests"	Total equity
					Other reserves						
	Share capital	Treasury shares	Statutory reserve	Retained earnings*	General reserve	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	Total		
At 31 December 2017	3,110	-	481	939	100	(638)	(29)	(33)	3,930	482	4,412
Impact of adopting IFRS 9	-	-	-	(62)	-	-	34	-	(28)	(8)	(36)
Restated balance as at 1 January 2018	3,110	-	481	877	100	(638)	5	(33)	3,902	474	4,376
Profit for the year	-	-	-	202	-	-	-	-	202	46	248
Other comprehensive (loss) income for the year	-	-	-	-	-	(106)	(42)	3	(145)	(63)	(208)
Total comprehensive income (loss) for the year	-	-	-	202	-	(106)	(42)	3	57	(17)	40
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares	-	(4)	-	-	-	-	-	-	(4)	-	(4)
Transfers during the year	-	-	20	(20)	-	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	-	(3)	(3)
At 31 December 2018	3,110	(4)	501	966	100	(744)	(37)	(30)	3,862	454	4,316
Profit for the year	-	-	-	194	-	-	-	-	194	42	236
Other comprehensive (loss) income for the year	-	-	-	-	-	(10)	79	(2)	67	(15)	52
Total comprehensive income (loss) for the year	-	-	-	194	-	(10)	79	(2)	261	27	288
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares	-	(2)	-	-	-	-	-	-	(2)	-	(2)
Transfers during the year	-	-	19	(19)	-	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	3	-	-	-	-	3	(23)	(20)
At 31 December 2019	**3,110**	**(6)**	**520**	**1,051**	**100**	**(754)**	**42**	**(32)**	**4,031**	**458**	**4,489**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$479 million (2018: US$429 million).

1 INCORPORATION AND ACTIVITIES

Arab Banking Corporation (B.S.C.) ['the Bank'] is incorporated in the Kingdom of Bahrain by an Amiri decree and operates under a wholesale banking licence issued by the Central Bank of Bahrain [CBB]. The Bank is a Bahraini Shareholding Company with limited liability and is listed on the Bahrain Bourse. The Central Bank of Libya is the ultimate parent of the Bank and its subsidiaries (together 'the Group').

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 10299 issued by the Ministry of Industry, Commerce and Tourism, Kingdom of Bahrain.

The Group offers a range of international wholesale banking services including Corporate Banking & Financial Institutions, Project & Structured Finance, Syndications, Treasury, Trade Finance services, Islamic Banking, and recently entered into the digital, mobile-only banking space named ""ila Bank"" within retail consumer banking services. Retail banking services are only provided in the MENA region.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards [IFRS] issued by the International Accounting Standards Board [IASB] and the relevant provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives.

2.2 Accounting convention

The consolidated financial statements are prepared under the historical cost convention, as modified by the measurement at fair value of derivatives, certain debt and equity financial assets. In addition, as more fully discussed below, assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to the risk being hedged.

The Group's consolidated financial statements are presented in United States Dollars (US$), which is also the Group's functional currency. All values are rounded to the nearest million (US$ million), except when otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019. Control is achieved when the Bank has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect those returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 Standards effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards or amendments to existing standards, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2019:

IFRS 16 Leases (IFRS 16)

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

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

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

The Group has recorded right-of-use assets representing the right to use the underlying assets under other assets and the corresponding lease liabilities to make lease payments under other liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The effect of adopting IFRS 16 is disclosed in notes **11** and **13** to these consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Interpretation)

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses instances where an entity separately considers uncertain tax treatments, or makes assumptions related to how a tax authorities would treat certain tax positions. In addition the Interpretation also addresses how an entity determines the taxable profit (tax loss), tax base, amongst other key tax positions including changes in facts and circumstances.

Given the Group's international footprint, the Group, through applying significant judgement in identifying uncertainties over tax treatments assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and its subsidiaries' tax filings in different jurisdictions include deductions related to intra-group transactions. The Group determined, based on the transfer pricing documentation prepared and analysis performed, that it is probable that its transfer pricing positions (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment features with negative compensation

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

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.1 Standards effective for the year (continued)

Amendments to IFRS 9: Prepayment features with negative compensation (continued)

irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the year.

Annual improvements 2015-2017 cycle

These improvements include:

- IFRS 3 Business combinations
- IAS 12 Income taxes
- IAS 23 Borrowing costs

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group. Further, the amendments related to IFRS 3 had no impact on the consolidated financial statements of the Group as there are no transactions where joint control is obtained.

3.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, IFRS 7

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

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

These amendments are effective for reporting periods beginning on or after 1 January 2020, with early application permitted. The Group is currently assessing the impact of this standard and will apply from the effective date.

Amendments to IFRS 3: Definition of a Business

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

Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2020, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

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

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Liquid funds

Liquid funds comprise of cash, nostro balances, balances with central banks and treasury bills and other eligible bills. Liquid funds are initially measured at their fair value and subsequently remeasured at amortised cost.

4.2 Cash and cash equivalents

Cash and cash equivalents referred to in the consolidated statement of cash flows comprise of cash and non-restricted balances with central banks, deposits with central banks, treasury bills and other eligible bills with original maturities of three months or less.

4.3 Trading securities

Trading securities are initially recorded at fair value. Subsequent to initial measurement, gains and losses arising from changes in fair values are included in the consolidated statement of profit or loss in the period in which they arise. Interest earned and dividends received are included in 'Interest and similar income' and 'Other operating income' respectively, in the consolidated statement of profit or loss.

4.4 Placements with banks and other financial institutions

Placements with banks and other financial institutions are initially measured at fair value and subsequently remeasured at amortised cost, net of any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged, with the resultant changes being recognised in the consolidated statement of profit or loss.

4.5 Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Investments in associates are accounted for under the equity method.

4.6 Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment in value, if any.

Freehold land is not depreciated. Depreciation on other premises and equipment is provided on a straight-line basis over their estimated useful lives.

4.7 Deposits

All money market and customer deposits are initially measured at fair value and subsequently remeasured at amortised cost. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the consolidated statement of profit or loss.

4.8 Repurchase and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. The counterparty liability for amounts received under these agreements are shown as sale of securities under repurchase agreement in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. The difference between purchase and resale price is treated as interest income using the effective yield method.

4.9 Employee pension and other end of service benefits

Costs relating to employee pension and other end of service benefits are generally accrued in accordance with actuarial valuations based on prevailing regulations applicable in each location.

4.10 Recognition of income and expenses

4.10.1 The effective interest rate (EIR) method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Recognition of income and expenses (continued)

4.10.1 The effective interest rate (EIR) method (continued)

financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

4.10.2 Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using the effective interest method.

The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (therefore regarded as 'Stage 3'), the Group suspends the recognition of interest income of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

4.10.3 Fee and commission income

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group's fee and commission income from services where performance obligations are satisfied over time include the following:

Asset management fees

These fees are earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over defined periods. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

Management fees are invoiced quarterly and determined based on a fixed percentage of the net asset value of the funds under management at the end of the quarter. The fees are allocated to each quarter because they relate specifically to services provided for a quarter, and are distinct from the services provided in other quarters. The fees generally crystallise at the end of each quarter and are not subject to a clawback. Consequently, revenue from management fees is generally recognised at the end of each quarter.

Loan commitment fees

These are fixed annual fees paid by customers for loan and other credit facilities with the Group, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Group promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis.

4.10.4 Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets held for trading.

4.11 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium.

4.12 Financial instruments

4.12.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers, deposits to customers and banks, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises deposits from customers and banks when funds are received by the Group.

4.12.2 Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes **4.13** and **4.14**.

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

4.12.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

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

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

4.13 Financial assets

4.13.1 Debt type instruments - classification and subsequent measurement

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Financial assets (continued)

4.13.1 Debt type instruments - classification and subsequent measurement (continued)

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of expected credit losses or writebacks, interest income and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading debt investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Group may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in consolidated profit or loss and presented in the consolidated statement of profit or loss within 'Other operating income' as 'Gain on trading securities' in the year in which it arises. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

4.13.2 Business model

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

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

4.13.3 SPPI test

The Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

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

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

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

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

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

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

4.13.4 Reclassification

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

4.13.5 Equity type instruments - classification and subsequent measurement

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

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

Gains and losses on equity investments at FVTPL are included in the 'Other operating income' as 'Income from trading book' line in the consolidated statement of profit or loss.

Dividends are recognised in the consolidated statement of profit or loss under 'Other operating income' when the Group's right to receive payments is established.

4.13.6 Modified or forbearance of loans

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

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Financial assets (continued)

4.13.6 Modified or forbearance of loans (continued)

impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during most of the period when asset has been classified as forborne; and
- The customer does not have any contract that is more than 30 days past due.

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

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

4.13.7 Derecognition other than on a modification

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

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

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

4.14 Financial liabilities

4.14.1 Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

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

- Financial guarantee contracts and loan commitments.

4.14.2 Derecognition

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

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

4.15 Impairment

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

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

To calculate ECL, the Group estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive, discounted at the effective interest rate of the loan or an approximation thereof.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: estimates the expected portion of the loan commitment that are drawn down over the expected life of the loan commitment; and calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and
- financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For the purposes of calculation of ECL, the Group categorises its FVOCI debt securities, loans and advances and loan commitments and financial guarantee contracts into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing: when financial assets are first recognised, the Group recognises an allowance based upto 12-month ECL.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Impairment (continued)

Measurement of ECL (continued)

- Stage 2 – Significant increase in credit risk: when a financial asset shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Impaired: the Group recognises the lifetime ECL for these financial assets.

For the purposes of categorisation into above stages, the Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Group records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the ECL does not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

No impairment is recorded on equity instruments.

Stage 1

The Group measures loss allowances at an amount up to 12-month ECL for Stage 1 customers. All financial assets are classified as Stage 1 on initial recognition date. Subsequently on each reporting date the Group classifies following as Stage 1:

- debt type assets that are determined to have low credit risk at the reporting date; and
- on which credit risk has not increased significantly since their initial recognition.

The Group applies low credit risk expedient and considers following types of debts as 'low credit risk (LCR)':

- All local currency sovereign exposures funded in local currency;
- All local currency exposures to the Government of Bahrain or the CBB; and
- All exposures with external rating A- or above.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs.

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the rating migration upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, or if the Group expects to grant the borrower forbearance or facility has been restructured owing to credit related reasons, or the facility is placed on the Group's list of accounts requiring close monitoring. Further, any facility having an internal credit risk rating of 8 are also subject to stage 2 ECL calculation.

It is the Group's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

For revolving facilities such as credit cards and overdrafts, the Group measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence that the loan is credit impaired. At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Other than originated credit-impaired loans, loans are transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired after a cooling-off period of 12 months.

Forward looking information

The Group incorporates forward-looking information in the measurement of ECLs.

The Group considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices, country's equity indices and unemployment rates) and economic forecasts. To evaluate a range of possible outcomes, the Group formulates three scenarios: a base case, an upward and a downward scenario. The base case scenario represents the more likely outcome from Moody's macro-economic models. For each scenario, the Group derives an ECL and apply a probability weighted approach to determine the impairment allowance.

The Group uses internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. These forward looking assumptions undergo an internal governance process before they are applied for different scenarios.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the cumulative changes in fair value reserve.

Limitation of estimation techniques

The models applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be made until the base models are updated. Although the Group uses data that is as current as possible, models used to calculate ECLs are based on data that is up to date except for certain macro-economic factors for which the data is updated once it is available.

Experienced credit adjustment

The Group's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

4.16 Provisions

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17 Financial guarantee contracts and loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

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

An ECL is calculated and recorded for these in a similar manner as for debt type financial instruments as explained in note **4.15**.

4.18 Derivatives and hedging activities

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

All derivatives are measured at FVTPL except for when the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged determines the method of recognising the resulting gain or loss. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges); or

(c) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the consolidated statement of profit or loss.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss. Gains and losses accumulated in equity are included in the consolidated statement of profit or loss when the foreign operation is disposed of as part of the gain or loss on the disposal.

4.19 Fair value measurement

The Group measures financial instruments at fair value at each consolidated statement of financial position date.

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

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

"The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 valuation: Directly observable quotes for the same instrument.
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date.
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed.

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

4.20 Taxation on foreign operations

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the fiscal regulations applicable in each location. No provision is made for any liability that may arise in the event of distribution of the reserves of subsidiaries. A substantial portion of such reserves is required to be retained to meet local regulatory requirements.

