Resilience powered by Innovation

Bank ABC

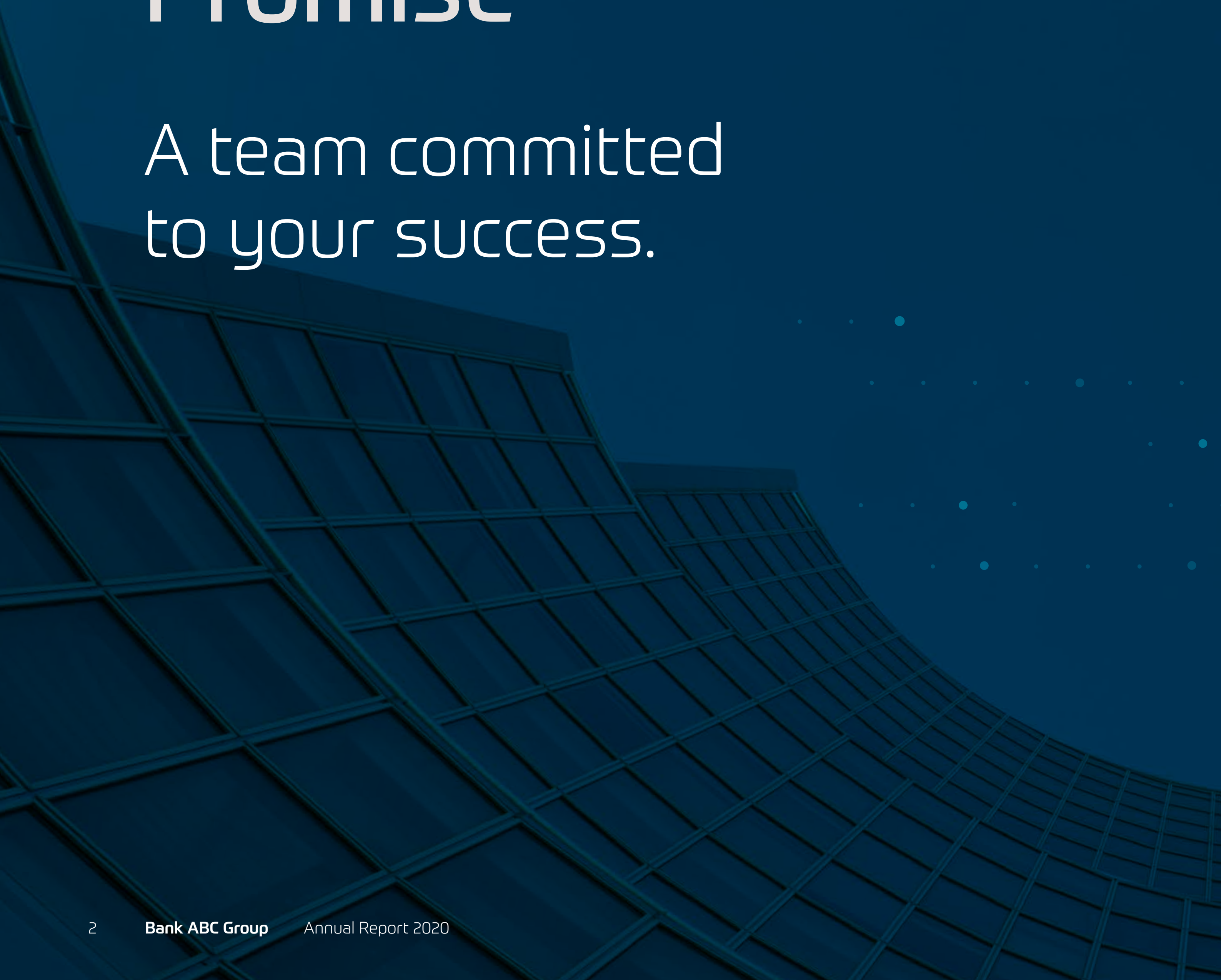
Bank ABC Group
Annual Report 2020

Table of

Contents

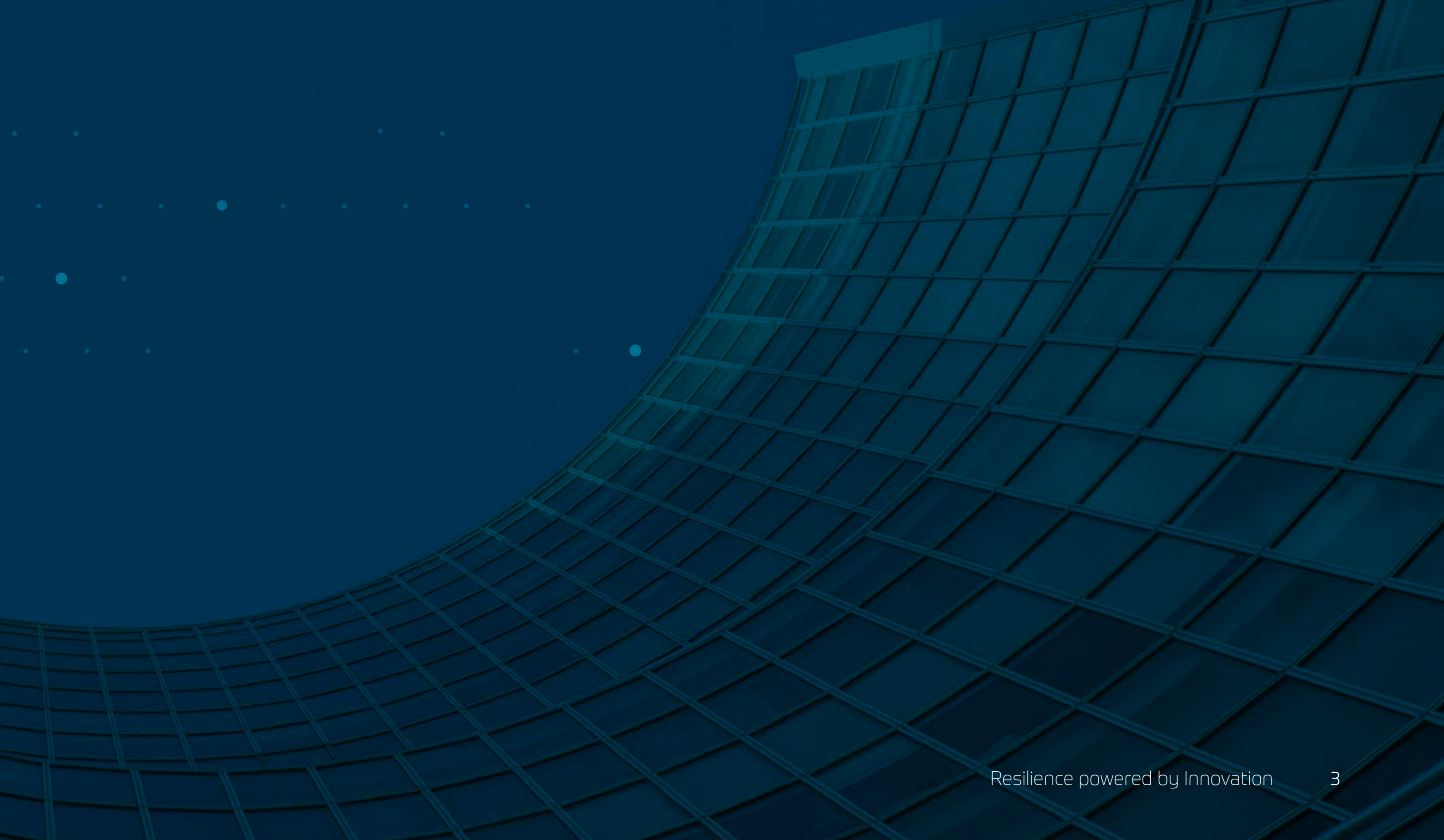
Our
Promise

A team committed to your success.



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 & 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.

Bank ABC at a Glance in 2020

Your business partner across 5 continents and 15 countries.

UNDERLYING TOTAL OPERATING INCOME

$ 793 MILLION

UNDERLYING NET OPERATING PROFIT

$ 282 MILLION

TIER - 1 RATIO

16.6%

CREDIT RATINGS

BBB-

S&P Global Ratings

LIQUIDITY COVERAGE RATIO

324%

CAPITAL BASE

4,285 MILLION

TOTAL ASSETS

$ 30.4 BILLION

Consistent Commitment, Persistent Recognition

Bank ABC has always been committed to delivering excellence in financial services. In this pursuit, the Group's products, systems and processes have evolved over the years to become industry benchmarks. The Group today remains steadfast in developing the 'Bank of the Future' while also combatting the tumultuous economic environment of 2020.

In this "year like no other", Bank ABC's resilience, excellence in business and leaps in innovation were recognised by a number of prestigious international awards.

Our core values:

CLIENT CENTRIC

COLLABORATIVE

CONSISTENT

The recognitions we received:

The Banker	Gartner	Global Finance – Best Trade Finance Provider 2021	seamless Middle East 2020	2020 transform awards mea
Bank of the Year- 2020, Bahrain	Eye on Innovation Award for Financial Services- EMEA for developing 'Fatema' ila bank's digital assistant	Best Trade Finance Provider in Bahrain	Digital Banking Experience of the Year	Best Visual Identity from the Financial Services Sectors Best Overall Visual Identity Best Use of Typography Best External Stakeholder Relations during a Brand Development Project

Bank ABC's vision, its consistent commitment to all its stakeholders and pioneering digital transformation enabled it to weather an extremely hostile year. This has been recognised not just by our industry peers and rating agencies, but now by The Banker Awards.

Saddek Omar El Kaber, Group Chairman
on The Banker award win

Bank ABC was awarded the 'Bank of the Year – for the second time as a testament to our client-centric business model. In our 40 years of existence, we have seen from experience that it is commitment that matters. Commitment to excellence and commitment to performance. It is this vision that guides us forward and drives our strategic decision making, aimed at superior client-centred operations.

So at ABC, we see these honours as recognition of what is truly paramount. **Your success.**

Innovation driven **