4.21 Foreign currencies

Transactions and balances

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

Monetary assets and liabilities in foreign currencies are translated into the Group's functional currency at the rates of exchange ruling at the date of the consolidated statement of financial position. Any gains or losses are taken to the consolidated statement of profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.21 Foreign currencies (continued)

Transactions and balances (continued)

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

Group companies

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's functional currency at rates of exchange ruling at the date of the consolidated statement of financial position. Income and expense items are translated at average exchange rates for the year. Exchange differences arising on translation are recorded in the consolidated statement of comprehensive income under unrealised gain or loss on exchange translation in foreign subsidiaries. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

4.22 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset, except for loans and advances to customers, deposits to customers and banks.

4.23 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated statement of financial position.

4.24 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

4.25 Borrowings

Issued financial instruments (or their components) are classified as liabilities under 'Borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Borrowings are initially measured at fair value plus transaction costs. After initial measurement, the borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

4.26 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'Other operating income'.

4.27 Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/financial guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using internal valuation techniques as appropriate. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

4.28 Collateral repossessed

Any repossessed assets are held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

4.29 Significant accounting judgements, estimates and assumptions

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

Going concern

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

Measurement of the expected credit loss allowance (ECL)

The measurement of the ECL for financial assets subject to credit risk measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns probability of defaults (PDs) to the individual ratings;
- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP, oil prices, equity indices, unemployment levels and collateral values, and the effect on PD, exposure at default (EAD) and loss given default (LGD);
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving credit facilities and facilities undergoing restructuring at the time of the reporting date.

Classification of financial assets

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

The Group applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. Refer to note **23** for further disclosures.

31 December 2019 (All figures in US$ Million)

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified as follows:

At 31 December 2019	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	**-**	**-**	**1,874**	**1,874**
Trading securities	**507**	**-**	**-**	**507**
Placements with banks and other financial institutions	**-**	**-**	**2,051**	**2,051**
Securities bought under repurchase agreements	**-**	**-**	**1,398**	**1,398**
Non-trading investments	**-**	**4,927**	**909**	**5,836**
Loans and advances	**11**	**192**	**16,249**	**16,452**
Other assets	**515**	**-**	**1,230**	**1,745**
	1,033	**5,119**	**23,711**	**29,863**
LIABILITIES				
Deposits from customers	**-**	**-**	**16,666**	**16,666**
Deposits from banks	**-**	**-**	**3,897**	**3,897**
Certificates of deposit	**-**	**-**	**399**	**399**
Securities sold under repurchase agreements	**-**	**-**	**1,008**	**1,008**
Taxation and other liabilities	**463**	**-**	**1,066**	**1,529**
Borrowings	**-**	**-**	**2,080**	**2,080**
	463	**-**	**25,116**	**25,579**

At 31 December 2018	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	-	-	1,607	1,607
Trading securities	977	-	-	977
Placements with banks and other financial institutions	-	-	2,991	2,991
Securities bought under repurchase agreements	-	-	1,668	1,668
Non-trading investments	-	4,541	1,120	5,661
Loans and advances	19	216	14,649	14,884
Other assets	450	-	1,134	1,584
	1,446	4,757	23,169	29,372
LIABILITIES				
Deposits from customers	-	-	16,425	16,425
Deposits from banks	-	-	4,207	4,207
Certificates of deposit	-	-	39	39
Securities sold under repurchase agreements	-	-	1,271	1,271
Taxation and other liabilities	413	-	866	1,279
Borrowings	-	-	2,012	2,012
	413	-	24,820	25,233

31 December 2019 (All figures in US$ Million)

6 LIQUID FUNDS

	2019	2018
Cash on hand	31	32
Balances due from banks	311	272
Deposits with central banks	1,238	987
Treasury bills and other eligible bills with original maturities of three months or less	77	50
Cash and cash equivalents	1,657	1,341
Treasury bills and other eligible bills with original maturities of more than three months	217	266
	1,874	1,607
ECL allowances	-	-
Other liabilities	1,874	1,607

7 TRADING SECURITIES

	2019	2018
Debt instruments	491	960
Equity instruments	16	17
	507	977

31 December 2019 (All figures in US$ Million)

8 NON-TRADING INVESTMENTS

	2019	2018
Debt securities		
At amortised cost	912	1,124
At FVOCI	5,005	4,649
	5,917	5,773
ECL allowances	(91)	(121)
Debt securities - net	5,826	5,652
Equity securities		
At FVOCI	10	9
Equity securities	10	9
	5,836	5,661

The external ratings distribution of non-trading investments are given below:

	2019	2018
AAA rated debt securities	444	1,274
AA to A rated debt securities	2,132	1,931
Other investment grade debt securities	1,733	1,356
Other non-investment grade debt securities	1,542	927
Unrated debt securities	66	285
Equity securities	10	9
	5,927	5,782
ECL allowances	(91)	(121)
	5,836	5,661

Following are the stage wise break-up of debt securities as at 31 December 2019 and 31 December 2018:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Debt securities, gross	5,788	55	74	5,917
ECL allowances	(13)	(4)	(74)	(91)
	5,775	51	-	5,826

	2018			
	Stage 1	Stage 2	Stage 3	Total
Debt securities, gross	5,534	137	102	5,773
ECL allowances	(13)	(6)	(102)	(121)
	5,521	131	-	5,652

31 December 2019 (All figures in US$ Million)

An analysis of movement in the ECL allowances during the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	13	6	102	121
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Net transfers between stages	-	-	-	-
Additions	-	-	-	-
Recoveries / write back	-	(2)	-	(2)
Write back for the year - net	-	(2)	-	(2)
Amounts written-off	-	-	(28)	(28)
Exchange adjustments and other movements	-	-	-	-
As at 31 December	13	4	74	91

	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	14	4	103	121
Transfers to stage 1	1	(1)	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Net transfers between stages	1	(1)	-	-
Additions	-	1	-	1
Recoveries / write back	-	-	-	-
Charge for the year - net	-	1	-	1
Exchange adjustments and other movements	(2)	2	(1)	(1)
As at 31 December	13	6	102	121

Interest income received during the year on impaired investments classified under Stage 3 amounted to US$ nil million (2018: nil).

31 December 2019 (All figures in US$ Million)

9 LOANS AND ADVANCES

Below is the classification of loans and advances by measurement:

	2019			
	Stage 1	Stage 2	Stage 3	Total
At FVTPL				
- Wholesale	11	-	-	11
At FVOCI				
- Wholesale	192	-	-	192
At Amortised cost				
- Wholesale	14,758	803	601	16,162
- Retail	614	56	34	704
	15,575	859	635	17,069
ECL allowances	(58)	(67)	(492)	(617)
	15,517	792	143	16,452

	2018			
	Stage 1	Stage 2	Stage 3	Total
At FVTPL				
- Wholesale	19	-	-	19
At FVOCI				
- Wholesale	216	-	-	216
At Amortised cost				
- Wholesale	13,068	905	586	14,559
- Retail	590	33	31	654
	13,893	938	617	15,448
ECL allowances	(47)	(88)	(429)	(564)
	13,846	850	188	14,884

Below is the classification of loans and advances by industrial sector:

	Gross loans		ECL allowances		Net loans	
	2019	2018	2019	2018	2019	2018
Financial services	3,308	3,299	22	20	3,286	3,279
Energy	1,165	696	9	7	1,156	689
Utilities	756	621	4	11	752	610
Distribution	609	251	4	4	605	247
Retailers	278	367	2	1	276	366
Manufacturing	2,734	2,464	65	67	2,669	2,397
Construction	1,242	1,096	140	112	1,102	984
Mining and quarrying	413	337	9	2	404	335
Transport	768	888	12	18	756	870
Personal/consumer finance	657	560	37	26	620	534
Commercial real estate financing	601	507	8	1	593	506
Residential mortgage	102	188	1	1	101	187
Trade	1,306	1,241	161	165	1,145	1,076
Agriculture, fishing and forestry	1,332	1,207	30	29	1,302	1,178
Technology, media and telecommunications	334	267	30	33	304	234
Government	183	184	2	3	181	181
Other services	1,281	1,275	81	64	1,200	1,211
	17,069	15,448	617	564	16,452	14,884

31 December 2019 (All figures in US$ Million)

An analysis of movement in the ECL allowances during the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	47	88	429	564
Transfers to stage 1	1	(1)	-	-
Transfers to stage 2	(1)	1	-	-
Transfers to stage 3	-	(21)	21	-
Net transfers between stages	-	(21)	21	-
Additions	11	1	81	93
Recoveries / write back	-	-	(14)	(14)
Charge for the year - net	11	1	67	79
Amounts written-off	-	-	(50)	(50)
Exchange adjustments and other movements	-	(1)	25	24
As at 31 December	58	67	492	617

	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	42	172	376	590
Transfers to stage 1	13	(9)	(4)	-
Transfers to stage 2	(2)	2	-	-
Transfers to stage 3	-	(51)	51	-
Net transfers between stages	11	(58)	47	-
Additions	-	-	133	133
Recoveries / write back	(2)	(26)	(20)	(48)
(Write back) / charge for the year - net	(2)	(26)	113	85
Amounts written-off	-	-	(82)	(82)
Exchange adjustments and other movements	(4)	-	(25)	(29)
As at 31 December	47	88	429	564

The fair value of collateral that the Group holds relating to loans and advances individually determined to be impaired classified under Stage 3 at 31 December 2019 amounts to US$114 million (2018: US$232 million).

At 31 December 2019, interest in suspense on past due loans under Stage 3 amounts to US$101 million (2018: US$86 million).

31 December 2019 (All figures in US$ Million)

10 CREDIT LOSS EXPENSE

	2019	2018
Non-trading debt investments (note 8)	(2)	1
Loans and advances (note 9)	79	85
Credit commitments and contingent items (note 21)	6	(6)
Other financial assets	(1)	(1)
	82	79

11 OTHER ASSETS

	2019	2018
Interest receivable	316	410
Right-of-use assets	64	-
Trade receivables	269	243
Positive fair value of derivatives (note 20)	518	468
Assets acquired on debt settlement	69	82
Deferred tax assets	124	98
Bank owned life insurance	39	38
Margin dealing accounts	61	40
Staff loans	29	27
Advances and prepayments	39	30
Investments in an associate	22	17
Others	217	148
	1,767	1,601

The negative fair value of derivatives amounting to US$520 million (2018: US$444 million) is included in other liabilities (note **13**). Details of derivatives are given in note **20**.

Below are the carrying amounts of the Group's right-of-use assets and movements during the year recognised in the consolidated statements of financial position and profit or loss:

	Right-of-use assets
As at 1 January 2019	70
Add: New/terminated leases - net	5
Less: Amortisation	(10)
Others (including foreign exchange movements)	(1)
As at 31 December 2019	64

31 December 2019 (All figures in US$ Million)

12 TAXATION ON FOREIGN OPERATIONS

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

	2019	2018
Consolidated statement of financial position		
Current tax liability	20	25
Deferred tax liability	43	18
	63	43
Consolidated statement of profit or loss		
Current tax on foreign operations	24	33
Deferred tax on foreign operations	(1)	(17)
	23	16
Analysis of tax charge		
At Bahrain (income tax rate of nil)	-	-
On profits of subsidiaries operating in other jurisdictions	35	67
Credit arising from tax treatment of hedging currency movements	(12)	(51)
Income tax expense reported in the consolidated statement of profit or loss	23	16

The effective tax rates on the profit of subsidiaries in MENA was 28% (2018: 29%) and United Kingdom was 16% (2018: 19%) as against the actual tax rates of 19% to 38% (2018: 19% to 35%) in MENA and 19% (2018: 19%) in United Kingdom. In the Bank's Brazilian subsidiary, the effective tax rate was 2% (2018: nil) as against the actual tax rate of 42% (2018: 38%).

As reflected above, the tax credit for the year includes US$12 million arising from the tax treatment of hedging currency movements (2018: tax credit of US$51 million) on a certain transaction. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments at the group level, the average effective tax rate is 9% (2018: 6%).

In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits.

13 OTHER LIABILITIES

	2019	2018
Interest payable	388	359
Lease liabilities	69	-
Negative fair value of derivatives (note 20)	520	444
Employee related payables	130	127
Margin deposits including cash collateral	48	62
Deferred income	21	29
ECL allowances for credit commitments and contingent items (note 21)	38	52
Accrued charges and other payables	252	163
	1,466	1,236

The positive fair value of derivatives amounting to US$518 million (2018: US$468 million) is included in other assets (note **11**). Details of derivatives are given in note **20**.

31 December 2019 (All figures in US$ Million)

13 OTHER LIABILITIES (CONTINUED)

Below are the carrying amounts of the Group's lease liabilities and movements during the year recognised in the consolidated statements of financial position and profit or loss:

	Lease Liabilities
As at 1 January 2019	70
Add: New/terminated leases - net	5
Add: Interest expense	4
Less: Repayments	(9)
Others (including foreign exchange movements)	(1)
As at 31 December 2019	69

14 BORROWINGS

In the ordinary course of business, the Bank and certain subsidiaries raise term financing through various capital markets at commercial rates.

Total obligations outstanding at 31 December 2019

	Currency	Rate of Interest %	Parent bank	Subsidiaries	Total
Aggregate maturities					
2020*	US$	7.875	-	126	126
2020	US$	Libor + 1.20%	-	175	175
2020	US$	Libor + 1.25%	-	75	75
2021	US$	Libor + 1.80%	171	-	171
2021	EUR	Libor + 1.10%	-	84	84
2022	US$	Libor + 2.25%	1,330	-	1,330
2023	TND	10.03	-	6	6
Perpetual**	BRL	7.81	-	113	113
			1,501	579	2,080
Total obligations outstanding at 31 December 2018			1,561	451	2,012

* Subordinated

During the year ended 31 December 2019, the Bank repurchased a portion of its term loan borrowings with a nominal value of US$6 million (2018: US$6 million). The resultant net gain on the repurchase amounting to US$ nil (2018 : US$ nil) is included in "Other operating income".

** Additional Tier 1 ("AT1")

During the year, a subsidiary of the Bank issued perpetual financial instruments amounting to US$113 million. This instrument has been approved by its local regulator for inclusion in AT1 capital and accordingly has been included as part of AT1 for the purpose of capital adequacy ratio calculation as disclosed in note 32.

31 December 2019 (All figures in US$ Million)

15 EQUITY

a) Share capital

	2019	2018
Authorised – 3,500 million shares of US$1 each (2018: 3,500 million shares of US$1 each)	3,500	3,500
Issued, subscribed and fully paid – 3,110 million shares of US$1 each (2018: 3,110 million shares of US$1 each)	3,110	3,110

b) Treasury shares

The Group owns 14,997,026 treasury shares (2018: 12,200,000 shares) for a cash consideration of US$6 million (2018: US$4 million).

c) Statutory reserve

As required by the Articles of Association of the Bank and the Bahrain Commercial Companies Law, 10% of the profit for the year is transferred to the statutory reserve. Such annual transfers will cease when the reserve totals 50% of the paid up share capital. The reserve is not available except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

d) General reserve

The general reserve underlines the shareholders' commitment to enhance the strong equity base of the Bank. There are no restrictions on the distribution of this reserve.

e) Cumulative changes in fair value

	2019	2018
At 1 January	(37)	5
Net movement in fair value during the year	79	(42)
At 31 December	42	(37)

16 INTEREST AND SIMILAR INCOME

	2019	2018
Loans and advances	897	908
Securities and investments	359	384
Placements with banks and other financial institutions	193	175
Others	11	5
	1,460	1,472

17 INTEREST AND SIMILAR EXPENSE

	2019	2018
Deposits from banks	234	217
Deposits from customers	554	596
Borrowings	98	94
Certificates of deposit and others	10	6
	896	913

31 December 2019 (All figures in US$ Million)

18 OTHER OPERATING INCOME

	2019	2018
Fee and commission income - net*	199	205
Bureau processing income	33	32
Income from trading book - net	11	10
Gain on dealing in foreign currencies - net	28	39
Loss on hedging foreign currency movements**	(12)	(51)
Gain on disposal of non-trading debt investments - net	13	8
Other - net	29	15
	301	258

*Included in the fee and commission income is US$13 million (2018: US$13 million) of fee income relating to funds under management.

**Loss on hedging foreign currency movements relate to a transaction which has an offsetting impact on the tax expense for the year.

19 GROUP INFORMATION

19.1 Information about subsidiaries

The principal subsidiaries, all of which have 31 December as their year-end, are as follows:

	Principal activities	Country of incorporation	Interest of Arab Banking Corporation (B.S.C.)	
			2019 %	2018 %
ABC International Bank Plc	Banking	United Kingdom	100.0	100.0
ABC Islamic Bank (E.C.)	Banking	Bahrain	100.0	100.0
Arab Banking Corporation (ABC) - Jordan	Banking	Jordan	87.0	87.0
Banco ABC Brasil S.A.	Banking	Brazil	61.1	60.6
ABC Algeria	Banking	Algeria	87.7	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Banking	Egypt	99.8	99.8
ABC Tunisie	Banking	Tunisia	100.0	100.0
Arab Financial Services Company B.S.C. (c)	Credit card and Fintech services	Bahrain	60.3	56.6

19.2 Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. In certain jurisdictions, distribution of reserves is subject to prior supervisory approval.

31 December 2019 (All figures in US$ Million)

19.3 Material partly-owned subsidiaries

Financial information of a subsidiary that has material non-controlling interests is provided below:

Banco ABC Brasil S.A.

	2019	2018
Proportion of equity interest held by non-controlling interests (%)	38.9%	39.4%
Dividends paid to non-controlling interests	22	22

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	2019	2018
Summarised statement of profit or loss:		
Interest and similar income	555	648
Interest and similar expense	(385)	(471)
Other operating income	116	85
Credit loss expense	(34)	(39)
Operating expenses	(128)	(126)
Profit before tax	124	97
Operating expenses	(2)	17
Profit for the year	122	114
Profit attributable to non-controlling interests	47	45
Total comprehensive income (loss)	86	(38)
Total comprehensive income (loss) attributable to non-controlling interests	33	(15)

	2019	2018
Summarised statement of financial position:		
Total assets	8,093	7,757
Total liabilities	7,089	6,792
Total equity	1,004	965
Equity attributable to non-controlling interests	390	380
Summarised cash flow information:		
Operating activities	369	(92)
Investing activities	(377)	108
Financing activities	76	(13)
Net increase in cash and cash equivalents	68	3

31 December 2019 (All figures in US$ Million)

20 DERIVATIVES AND HEDGING

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	2019			2018		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading						
Interest rate swaps	107	123	9,525	88	82	7,416
Currency swaps	31	8	632	27	14	507
Forward foreign exchange contracts	18	37	5,000	19	11	3,101
Options	348	285	8,373	314	298	6,661
Futures	11	10	4,234	2	8	3,208
	515	463	27,764	450	413	20,893
Derivatives held as hedges						
Interest rate swaps	3	56	4,638	15	26	2,303
Currency swaps	-	-	31	-	1	25
Forward foreign exchange contracts	-	1	447	3	4	560
	3	57	5,116	18	31	2,888
	518	520	32,880	468	444	23,781
Risk-weighted equivalents (credit and market risk)			2,226			2,102

Derivatives are carried at fair value using valuation techniques based on observable market inputs.

Derivatives held as hedges include:

a) Fair value hedges which are predominantly used to hedge fair value changes arising from interest rate fluctuations in loans and advances, placements, deposits, debt instruments at FVOCI, debt instruments at amortised cost and subordinated loan of a subsidiary.

For the year ended 31 December 2019, the Group recognised a net loss of US$42 million (2018: net gain of US$26 million) on hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to US$42 million (2018: loss of US$26 million).

b) The Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2019, the Group had deposits amounting to US$644 million (2018: US$610 million) which were designated as net investment hedges.

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency amounts based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions and there is no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty at the date of the statement of financial position.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IFRS 9 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts, currency options, currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

The Group applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate debt type instruments (fair value hedge)

The Group holds a portfolio of long-term variable and fixed rate loans / securities / deposits and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed / receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in LIBOR (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by critical terms matching and measured by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

(i) differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;

31 December 2019 (All figures in US$ Million)

20 DERIVATIVES AND HEDGING (CONTINUED)

Interest rate risk on fixed rate debt type instruments (fair value hedge) (Continued)

(ii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and

(iii) counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

Net investment in foreign operation (net investment hedge)

The Group has an investment in a foreign operation which is consolidated in its financial statements. The foreign exchange rate exposure arising from this investment is hedged through the use of deposits. These deposits are designated as net investment hedges to hedge the equity of the subsidiaries. The Group establishes the hedging ratio by matching the deposits with the net assets of the foreign operation.

The following table sets out the maturity profile of the trading and hedging instruments used in the Group's trading and non-dynamic hedging strategies:

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years	Total
Notional								
2019	**4,967**	**3,897**	**2,116**	**4,672**	**12,139**	**4,623**	**466**	**32,880**
2018	2,509	2,473	1,505	4,413	8,757	3,015	1,109	23,781

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of exposures to fluctuations in foreign exchange rates, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses quantitative hedge effectiveness testing using the dollar offset method to assess effectiveness.

In hedges of foreign currency exposures, ineffectiveness may arise if the timing of the cash flows changes from what was originally estimated, or if there are changes in the credit risk of the Bank or the derivative counterparty.

Hedge ineffectiveness only arises to the extent the hedging instruments exceed in nominal terms the risk exposure from the foreign operations. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI, while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statement of profit or loss.

The ineffectiveness during 2019 or 2018 in relation to the interest rate swaps is however not significant to the Group.

31 December 2019 (All figures in US$ Million)

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS

Credit commitments and contingent items include commitments to extend credit, standby letters of credit, acceptances and guarantees, which are structured to meet the various requirements of customers.

At the consolidated statement of financial position date, the principal outstanding and the risk-weighted equivalents were as follows:

	2019	2018
Short-term self-liquidating trade and transaction-related contingent items	2,449	3,662
Direct credit substitutes and guarantees	3,349	4,043
Undrawn loans and other commitments	2,416	2,272
	8,214	9,977
Credit exposure after applying credit conversion factor	4,103	4,173
Risk-weighted equivalents	3,059	3,274

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	2019	2018
On demand	1,438	2,430
1 - 6 months	2,497	3,095
6 - 12 months	1,510	1,946
1 - 5 years	2,727	2,453
Over 5 years	42	53
	8,214	9,977

Exposure (after applying credit conversion factor) and ECL by stage

	2019			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	3,789	289	25	4,103
ECL allowances	(14)	(13)	(11)	(38)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	3,996	160	17	4,173
ECL allowances	(14)	(22)	(16)	(52)

31 December 2019 (All figures in US$ Million)

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (CONTINUED)

An analysis of changes in the ECL allowances are as follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	14	22	16	52
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(1)	1	-	-
Transfers to stage 3	-	(12)	12	-
Net transfers between stages	(1)	(11)	12	-
Additions	1	2	3	6
Recoveries / write back	-	-	-	-
Charge for the year - net	1	2	3	6
Exchange adjustments and other movements	-	-	(20)	(20)
As at 31 December	14	13	11	38

	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	13	37	3	53
Transfers to stage 1	2	(2)	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	(1)	1	-
Net transfers between stages	2	(3)	1	-
Additions	-	-	5	5
Recoveries / write back	(1)	(8)	(2)	(11)
(Write back) / charge for the year - net	(1)	(8)	3	(6)
Exchange adjustments and other movements	-	(4)	9	5
As at 31 December	14	22	16	52

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group is engaged in litigation in various jurisdictions. The litigation involves claims by and against the Group which have arisen in the ordinary course of business. The Directors of the Bank, after reviewing the claims pending against Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

31 December 2019 (All figures in US$ Million)

22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

Significant net foreign currency exposures, arising mainly from investments in subsidiaries, are as follows:

	2019		2018	
Long (short)	Currency	US$ equivalent	Currency	US$ equivalent
Brazilian Real	2,448	609	2,269	585
Pound Sterling	(9)	(12)	4	6
Egyptian Pound	1,783	111	1,735	97
Jordanian Dinar	85	120	136	191
Algerian Dinar	16,860	142	15,422	130
Tunisian Dinar	99	36	74	25
Euro	10	11	1	2
Bahrain Dinar	7	19	8	20

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities.

23.1 31 December 2019

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2019:

Financial assets measured at fair value (net of ECL) :

	Level 1	Level 2	Total
Trading securities	507	-	507
Non-trading investments	4,762	165	4,927
Loans and advances	11	192	203
Derivatives held for trading	213	302	515
Derivatives held as hedges	-	3	3

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2019:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	150	313	463
Derivatives held as hedges	-	57	57

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	Fair value
Financial assets		
Non-trading investments at amortised cost - gross	912	913
Financial liabilities		
Borrowings	2,080	2,079

31 December 2019 (All figures in US$ Million)

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

23.2 31 December 2018

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2018:

Financial assets measured at fair value (net of ECL):

	Level 1	Level 2	Total
Trading securities	977	-	977
Non-trading investments	4,448	93	4,541
Loans and advances	19	216	235
Derivatives held for trading	272	178	450
Derivatives held as hedges	-	18	18

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2018:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	263	150	413
Derivatives held as hedges	-	31	31

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	Fair value
Financial assets		
Non-trading investments at amortised cost - gross	1,124	1,070
Financial liabilities		
Borrowings	2,012	2,017

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 December 2019 (31 December 2018: none).

24 RISK MANAGEMENT

24.1 Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit risk, liquidity risk, operational risk, market risk, legal risk and strategic risk as well as other forms of risk inherent in its financial operations.

The Group continues to invest to strenthgen its comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems as well as a strong business process to monitor and control these risks.

24.2 Risk management structure

Executive Management is responsible for implementing the Group's Risk Strategy/Appetite and Policy Guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all material risks to the business and the design and implementation of appropriate internal controls to mitigate them. This is done through the Board Committees, Senior Management Committees, the Credit & Risk Group, Compliance and Balance Sheet Management Group functions at Head Office.

Within the broader governance framework, the Board Committees carry out the main responsibility for best practice of risk management and oversight. The BRC oversees the establishment of the risk appetite framework, risk capacity and risk appetite statement. The BRC is also responsible for coordinating with other board committees for monitoring compliance with the requirements of the regulatory authorities in various countries in which the Group operates. BRC is supported by three management level committees – Group Risk Committee (GRC), Group Asset Liability Committee (GALCO) and the Group Compliance Oversight Committee (GCOC).

The Board Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in various countries in which the Group operates.

The GRC defines, develops and monitors the Group's overarching risk management framework considering the Group's strategy and business plans. The GRC is responsible for initiating, discussions and monitoring of key regulations, both local and international, as applicable to the businesses and geographies in which the Group operates. The GRC is assisted by specialised sub-committees to manage credit risk (Group Credit Committee), operational risk (Group Operational Risk Committee) risk management framework, risk models (Group Risk Governance and Analytics Committee)and operational resilience (Group Operational Resilience Committee).

The GALCO is responsible for defining Asset and Liability management policy, which includes capital, liquidity & funding and market risk in line with the risk appetite framework. GALCO monitors the Group's capital, liquidity, funding and market risks, and the Group's risk profile in the context of economic developments and market volatility. GALCO is assisted by tactical sub-committees for Capital & Liquidity Management.

The GCOC has the oversight responsibilities relating to maintaining and enforcing a strong and sustainable compliance culture and is responsible for establishing the operating framework and the processes to support a permanent and an effective compliance function.

The above management structure, supported by teams of risk & credit analysts, and compliance officers, provide a coherent infrastructure to carry credit, risk, balance sheet management and compliance functions in a seamless manner.

Each subsidiary is responsible for managing its own risks and has its own Board Risk Committee and Management Committees with responsibilities generally analogous to the Group Committees.

24.3 Risk measurement and reporting system

24.3.1 Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is monitored monthly by the Group. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk.

The Group actively uses collateral to reduce its credit risk (see below for details).

24.3.2 Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities

24 RISK MANAGEMENT (CONTINUED)

24.3 Risk measurement and reporting system (continued)

24.3.2 Excessive risk concentration (continued)

in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country, industry and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

24.4 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients and counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The first level of protection against undue credit risk is through country, industry and other risk threshold limits, together with customer credit limits, set by the BRC and the Group Credit Committee and allocated between the Bank and its banking subsidiaries. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Group policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees. The Group also employs Risk Adjusted Return on Capital (RAROC) as a measure to evaluate the risk/reward relationship at the transaction approval stage.

24.4.1 Credit risk impairment assessment and mitigation

Exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. EAD for unfunded facilities is calculated by multiplying the outstanding exposure with the credit conversion factor (CCF) ranging from 20% to 100%.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events and the cash flows following within 12 months for the calculation of the 12 months ECL. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default (LGD)

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. The Group uses models to calculate the LGD values taking into account the collateral type and value (with haircut), economic scenarios, industry of the borrower, guarantees, etc.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Group;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;

- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection;
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties; and
- Cross default of the borrower.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 12 consecutive months. The asset is then transferred to Stage 2 and after a cure period of further 6 months to Stage 1.

Credit risk grading and PD estimation process

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. The quantitative and qualitative information is fed into the rating models to generate ratings. This is supplemented with external data such as external credit rating assessment on individual borrowers. In addition, the models enable expert judgement from the business originating and underwriting units to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 01 and 02+ rating grade is lower than the difference in the PD between a 05- and 06+ rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Wholesale portfolio

Wholesale portfolio includes both corporate and small and medium enterprises (SME) loans. For corporate banking loans, the borrowers are assessed by specialised credit risk units of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical (for calibration) and current information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Retail portfolio

ECL for retail portfolio is assessed using roll rate methodology. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions at the reporting date.

Treasury portfolio

For debt securities in the non-trading portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The external ratings are mapped to the Group's internal ratings scale and the PD's associated with each grade are used for the ECL computation.

The Group's rating method comprises 20 rating levels for instruments not in default (1 to 8) and three default classes (9 to 11). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to a periodic validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment and mitigation (continued)

Treasury portfolio (continued)

The Group's internal credit rating grades alongwith the respective TTC PDs are as below:

Internal rating grades	Internal rating grade description	PD range (%)
01 to 04-	Superior	>= 0.00% to <0.49%
05+ to 05-	Satisfactory	>= 0.49% to <1.52%
06+ to 06-	Satisfactory	>= 1.52% to <5.02%
07+ to 07-	Marginal	>= 5.02% to <17.32%
08	Watchlist	>= 17.32%

The PDs obtained as above are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information. This is repeated for each economic scenario as appropriate.

Significant increase in credit risk (SICR)

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk on various factors including number of notches change in internal risk rating, transition to accounts requiring close monitoring, restructured / forbearance, historical delinquency, etc.

Further, the Group has used the low credit risk (LCR) expedient which includes all exposures meeting following criteria:

- All local currency sovereign exposures funded in local currency.
- All local currency exposures to the government of the Kingdom of Bahrain or Central Bank of Bahrain.
- All exposures with external rating A- or above.

A backstop is applied and the financial instrument considered to have experienced SICR if the borrower is more than 30 days past due on its contractual payments.

ECL measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition or where the credit risk has not significantly increased since initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer above for a description of how the Group determines when a SICR has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	Significant increase in credit risk (since initial recognition)	(Default or credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty.

These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy or has applied for bankruptcy/ protection; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of 12 months for the purposes of transition from Stage 3 to 2. This period of 12 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default" above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, geography and industry. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD and LGD for each future month and for each individual exposure. The three components (PD, LGD and EAD) are multiplied together and the projected PD is adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying the forward looking information on 12-month PD over the maturity of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type.

For secured products, this is primarily based on collateral values after applying approved haircuts depending on the collateral type. Further, the Group has applied LGD floors with respect to the fully secured portion of the portfolio depending on the collateral type.

For unsecured products, LGD's are computed based on models which take into account several factors such as country, industry, PD, etc which consider the recoveries made post default.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. These assumptions vary by country of exposure. Refer to note **4** and below for an explanation of forward-looking information and its inclusion in ECL calculations.

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment and mitigation (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Economic variable assumptions

An overview of the approach to estimating ECLs is set out above and in note **4**. To ensure completeness and accuracy, the Group obtains the data used from third party sources (e.g. Moody's and IMF) and a team of economists within its Credit and Risk Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios.

The most significant assumptions affecting the ECL allowance are as follows:

(i) GDP, given the significant impact on companies' performance and collateral valuations;

(ii) Oil price, given its impact on the region's economies in which the Bank and the majority of the Group's subsidiaries are domiciled and operated; and

(iii) Equity index, given its impact on the economy where the majority of the Group's exposures are lying.

The following table sets out the key macroeconomic variables of ECL calculation and weightages used for scenarios.

Key macroeconomic variables used	ECL scenario and assigned weightage	2020	2021	2022	2023	2024
GDP growth rate	Base (40%)	[1.55%, 5.79%]	[1.50%, 5.82%]	[1.48%, 5.84%]	[1.46%, 5.80%]	[1.43%, 5.77%]
	Upside (30%)	[2.48%, 12.47%]	[2.67%, 10.41%]	[2.26%, 6.76%]	[2.04%, 6.28%]	[1.90%, 6.15%]
	Downside (30%)	[- 6.86%, 3.61%]	[- 5.13%, 4.51%]	[- 3.40%, 5.09%]	[- 2.29%, 5.31%]	[- 1.67%, 5.38%]
Oil price	Base (40%)	9.07%	5.89%	4.23%	3.58%	3.30%
	Upside (30%)	36.40%	18.64%	11.81%	8.60%	6.90%
	Downside (30%)	-33.36%	-14.13%	-6.96%	-2.46%	-0.49%
Equity index	Base (40%)	[- 8.40%, 12.91%]	[- 1.73%, 12.73%]	[0.64%, 12.31%]	[1.06%, 11.54%]	[1.49%, 10.97%]
	Upside (30%)	[5.17%, 22.18%]	[5.86%, 18.45%]	[3.79%, 16.06%]	[3.14%, 14.31%]	[2.90%, 13.16%]
	Downside (30%)	[- 31.80%, -16.52%]	[- 12.38%, -4.70%]	[- 6.04%, -0.22%]	[- 3.56%, 1.86%]	[- 1.70%, 3.30%]

The above macroeconomic variables are selected based on the regression analysis between the macroeconomic variables and the PD. These economic variables and their associated impact on the PD and LGD vary by country and industry. Forecasts of these economic variables (for all sccenarios) are provided by Moody's on a quarterly basis and provide the best estimate view of the economy over future years.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

Based on the above significant assumptions and changes in each economic variable by +5% and -5% while keeping other key variables constant will result in a change in the ECL (stage 1 and 2) in the range of decrease by -4.9% to an increase by 6.6%.

31 December 2019 (All figures in US$ Million)

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

The Group's concentration of risk is managed by geographical region and by industry sector. The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit commitments and contingent items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

	Gross maximum exposure	
	2019	2018
Liquid funds	1,843	1,575
Trading debt securities	491	961
Placements with banks and other financial institutions	2,051	2,991
Securities bought under repurchase agreements	1,398	1,668
Non-trading debt investments	5,826	5,652
Loans and advances	16,452	14,884
Other credit exposures	1,745	1,584
	29,806	29,315
Credit commitments and contingent items (note 21)	8,214	9,977
Total	38,020	39,292

24.4.3 Risk concentration of the maximum exposure to credit risk

The Group's assets (before taking into account any cash collateral held or other credit enhancements) can be analysed by the following geographical regions:

	Assets			
	2019			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	2,363	170	-	2,533
Arab World	12,439	564	42	13,045
Asia	1,998	-	14	2,012
North America	2,671	2	5	2,678
Latin America	7,969	102	74	8,145
Other	1,351	34	8	1,393
Total	28,791	872	143	29,806

	Assets			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	3,095	136	1	3,232
Arab World	11,755	507	28	12,290
Asia	1,733	9	-	1,742
North America	3,257	-	20	3,277
Latin America	7,249	140	131	7,520
Other	1,028	218	8	1,254
Total	28,117	1,010	188	29,315

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.3 Risk concentration of the maximum exposure to credit risk (continued)

The Group's liabilities and equity can be analysed by the following geographical regions:

	Liabilities and equity	
	2019	2018
Western Europe	2,064	2,489
Arab World	19,091	18,879
Asia	433	468
North America	692	706
Latin America	6,632	6,046
Other	894	727
Total	29,806	29,315

The Group's commitments and contingencies can be analysed by the following geographical regions:

	Credit commitments and contingent items 2019			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	1,087	181	18	1,286
Arab World	2,690	205	6	2,901
Asia	376	22	-	398
North America	708	97	22	827
Latin America	2,723	14	-	2,737
Other	57	7	1	65
Total	7,641	526	47	8,214

	Credit commitments and contingent items 2018			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	1,723	59	30	1,812
Arab World	3,809	111	-	3,920
Asia	253	84	-	337
North America	631	64	-	695
Latin America	3,076	-	-	3,076
Other	120	16	1	137
Total	9,612	334	31	9,977

31 December 2019 (All figures in US$ Million)

An industry sector analysis of the Group's financial assets, before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2019			
	Stage 1	Stage 2	Stage 3	Total
Financial services	8,320	73	-	8,393
Energy	1,327	32	-	1,359
Utilities	1,083	21	-	1,104
Distribution	946	9	-	955
Retailers	305	68	-	373
Manufacturing	3,276	116	38	3,430
Construction	998	145	26	1,169
Mining and quarrying	424	11	8	443
Transport	897	64	-	961
Personal / consumer finance	626	59	6	691
Commercial real estate financing	575	11	8	594
Residential mortgage	101	-	1	102
Trade	1,103	195	2	1,300
Agriculture, fishing and forestry	1,351	19	17	1,387
Technology, media and telecommunications	473	-	-	473
Government	4,787	34	-	4,821
Other services	2,199	15	37	2,251
Total	28,791	872	143	29,806

	Gross maximum exposure 2018			
	Stage 1	Stage 2	Stage 3	Total
Financial services	9,290	301	-	9,591
Energy	899	35	-	934
Utilities	924	28	3	955
Distribution	663	7	-	670
Retailers	458	13	-	471
Manufacturing	2,955	154	72	3,181
Construction	837	41	34	912
Mining and quarrying	362	12	-	374
Transport	971	82	9	1,062
Personal / consumer finance	595	32	7	634
Commercial real estate financing	431	76	-	507
Residential mortgage	186	-	1	187
Trade	1,420	121	1	1,542
Agriculture, fishing and forestry	1,129	42	35	1,206
Technology, media and telecommunications	381	-	8	389
Government	4,842	34	-	4,876
Other services	1,774	32	18	1,824
Total	28,117	1,010	188	29,315

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.3 Risk concentration of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2019	2018
Financial services	6,555	7,638
Energy	1,359	934
Utilities	1,104	955
Distribution	955	670
Retailers	371	471
Manufacturing	3,373	3,136
Construction	1,078	823
Mining and quarrying	443	374
Transport	961	1,062
Personal / consumer finance	691	634
Commercial real estate financing	594	507
Residential mortgage	102	187
Trade	1,293	1,534
Agriculture, fishing and forestry	1,387	1,206
Technology, media and telecommunications	473	389
Government	4,652	4,287
Other services	2,234	1,797
Total	27,625	26,604

An industry sector analysis of the Group's credit commitments and contingent items, before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure			
	2019			
	Stage 1	Stage 2	Stage 3	Total
Financial services	2,274	85	1	2,360
Energy	330	62	-	392
Utilities	104	23	-	127
Distribution	64	4	-	68
Retailers	107	65	-	172
Manufacturing	976	168	28	1,172
Construction	722	79	18	819
Mining and quarrying	1,009	-	-	1,009
Transport	240	8	-	248
Personal / consumer finance	16	-	-	16
Commercial real estate financing	110	-	-	110
Trade	526	21	-	547
Agriculture, fishing and forestry	185	-	-	185
Technology, media and telecommunications	159	10	-	169
Government	50	-	-	50
Other services	769	1	-	770
Total	7,641	526	47	8,214

31 December 2019 (All figures in US$ Million)

	Gross maximum exposure			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Financial services	3,928	61	1	3,990
Energy	100	71	-	171
Utilities	121	48	-	169
Distribution	52	2	-	54
Retailers	80	-	-	80
Manufacturing	1,323	61	-	1,384
Construction	602	62	30	694
Mining and quarrying	957	-	-	957
Transport	325	-	-	325
Personal / consumer finance	36	-	-	36
Commercial real estate financing	189	-	-	189
Trade	379	16	-	395
Agriculture, fishing and forestry	190	-	-	190
Technology, media and telecommunications	272	-	-	272
Government	877	-	-	877
Other services	181	13	-	194
Total	9,612	334	31	9,977

An industry sector analysis of the Group's credit commitments and contingent items, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2019	2018
Financial services	**2,230**	3,652
Energy	**392**	171
Utilities	**127**	169
Distribution	**68**	54
Retailers	**172**	80
Manufacturing	**1,141**	1,374
Construction	**817**	693
Mining and quarrying	**1,009**	957
Transport	**248**	325
Personal / consumer finance	**16**	36
Commercial real estate financing	**110**	189
Trade	**541**	391
Agriculture, fishing and forestry	**185**	190
Technology, media and telecommunications	**169**	271
Government	**42**	841
Other services	**769**	194
Total	**8,036**	9,587

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

	Neither past due nor impaired				
31 December 2019	High grade	Standard grade	Past due but not impaired	Past due and individually impaired	Total
Liquid funds	1,842	1	-	-	1,843
Trading debt securities	17	474	-	-	491
Placements with banks and other financial institutions	987	1,064	-	-	2,051
Securities bought under repurchase agreements	100	1,298	-	-	1,398
Non-trading debt investments	3,843	1,983	-	-	5,826
Loans and advances	4,218	12,016	75	143	16,452
Other credit exposures	1,510	235	-	-	1,745
	12,517	17,071	75	143	29,806

	Neither past due nor impaired				
31 December 2018	High grade	Standard grade	Past due but not impaired	Past due and individually impaired	Total
Liquid funds	1,574	1	-	-	1,575
Trading debt securities	54	907	-	-	961
Placements with banks and other financial institutions	1,835	1,156	-	-	2,991
Securities bought under repurchase agreements	171	1,497	-	-	1,668
Non-trading debt investments	4,387	1,265	-	-	5,652
Loans and advances	4,478	10,163	55	188	14,884
Other credit exposures	1,392	192	-	-	1,584
	13,891	15,181	55	188	29,315

31 December 2019 (All figures in US$ Million)

The table below shows the credit quality by class of financial asset net ECL, based on internal credit ratings.

31 December 2019	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt securities	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	1,555	17	987	100	4,230	5,980
Rating grades 5+ to 5-	82	474	221	824	427	3,974
Rating grades 6+ to 6-	205	-	843	459	1,118	5,200
Rating grade 7+ to 7-	-	-	-	15	-	363
Carrying amount (net)	1,842	491	2,051	1,398	5,775	15,517
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	-	-	-	-	-	7
Rating grades 5+ to 5-	-	-	-	-	-	45
Rating grades 6+ to 6-	-	-	-	-	51	387
Rating grade 7+ to 7-	1	-	-	-	-	220
Rating grade 8	-	-	-	-	-	133
Carrying amount (net)	1	-	-	-	51	792
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	-	143
Carrying amount (net)	-	-	-	-	-	143
Total	1,843	491	2,051	1,398	5,826	16,452

31 December 2018	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt securities	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	1,352	436	1,903	103	4,258	5,786
Rating grades 5+ to 5-	151	525	389	925	505	4,583
Rating grades 6+ to 6-	71	-	699	627	758	3,263
Rating grade 7+ to 7-	-	-	-	13	-	214
Carrying amount (net)	1,574	961	2,991	1,668	5,521	13,846
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	-	-	-	-	-	40
Rating grades 5+ to 5-	-	-	-	-	-	82
Rating grades 6+ to 6-	-	-	-	-	131	442
Rating grade 7+ to 7-	1	-	-	-	-	131
Rating grade 8	-	-	-	-	-	155
Carrying amount (net)	1	-	-	-	131	850
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	-	188
Carrying amount (net)	-	-	-	-	-	188
Total	1,575	961	2,991	1,668	5,652	14,884

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.4 Credit quality per class of financial assets (continued)

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. The attributable risk ratings are assessed and updated regularly. Each risk rating class has grades equivalent to Moody's, S&P, Fitch and CI rating agencies.

24.4.5 Carrying amount per class of financial assets whose terms have been renegotiated as at year-end

	2019	2018
Loans and advances	267	330

24.4.6 Overview of modified or forborne loans

From a risk management point of view, once an asset is forborne or modified, the Group's Remedial Loan Unit (RLU) continues to monitor the exposure until it is completely and ultimately derecognised.

No financial assets were modified having a loss allowance measured at an amount equal to lifetime ECL during 2019 (2018: gross carrying amount of US$9 million with a corresponding ECL of nil).

24.4.7 Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly includes cash, guarantees from banks, movable and immovable assets.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also makes use of master netting agreements with counterparties.

Credit exposure loan to value ratios of real estate portfolio

The real estate credit exposure of the Group amounts to US$878 million (2018: US$834 million). Predominantly, the loan to value ratios for these exposures are in the range of 28% to 80% (2018: 30% to 60%).

24.4.8 Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	Maximum exposure to credit risk	
	2019	2018
Trading securities		
- Debt Securities	491	961
Trading derivatives	515	450
Hedging derivatives	3	18
Financial assets designated at FVTPL		
- Loans and advances to customers	11	19

24.5 Settlement risk

Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk through a settlement agent to ensure that a trade is settled only when both parties fulfil their settlement obligations. Settlement approvals form a part of credit approval and limit monitoring procedure.

24.6 Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to support business strategy, will be impacted by the change in market rates or prices related to interest rates, equity prices, credit spreads, foreign exchange rates, and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is monitored, measured and controlled by the Risk Management Department (RMD) with strategic oversight exercised by GALCO. The RMD's Market Risk (MR) unit is responsible for developing and implementing market risk policy and risk measuring/monitoring methodology and for reviewing all new trading products and product limits prior to GALCO approval. The unit also has the responsibility to measure and report market risk against limits throughout the Group.

The Group manages market risk by classifying into two types: a) trading market risk; and b) investment market risk. Trading market risk arises primarily from positions held in the trading books from market-making to support client activities. This involves the management of client originated exposures in interest rates, equities, corporate and sovereign debt, foreign exchange rates, commodities and derivatives of these asset classes, such as forwards, futures, options and swaps. Trading market risk may also arise from positions originated by the Bank subject to the market risk appetite and limits defined by the GALCO and BRC.

Investment market risk arises from market factors affecting securities held in high quality liquid assets (HQLA) portfolio and liquid marketable securities which are held under its FVOCI portfolio and where the impact of the changes in fair value due to market factors is through FVOCI.

The trading and investment market risks are managed by MR using a full suite of market risk limits including Value at Risk, sensitivity limits on key market parameters, notional limits on the size of investment portfolios, stop-loss limits and also stress testing to monitor the impact of significant market moves. These limits are monitored by MR and reported daily to business lines and management.

24.7 Interest rate risk in the banking book

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate re pricing of assets and liabilities. The most prominent market risk factor for the Group is interest rates. This risk is minimized as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets, including the effect of any associated hedges and swaps. Substantially all the FVOCI non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is insignificant.

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.7 Interest rate risk in the banking book (continued)

	2019			
	Increase in basis points	Sensitivity consolidated statement of profit or loss	Decrease in basis points	Sensitivity consolidated statement of profit or loss
US Dollar	25	(2)	25	2
Euro	25	1	25	(1)
Pound Sterling	25	1	25	(1)
Brazilian Real	25	1	25	(1)
Others	25	1	25	(1)

	2018			
	Increase in basis points	Sensitivity consolidated statement of profit or loss	Decrease in basis points	Sensitivity consolidated statement of profit or loss
US Dollar	25	(3)	25	3
Euro	25	-	25	-
Pound Sterling	25	1	25	(1)
Brazilian Real	25	1	25	(1)
Others	25	1	25	(1)

24.8 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2019 and 31 December 2018 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US$, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive trading and non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges) and the effect of the impact of foreign currency movements on the structural positions of the Bank in its subsidiaries. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a potential net increase.

	2019			2018		
	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
Currency						
Brazilian Real	+/- 5%	-	+/-30	+/- 5%	-	+/-29
Egyptian Pound	+/- 5%	-	+/-5	+/- 5%	-	+/-5
Jordanian Dinar	+/- 5%	+/-3	+/-9	+/- 5%	-	+/-10
Algerian Dinar	+/- 5%	-	+/-7	+/- 5%	-	+/-6
Pound Sterling	+/- 5%	+/-1	-	+/- 5%	-	-
Bahrain Dinar	+/- 5%	+/-1	-	+/- 5%	+/-1	-

24.9 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's securities portfolio.

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held at FVOCI) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	2019		2018	
	% Change in equity price	Effect on statement of profit or loss/ equity	% Change in equity price	Effect on statement of profit or loss/ equity
Trading equities	+/- 5%	+/-1	+/- 5%	+/-1
Equity securities at FVOCI	+/- 5%	-	+/- 5%	-

24.10 Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems including internal frauds, or from external events including external frauds. This definition includes legal, Technology (IT) and Shari'a non- compliance risks, but excludes strategic and reputational risk.

The Group adheres to the three lines of defence model for the management of operational risk. The business (First line of defence) is supported by independent Operational Risk Management Departments reporting to the local Chief Risk Officers or local Heads of Risk (Second line of defence). The management of Operational Risk is subject to independent review by Internal Audit (Third line of defence).

The Group Operational Risk Committee (GORCO), as a sub-committee of GRC assists with the management of Operational Risks across the Group to ensure that the Operational Risk Policy as approved by the BRC, is implemented and monitored across the Group.

The GORCO:

- Defines the policy for the management of Operational Risks and recommends for approval by the GRC and BRC.
- Advises the GRC and the BRC with establishing, approving and periodically reviewing the tolerance for Operational Risks at the Group.
- Monitors and reviews the Operational Risk losses across various Group businesses and its subsidiaries.
- Defines the various components of the Operational Risk Management Framework at the Group and oversees the implementation of the framework across the Group.
- Oversees the actions taken to maintain losses are in line with the Operational Risk Appetite.

The implementation of the Operational Risk Management Framework is governed by the GORCO. Local Operational Risk Committees oversee the implementation of the Operational Risk Management Framework and the management of Operational Risk across all subsidiaries and branches of the Group. The Group Operational Risk Management Department at Head Office is responsible for the development of the group-wide methodology, quality control and system support.

The Group has implemented the following for the management of Operational Risks:

- Operational Risk Appetite, as part of the Group Risk Appetite Statement;
- Incident management;
- Risk & Control Self-Assessments;
- Issue and Action management; and
- Key Risk and Performance Indicators.

All loss events and relevant incidents are captured in a group-wide incident database. The threshold for reporting loss events is US$50 gross. The Group has implemented a group-wide Governance, Risk and Compliance solution, ARC solution. This group-wide solution is being used by Audit, Risk and Compliance.

A wide range of management information reports have been tailored to meet the needs of different stakeholders,

24 RISK MANAGEMENT (CONTINUED)

24.10 Operational risk (continued)

these also provide information on the Operational Risk profile of the Bank and its subsidiaries.

Operational risk tolerance

The Group has expressed Operational Risk tolerance in the Board Approved Group Risk Appetite Statement in terms of absolute gross loss amounts due to Operational Risk incidents. In addition, the Group uses a quantitative and qualitative risk rating scale to classify actual and potential Operational Risks as 'Critical', Significant', 'Moderate' or 'Minor'.

Timeframes have been defined within which action plans must be prepared for the treatment of control weaknesses rated 'Critical', Significant' or 'Moderate'.

In line with the Board-led Group Risk Appetite Statement, Operational Risk tolerance is set and monitored by the Board Risk Committee.

24.10.1 Operational resilience

Operational resilience is the ability of the Bank to carry out its mission or business despite the occurrence of operational stress or disruption, protecting its customers, shareholders and ultimately the integrity of the financial system. The operational resilience framework includes a set of techniques that allow people, processes and informational systems to adapt to changing patterns, respond to and recover from factors that may hinder the Bank from functioning.

The Bank adheres to the three lines of defence model for the management of operational resilience risk. The business (first line of defence) is supported by an independent Cyber, IT Risk Management Departments reporting to Group Head of Risk (second line of defence). The management of operational resilience risk is subject to independent review by Internal Audit (third line of defence).

The Group Operational Resilience Committee ("GORC") assists GRC with the oversight of the Bank's Operational resilience framework, by such it oversees:

- Information security, including Cyber security
- Information Technology
- Business Continuity, Disaster Recovery and Crisis Management
- Bank's compliance with Privacy laws (Personal Data Protection)
- Outsourcing and Vendor Management (External dependencies)

The GORC reviews and recommends to GRC, the Bank's business resilience for each area it oversees.

24.11 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress conditions. To mitigate this risk, management seeks to fund its assets from diversified funding sources. In order to mitigate the liquidity risk, in addition to its core deposit base, the Bank maintains a adequate pool of high quality liquid assets (HQLA) that can be monetized within a short timeframe to meet potential outflows arising from stress. The Bank monitors its future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains HQLA at prudential levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of surplus liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and inter-bank borrowings. The Liquidity Survival Horizon (LSH) represents the number of days the Group can survive the combined outflow of deposits and contractual drawdowns, under market driven realisable value scenarios.

The Group is also required to comply with the liquidity requirements as stipulated by its regulator, the CBB, which became effective during the year 2019. These requirements relate to maintaining a minimum of 100% liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of HQLA and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 December 2019, the Group's LCR and NSFR were at 303% and 115% respectively.

In addition, the internal liquidity/maturity profile is generated to summarize the actual liquidity gaps versus the revised gaps based on internal assumptions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. See the next table for the expected maturities of these liabilities. Repayments which are subjected to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

31 December 2019 (All figures in US$ Million)

At 31 December 2019	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years and undated	Total
Financial liabilities								
Deposits from customers	4,693	4,493	1,171	2,956	3,663	235	97	17,308
Deposits from banks	1,949	784	502	481	230	-	-	3,946
Certificates of deposits	11	253	30	81	28	-	-	403
Securities sold under repurchase agreements	496	467	-	-	56	-	-	1,019
Interest payable and other liabilities	1,466	-	-	-	-	-	-	1,466
Borrowings	-	-	155	290	1,782	1	113	2,341
Total non-derivative undiscounted financial liabilities on statement of financial position	8,615	5,997	1,858	3,808	5,759	236	210	26,483
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	2,955	2,290	968	3,912	3,948	8	-	14,081
Guarantees	3,022	-	-	-	-	-	-	3,022

At 31 December 2018	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years and undated	Total
Financial liabilities								
Deposits from customers	5,582	2,444	2,182	2,946	3,562	291	13	17,020
Deposits from banks	2,015	988	490	592	185	-	-	4,270
Certificates of deposits	4	7	3	5	23	-	-	42
Securities sold under repurchase agreements	767	459	-	-	56	-	-	1,282
Interest payable and other liabilities	1,014	40	34	46	87	15	-	1,236
Borrowings	-	61	-	44	2,111	1	-	2,217
Total non-derivative undiscounted financial liabilities on statement of financial position	9,382	3,999	2,709	3,633	6,024	307	13	26,067
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	1,918	1,203	377	3,649	2,669	-	-	9,816
Guarantees	3,565	-	-	-	-	-	-	3,565

31 December 2019 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.11 Liquidity risk (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled or when they could be realised.

At 31 December 2019	Within 1 month	1 -3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
ASSETS												
Liquid funds	1,630	27	40	68	1,765	109	-	-	-	-	109	1,874
Trading securities	14	125	-	270	409	61	12	9	-	16	98	507
Placements with banks and other financial institutions	1,589	458	-	4	2,051	-	-	-	-	-	-	2,051
Securities bought under repurchase agreements	1,224	37	100	37	1,398	-	-	-	-	-	-	1,398
Non-trading investments	362	802	477	307	1,948	2,287	1,363	189	39	10	3,888	5,836
Loans and advances	2,971	2,368	2,014	3,077	10,430	5,266	604	152	-	-	6,022	16,452
Others	-	-	-	-	-	-	-	-	-	1,950	1,950	1,950
Total assets	7,790	3,817	2,631	3,763	18,001	7,723	1,979	350	39	1,976	12,067	30,068
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	3,888	2,962	1,114	2,825	10,789	5,613	200	64	-	-	5,877	16,666
Deposits from banks	1,741	723	494	472	3,430	467	-	-	-	-	467	3,897
Certificates of deposit	11	252	29	81	373	26	-	-	-	-	26	399
Securities sold under repurchase agreements	495	465	-	-	960	48	-	-	-	-	48	1,008
Borrowings	-	-	126	250	376	1,591	-	-	-	113	1,704	2,080
Others	-	-	-	-	-	-	-	-	-	1,529	1,529	1,529
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,489	4,489	4,489
Total liabilities, shareholders' equity and non-controlling interests	6,135	4,402	1,763	3,628	15,928	7,745	200	64	-	6,131	14,140	30,068
Net liquidity gap	1,655	(585)	868	135	2,073	(22)	1,779	286	39	(4,155)	(2,073)	-
Cumulative net liquidity gap	1,655	1,070	1,938	2,073		2,051	3,830	4,116	4,155	-		

Within 1 month are primarily liquid securities that can be sold under repurchase agreements. Deposits are continuously replaced with other new deposits or rollover from the same or different counterparties, based on available lines of credit.

31 December 2019 (All figures in US$ Million)

At 31 December 2018	Within 1 month	1 -3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
ASSETS												
Liquid funds	1,354	50	-	30	1,434	173	-	-	-	-	173	1,607
Trading securities	69	110	5	391	575	324	58	3	-	17	402	977
Placements with banks and other financial institutions	2,313	581	92	5	2,991	-	-	-	-	-	-	2,991
Securities bought under repurchase agreements	511	1,063	91	-	1,665	1	2	-	-	-	3	1,668
Non-trading investments	111	141	527	689	1,468	2,905	1,071	162	46	9	4,193	5,661
Loans and advances	2,598	2,004	1,941	2,351	8,894	4,920	873	190	7	-	5,990	14,884
Others	61	35	9	38	143	116	19	1	-	1,482	1,618	1,761
Total assets	7,017	3,984	2,665	3,504	17,170	8,439	2,023	356	53	1,508	12,379	29,549
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	3,822	1,696	2,066	2,784	10,368	5,785	265	7	-	-	6,057	16,425
Deposits from banks	1,930	894	478	578	3,880	327	-	-	-	-	327	4,207
Certificates of deposit	4	6	3	5	18	21	-	-	-	-	21	39
Securities sold under repurchase agreements	766	457	-	-	1,223	48	-	-	-	-	48	1,271
Borrowings	-	57	-	5	62	1,950	-	-	-	-	1,950	2,012
Others	17	40	34	46	137	87	15	-	-	1,040	1,142	1,279
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,316	4,316	4,316
Total liabilities, shareholders' equity and non-controlling interests	6,539	3,150	2,581	3,418	15,688	8,218	280	7	-	5,356	13,861	29,549
Net liquidity gap	478	834	84	86	1,482	221	1,743	349	53	(3,848)	(1,482)	-
Cumulative net liquidity gap	478	1,312	1,396	1,482		1,703	3,446	3,795	3,848	-		

31 December 2019 (All figures in US$ Million)

25 OPERATING SEGMENTS

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking and treasury activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil; and
- **Other** includes activities of Arab Financial Services B.S.C. (c).

	2019					
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	Total
Net interest income	117	176	38	170	63	564
Other operating income	42	78	41	115	25	301
Total operating income	159	254	79	285	88	865
Profit before credit losses	62	141	57	157	46	463
Credit loss expense	(22)	(26)	-	(34)	-	(82)
Profit before taxation and unallocated operating expenses	40	115	57	123	46	381
Taxation (expense) on foreign operations	(11)	(4)	(1)	(7)	-	(23)
Unallocated operating expenses						(122)
Profit for the year						236
Operating assets as at 31 December 2019	3,558	10,132	8,198	8,113	67	30,068
Operating liabilities as at 31 December 2019	3,041	-	15,572	6,923	43	25,579

31 December 2019 (All figures in US$ Million)

	2018					
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	Total
Net interest income	117	168	45	177	52	559
Other operating income	43	72	39	83	21	258
Total operating income	160	240	84	260	73	817
Profit before credit losses	69	138	61	135	45	448
Credit loss expense	(5)	(35)	-	(39)	-	(79)
Profit before taxation and unallocated operating expenses	64	103	61	96	45	369
Taxation (expense) credit on foreign operations	(19)	(8)	(1)	12	-	(16)
Unallocated operating expenses						(105)
Profit for the year						248
Operating assets as at 31 December 2018	3,283	9,540	8,877	7,778	71	29,549
Operating liabilities as at 31 December 2018	2,918	-	15,613	6,689	13	25,233

Geographical information

The Group operates in six geographic markets: Middle East and North Africa, Western Europe, Asia, North America, Latin America and others. The following table show the external total operating income of the major units within the Group, based on the country of domicile of the entity for the years ended 31 December 2019 and 2018:

	Bahrain	Europe	Brasil	Other	Total
2019					
Total operating income	**247**	**115**	**286**	**217**	**865**
2018					
Total operating income	232	120	262	203	817

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2018: none).

31 December 2019 (All figures in US$ Million)

26 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year-end amounted to US$1,008 million (2018: US$1,271 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$1,024 million (2018: US$1,359 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$1,398 million (2018: US$1,668 million), net of ECL allowance, and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the year-end amounted to US$1,465 million (2018: US$1,747 million).

27 TRANSACTIONS WITH RELATED PARTIES

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

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	Ultimate parent	Major shareholder	Directors	2019	2018
Deposits from customers	3,161	700	8	3,869	3,803
Borrowings	1,505	-	-	1,505	1,505
Short-term self-liquidating trade and transaction-related contingent items	348	-	-	348	515

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2019	2018
Commission income	10	8
Interest expense	161	122

Compensation of the key management personnel is as follows:

	2019	2018
Short term employee benefits	17	18
Post employment benefits	3	3
	20	21

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$16,346 million (2018: US$14,927 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

29 ISLAMIC DEPOSITS AND ASSETS

Deposits from customers, banks and borrowings include Islamic deposits of US$1,775 million (2018: US$784 million). Loans and advances, non-trading investments and placements include Islamic assets of US$1,175 million (2018: US$1,167 million), US$818 million (2018: US$639 million) and US$285 million (2018: US$289 million).

30 ASSETS PLEDGED AS SECURITY

At the consolidated statement of financial position date, in addition to the items mentioned in note **26**, assets amounting to US$380 million (2018: US$407 million) have been pledged as security for borrowings and other banking operations.

31 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS

31.1 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares during the year. No figures for diluted earnings per share have been presented, as the Bank has not issued any capital based instruments which would have any impact on earnings per share, when exercised.

The Group's earnings for the year (before proposed dividends) are as follows:

	2019	2018
Profit attributable to the shareholders of the parent	194	202
Weighted average number of shares outstanding during the year (millions)	3,088	3,096
Basic and diluted earnings per share (US$)	0.06	0.07

31.2 Proposed dividends and transfers

	2019	2018
Proposed cash dividend for 2019 of US$0.03 per share (2018: US$0.03 per share)	93	93

The proposed cash dividend is subject to regulatory approvals and approval at the Annual General Meeting.

31 December 2019 (All figures in US$ Million)

32 CAPITAL ADEQUACY

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations as at 31 December 2019 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

		2019	2018
CAPITAL BASE			
CET 1		4,262	4,085
AT 1		96	49
Total Tier 1 capital		4,358	4,134
Tier 2		251	218
Total capital base	[a]	4,609	4,352

		2019	2018
RISK-WEIGHTED EXPOSURES			
Credit Risk-weighted assets and off balance sheet items		22,412	20,719
Market Risk-weighted assets and off balance sheet items		1,690	1,680
Operational Risk-weighted assets		1,639	1,578
Total Risk-weighted assets	[b]	25,741	23,977
Risk asset ratio	[a/b*100]	17.9%	18.2%
Minimum requirement		12.5%	12.5%

The Group's capital base primarily comprises:

(a) Tier 1 capital: share capital, treasury shares, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value;

(b) Additional Tier 1 Capital: eligible portion of a perpetual financial instrument issued by a subsidiary of the Bank; and

(c) Tier 2 capital: eligible subordinated term debt and expected credit losses.

The Group has complied with all the capital adequacy requirements as set by the Central Bank of Bahrain.

31 December 2019 (All figures in US$ Million)

33 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2019	Cash flow, net	Foreign exchange movement	31 December 2019
Certificates of deposit	39	360	-	399
Borrowings	2,012	68	-	2,080
Total liabilities from financing activities	**2,051**	**428**	**-**	**2,479**

	1 January 2018	Cash flow, net	Foreign exchange movement	31 December 2018
Certificates of deposit	27	12	-	39
Borrowings	2,148	(128)	(8)	2,012
Total liabilities from financing activities	2,175	(116)	(8)	2,051

Bank ABC Group Code of Conduct

Our Code of Conduct is instrumental to help you to maintain the highest standards of ethical and professional behaviour at all times. Ultimately we rely on your personal integrity to protect our reputation and to ensure the success of our Bank.

Bank ABC Group Code of Conduct

1. ABOUT THE CODE

1.1 Introduction

Bank ABC (the "Bank", "Group" or "ABC") is committed to maintaining the highest standards of ethical and professional conduct.

This Code sets out the minimum standards of behaviour that are expected across the Group from our employees, directors, senior management and contract and temporary workers (herein referred to as "employees").

This Code is supported by policies and standards that you are also expected to read and understand (refer to Related Material in section **10**). It should also be read in conjunction with any supporting procedures and your employment contract.

Where local laws or regulations applicable to your Unit set stricter requirements than those detailed in this Code, you must follow them.

If you have any questions about the Code, seek advice from your line manager or Unit Head of Compliance.

1.2 Our Values

You should display behaviours that reflect our Values in your day to day activities performed on behalf of the Bank. Our Values are:

Client Centric

We are committed to knowing our clients and developing long-term relationships with them, making sure we provide them with superb services.

- Focused on building client relationships at every level
- Responding quickly to our clients, recognizing the importance of speed in today's world
- Maintaining continuous and open dialogue to identify client needs
- Identifying and delivering insights and tailored solutions

Collaborative

We work together as one team across our international network providing a superior client experience.

- Harnessing our international network footprint
- Focused on a cohesive team working across boundaries
- Putting our client's needs for cross-border service before our individual targets
- Finding new ways to conduct our business and streamline operations

Consistent

We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders.

- Services are delivered to a high operational standard
- Reputation placed before short-term revenues
- Relentless focus on compliance with regulations and ensuring a sustainable business
- We consistently deliver on our promises to clients and to colleagues

1.3 Your Responsibilities

We rely on your personal integrity to protect our reputation. Your responsibilities under this Code are to:

- Understand and comply with the Code
- Act fairly, honestly and with integrity when performing your duties on behalf of the Bank
- Avoid conflicts of interest
- Comply with all applicable laws and regulations
- Adhere to our policies, standards and procedures
- Observe your limits of authority when acting on behalf of the Bank
- Cooperate with any investigations, examination, litigation or inquiry related to our business
- Complete mandatory training when required
- Report any legal or regulatory proceeding that involves you personally
- Report any concerns of misconduct

Managers have a greater level of responsibility. As a manager you should also:

- Lead by example
- Promote equal opportunity and not favour or victimise any colleagues
- Help employees with ethical queries or direct them to someone who can help
- Encourage employees to report misconduct
- Protect employees from any form of retaliation if they report misconduct in good faith

We promote a culture of personal responsibility and transparency which requires you to report and discuss any actual or pending incident or risk event that you are aware of with your line manager, who may be required to further escalate the information as per the Escalation Standard.

1.4 Compliance with the Code

On joining and annually thereafter, you must acknowledge in writing or electronically that you have read and understood your obligations under the Code and the supporting policies and standards, and that you agree to comply with them.

If a situation arises where you find that you have breached this Code or any supporting policies or standards you should immediately consult your line manager and Unit Head of Compliance who will deal with the matter in a sympathetic manner and help to ensure that the breach is remedied effectively.

However, a willful breach or any failure to disclose a known breach of the Code or any supporting policies or standards could result in consequences for you and/or the Bank and may result in disciplinary action including dismissal, or in some circumstances, criminal prosecution.

1.5 Ethical Decision Making

Not every situation can be covered in the Code and our policies, standards and procedures. Here are some basic questions you can apply to help you make ethical decisions:

- Is it legal and in keeping with the spirit of the law?
- Is it consistent with our Code?
- Am I making an informed decision?
- Do I need to consult others?
- Who else could be affected by the decision?
- Could it reflect negatively on me or the Bank?
- How would it look in the media?
- Would I be embarrassed if others knew I had made this decision?
- Does it feel right?

2. OUR PEOPLE

2.1 Introduction

We recognise that our employees are our most valuable asset and essential for the success of our business. We aim to provide a safe working environment in which you are treated fairly and with respect.

2.2 Performance Management

We develop, support and embed a culture of high performance where relevant objectives are agreed, reviewed and assessed; where exceeding objectives is recognised; and where development is supported.

2.3 Equal Opportunities

We offer equal treatment to all job applicants and employees. We will not discriminate on the grounds of race, religion, color, nationality, ethnic or national origin, gender, marital status, disability or any other basis.

Discrimination, harassment, violence or bullying of any kind will not be tolerated.

It is each employee's responsibility to report any behaviour that violates this Code. We take all reports seriously.

2.4 Fitness for Duty

You are responsible for ensuring you are fit and able to perform your duties when you report for work.

The use of alcohol or illegal drugs on our premises or during working hours is prohibited.

Showing signs of intoxication or consumption of illegal drugs may result in disciplinary action including termination of employment.

2.5 Safe Workplace

You have a personal responsibility while at work to take reasonable care of your own and others' health and safety.

In particular:

- Adhere to your local Fire, Health and Safety Policy
- Ensure you understand the risks present in the daily work environment and take all reasonable precautions to prevent workplace accidents and injuries
- Immediately report any unsafe work conditions, serious accidents or 'near misses' to your line manager
- Know what to do in the event of an emergency
- Complete Health and Safety training as assigned by the Bank
- Participate in fire drills and building evacuation exercises

3. OUR CLIENTS AND THE MARKETPLACE

3.1 Introduction

The trust of our clients and the marketplace is the cornerstone of our success.

3.2 Treating Clients Fairly

Treating clients in a fair, ethical and non-discriminatory manner, throughout the life cycle of the relationship, is an integral part of our working culture. This helps to build long-term relationships with our clients.

Bank ABC Group Code of Conduct (continued)

3. OUR CLIENTS AND THE MARKETPLACE (CONTINUED)

Always make sure:

- Communications with our clients are clear, fair and not misleading
- Only to sell approved products and services that are suitable for a client
- To handle client complaints sensitively, professionally and efficiently

Never take advantage of our clients through:

- Manipulation
- Concealment
- Abuse of privileged information
- Misrepresentation of material facts
- Any other unfair practice

3.3 Insider Trading

Insider trading undermines the integrity of the financial system by creating an unfair advantage. As an employee, you may have access to non-public material information ("Inside Information") about the Bank, our clients or other companies that we do business with. Inside Information, if it were known to the public, is likely to affect the market price of a company's securities, or affect the decision of a reasonable investor to buy or sell a company's securities.

It is a criminal offence to communicate unpublished price sensitive information to anyone who is not authorised to have it, or to act on such information.

In particular do not:

- Trade securities for your own account or any account over which you exercise control when you have Inside Information relating to those securities
- Cause anyone else to trade securities by tipping them off or passing on Inside Information relating to those securities

3.4 Confidentiality

All information that you obtain through your employment with us should be considered private and confidential and for internal use only unless clearly stated otherwise by the Information Owner in writing.

You must not disclose Bank, client or any other parties' information unless you are authorised to do so or required by law. This obligation applies even after you have left employment with the Bank.

You should use the information obtained through your employment with us only to perform your duties with the Bank. You should not use confidential information obtained while employed with previous employers.

3.5 Supplier Relationships

You must ensure that all suppliers and contractors are treated fairly and that their selection is based on price and quality of service. There should be no personal favoritism.

Always follow our Group-wide Control Standard Outsourcing and Procurement Standard and Procedures when dealing with suppliers and contractors.

3.6 Conduct with Competitors

Any information gathered on the marketplace and our competitors must be obtained only through legal and ethical channels.

You must not engage an employee of a competitor to gain proprietary information.

3.7 Public Communication

Only designated spokespersons are permitted to issue statements on behalf of the Bank. Refer to the Media Policy for more guidance.

3.8 Political Neutrality

We are politically neutral. If you wish to participate in political activities such as campaigning or making political donations, do so in your own personal capacity and not as a representative of the Bank. Such activities should not be undertaken on our premises, using the Bank's equipment or during working hours.

4. FINANCIAL CRIME

4.1 Introduction

We are committed to promoting the highest ethical and professional standards and strive to prevent the Bank from being used, intentionally or unintentionally, for financial crime.

We adhere to applicable laws, regulations and international standards. This includes the financial crime regulations issued by the Central Bank of Bahrain and by local regulators of those jurisdictions in which we operate. We also adhere to the recommendations of the Financial Action Task Force (FATF).

Financial crime includes, among others:

- Money Laundering
- Terrorist Financing
- Breach of Sanctions
- Fraud
- Bribery and Corruption
- Tax Evasion

4.2 Your Financial Crime Responsibilities

You are required to:

- Act with due care and diligence in your job role, preventing the Bank from being used as a conduit for financial crime activity
- Understand and comply with our Financial Crime policies, standards and procedures
- Understand how to identify red flags indicating that a client may be seeking to engage in a relationship or transaction for other than a lawful purpose or with the proceeds of illegal activity
- Ensure sufficient customer due diligence has been conducted for new and existing client relationships, in line with the Bank's policies, standards and procedures
- Attend Financial Crime training as your job requires and achieve required pass rates
- Understand and follow applicable Sanctions restrictions and the Group Sanctions Policy
- Report suspicious activity immediately to your Unit MLRO
- Not "tip off" a client if you have a suspicion or if you are reporting that suspicion.

4.3 Bribery and Corruption

We take a zero-tolerance approach to bribery and corruption. This includes giving or receiving gifts, entertainment, facilitation payments or anything else of value if it is intended to obtain, or appears to give, an improper business advantage.

In many of the jurisdictions in which we operate or do business, it is a criminal offence to offer, promise, give, request, or accept a bribe, and significant penalties can be imposed if found guilty.

All gifts, entertainment and hospitality given or received with a nominal or actual value of US$ 100 or above should be reported in accordance with the Anti-Bribery and Corruption Standard.

4.4 Expenses

You are responsible for the accurate and timely reporting of expenses. All expenditures must be business related and approved in accordance with the Business Travel Standard and Business Entertainment Standard. Further, you must not use your business credit card for any purpose other than appropriate business expenses.

4.5 Charities and Non-Profit Organisations

When getting involved with a charity or non-profit organisation, remember to:

- Make sure it does not interfere with your responsibilities at the Bank
- Not solicit clients, suppliers or other employees for contributions or other participation

At times we may be asked by clients or suppliers to make a contribution to a charity or non-profit organisation. All contributions must be pre-approved by the Unit Head of Compliance to ensure they do not contravene any local laws or regulations and the Group Donations Policy.

5. PROTECTING OUR ASSETS

5.1 Introduction

You are responsible for safeguarding the Bank's assets against theft, loss, waste or abuse. They should be used for our legitimate business only.

Our assets include:

- Office furnishings, equipment and supplies
- Software, information systems and support systems either on premises or on The Cloud
- Records and data (including backup and portable media) whether stored electronically or in paper form
- Cash and securities
- Loans and other claims on clients and third parties
- Intellectual property
- Client relationships

5.2 Data Protection

You must comply with Data Protection laws where applicable. The following key principles are provided as guidance:

Personal information that we hold must be:

- Collected and used fairly and lawfully
- Accurate, relevant and up to date
- Held securely and stored as required in relevant legislation, regulations and, if applicable, contractual clauses
- Only disclosed to those authorised to receive it
- Not kept longer than is necessary

Respect individual's rights in respect to their personal information:

- Provide a copy of their information on request, within a reasonable time frame and in accordance with any local applicable laws and regulations

Bank ABC Group Code of Conduct (continued)

- Provide details of where the information is sourced and how we use it
- Ensure inaccurate data is corrected or deleted

5.3 Information Security

Information and information systems are vital to our business and operations. Incidents involving the loss of confidentiality, integrity or availability of information can be costly and damaging to our reputation.

We may monitor, review and disclose data that you create, store, send or receive on our systems (including approved cloud-based solutions). You should not have any expectation of personal privacy when you use our systems or infrastructure.

You must adhere to our Information Security Policy. In particular, you must not:

- Use unapproved services, tools, software or cloud-based solutions to perform your job or share information with external parties or unauthorized internal personnel
- Send confidential information outside our network without using an approved encryption or security programme
- Send confidential or non-public information to your personal email account
- Copy information stored on Bank assets to external media or public cloud sites
- Share business information with external parties using unapproved communication channels
- Violate software licensing agreements or intellectual property rights
- Use the Bank's computer and network resources to commit illegal activities or use them in a manner that could be embarrassing or harmful to the Bank or detrimental to its reputation or interests
- Share your username and password with anyone or have possession of anyone else's username and password
- Try to get access to or scan systems, shared folders or network areas you are not entitled to
- Make unauthorised changes on the functionality or configuration of assets under your management or control
- Leave sensitive information unattended, including your company laptop and authorised mobile devices
- Disclose or discuss sensitive matters or proprietary or confidential information in public places, including the Internet (e.g. public email, file sharing sites, social media, etc.).
- Access approved IT services, including cloud-based solutions, from unmanaged computers or portable devices.

5.4 Intellectual Property

We own all rights, title and interest in all intellectual property that you develop during your employment with us.

Intellectual property includes strategy papers, business plans, internal policies, standards and procedures, improvements, ideas, processes or work related to the Bank.

5.5 Record Keeping

You are responsible for keeping accurate and complete records in accordance with relevant laws and regulations.

6. CONFLICT OF INTEREST

6.1. Introduction

It is important you avoid situations where personal interests conflict, or appear to conflict, with the interests of the Bank or our clients.

A conflict of interest exists, or may be perceived to exist, where a personal circumstance impairs professional judgment or the ability to act in the best interest of the Bank or our clients.

6.2 Avoiding Conflicts

It is difficult to identify every situation where a conflict, or perception of a conflict, may arise. You should use good judgement and seek advice from the Unit Head of Compliance if you are unsure of the proper course of action.

Typical conflicts that may arise are:

- An outside business interest
- Hiring or working with relatives, near relatives or Connected Persons (as defined in the Group Standard on the Employment of Relatives and Connected Persons)
- Dealing on your own account or using your position in the Bank to gain an unfair advantage
- Acting for the Bank in a transaction or business relationship that involves yourself, your relatives or other people or organisations where you or your relatives have a significant personal connection or financial interest

You have a responsibility to identify and disclose any conflicts or potential conflicts of interest to your Division Head, Head of HR and Head of Compliance.

6.3 Personal Finances

Conduct your own financial affairs responsibly, with integrity and in compliance with the law, to avoid situations that could reflect unfavorably on the Bank.

In general you may not:

- Participate in personal transactions with colleagues, clients or suppliers, including investment activities (unless part of a Bank sponsored investment plan)
- Borrow from or lend money to your colleagues, clients or suppliers (except nominal amounts e.g. for lunch)

7. RELATIONS WITH REGULATORS AND AUDITORS

It is our aim to achieve excellence in compliance when meeting all relevant regulatory obligations. Maintaining a strong and positive relationship with the regulators and other government organisations is essential for ensuring the continued success of our business.

You must be completely open, candid, co-operative and prompt with regulators and external and internal auditors, keeping them fully informed about matters which should reasonably be disclosed to them.

You must:

- Refer all enquiries received from regulators to your Unit Head of Compliance
- Do not contact the regulators unless authorised to do so by your Head of Compliance[1]

8. RAISING CONCERNS

We are committed to integrity, honesty and transparency in everything we do.

You are often the first person to realise that your co-workers are participating in activities that are inappropriate or contrary to the Bank's policies, standards and procedures.

If you are aware or suspect violations to the Code of Conduct, our policies, standards and procedures, applicable laws or regulations, you are obliged to promptly report such violations using the resources described below.

We treat all reports confidentially, fairly and in a timely manner. As long as you make the report in good faith you will be protected from suffering any detriment, loss of employment or victimization.

You can raise your concerns through the Bank's Hotline, email address or mailing address as mentioned in the Group Employee Whistleblowing Policy:

Hotline:	+973 1754 3714
Email:	gco-wb@bank-abc.com
Mail:	Group Head of Compliance, Bank ABC, P.O. Box 5698, Manama, Bahrain

If you do not receive a satisfactory response you may report your concern to the Group Chief Auditor:

Telephone:	+973 1754 3350
Email:	ga-wb@bank-abc.com

[1] This does not prejudice your rights under the Group Employee Whistleblowing Policy

BANK ABC Group Directory

Head Office

Arab Banking Corporation (B.S.C.)
ABC Tower, Diplomatic Area
PO Box 5698, Manama
Kingdom of Bahrain
T. (973) 17 543 000
F. (973) 17 533 163
www.bank-abc.com
webmaster@bank-abc.com

Group Chief Executive Officer
Dr. Khaled Kawan
T. (973) 17 543 361

Deputy Group Chief Executive Officer
Sael Al Waary
T. (973) 17 543 708

Wholesale Banking

Group Wholesale Banking
Amr ElNokaly (Acting)
T. (973) 17 543 822

Group Financial Institutions
Fouad Salame
T. (973) 17 543 765

Group Transaction Banking
Sanjay Sethi
T. (973) 17 543 759

Network Corporates
Sami Bengharsa
T. (973) 17 543 359

Local Corporates
David D'Costa
T. (973) 17 543 253

Specialised Finance
Saber Ayadi
T. (973) 17 543 316

Group Real Estate Finance
Faisal Al Showaikh
T. (44) 20 3765 4186

Islamic Banking
Hammad Hassan
T. (973) 17 543 366

Group Treasury & Financial Markets

Group Treasurer
Christopher Wilmot
T. (973) 17 543 482

Corporate Treasury
Mazen Ladki
T. (973) 17 543 839

Group Syndications
John McWall
T. (973) 17 543 480

Derivatives & Foreign Exchange
Emad AlSaudi
T. (973) 17 533 155

Group Financial Markets
Fawad Ishaq
T. (973) 17 543 356

Group Capital Markets
Rajat Sapra
T. (973) 17 543 296

Group Finance

Group Chief Financial Officer
Brendon Hopkins
T. (973) 17 543 224

Head of Group Finance
Suresh Padmanabhan
T. (973) 17 543 321

Head of Group Strategy
Nicolas Hurtrez
T. (973) 17 543 723

Investor Relations
T. (973) 17 543 162

Group Audit

Group Chief Auditor
Johan Hundertmark
T. (973) 17 543 350

Group Asset Quality Review
Patrick Abi Habib
T. (973) 17 543 472

Group Credit & Risk

Group Chief Credit & Risk Officer
Stephen Thompson (Acting)
T. (973) 17 543 283

Group Head of Risk Management
Rohit Kumar
T. (973) 17 543 477

Group Chief Economist
Andrew Gilmour
T. (973) 17 543 581

Group Support

Group Chief Operating Officer
Ismail Mokhtar
T. (973) 17 543 347

Group Operations
Julian Ashall
T. (973) 17 543 659

Group Human Resources
Elaine Wood
T. (973) 17 543 394

Group Information Technology
Ziad Khouri
T. (973) 17 543 746

Group Digital Banking & Retail
Elie Touma
T. (973) 17 543 545

Group Innovation
Dr. Yousif Almas
T. (973) 1754 3231

Group Legal Counsel
Vernon Handley
T. (973) 17 543 560

Group Compliance
Maadian Botha
T. (973) 17 543 710

Group Corporate Communications
Fatema Yusuf
T. (973) 17 543 413

Bank ABC Network

Bahrain

Head Office
ABC Tower, Diplomatic Area
P.O. Box 5698, Manama
Kingdom of Bahrain
T. (973) 17 543 000
bank-abc.com
webmaster@bank-abc.com

Bank ABC Islamic
ABC Tower, Diplomatic Area
P.O. Box 2808, Manama
Kingdom of Bahrain
T. (973) 17 543 342

ila Bank - Retail Branch
ABC Tower, Diplomatic Area
P.O. Box 5698, Manama
Kingdom of Bahrain
T. +973 17123456
www.ilabank.com
support@ilabank.com

Arab Financial Services B.S.C. (c)
P.O. Box 2152, Manama
Kingdom of Bahrain
T. (973) 17 290 333

Americas

United States
140 East 45 Street,
38th Floor,
New York, NY 10017, USA
T. (1) (212) 583 4720

Brazil
Banco ABC Brasil
Av. Cidade Jardim,
803-2nd floor
Itaim Bibi- Sao Paulo-SP
CEP:01453-000, Brazil
T. (55) (11) 317 02000
www.abcbrasil.com.br

Middle East and North Africa

Jordan
P.O. Box 926691,
Amman 11190
Jordan
T. (962) (6) 5633 500
info@bank-abc.com

Egypt
90th street(north) - N 39 B
Fifth Settlement - P.O. Box 46
New Cairo
T. (202) 25861199/25861000
abcegypt@bank-abc.com

Algeria
P.O. Box 367
38 Avenue des Trois Freres
Bouaddou, Bir Mourad Rais
Algiers, Algeria
T. (213) (0) 23 56 95 23
information@bank-abc.com

Tunisia
ABC Building , Rue Du Lac
d'Annecy, Les Berges du Lac
1053, Tunis, Tunisia
T. (216) (71) 861 861
abc.tunis@bank-abc.com

United Arab Emirates
Office 1203, Level 12
Burj Daman, P.O. Box 507311
DIFC, Dubai, U.A.E
T. (971) 4247 9300

Libya
Al-Baladeya Street
(in front of UN building)
P.O. Box 91191, Al Dahra,
Tripoli, State of Libya
T. (218) 21 333 6082/6065/6059
ABCRepLibya@bank-abc.com

Europe

United Kingdom
Arab Banking Corporation
House, 1-5 Moorgate
London EC2R 6AB, UK
T. (44) (20) 7776 4000
abcib@bank-abc.com

France
8 rue Halevy, 75009 Paris
France
T. (33) (1) 4952 5400
abcib.paris@bank-abc.com

Germany
Neue Mainzer Strasse 75
60311 Frankfurt am Main
Germany
T. (49) (69) 7140 30
abcib.fra@bank-abc.com

Italy
Via Amedei, 8, 20123
Milan, Italy
T. (39) (02) 863 331
abcib.milan@bank-abc.com

Turkey
Eski Buyukdere Cad.
Ayazaga
Yolu Sok
Iz Plaza No:9 Kat:19 D:69
34398 Maslak, Istanbul,
Turkey
T. (90) (212) 329 8000
abcib.istanbul@bank-abc.com

Asia

Singapore
9 Raffles Place
#40-01 Republic Plaza
Singapore 048619
T. (65) 653 059339

Arab Banking Corporation (B.S.C.)

ABC Tower, Diplomatic Area
P.O. Box 5698,
Manama
Kingdom of Bahrain

Tel: +973 17 543 000
Fax: +973 17 533 163
webmaster@bank-abc.com
www.bank-abc.com

www.bank-abc.com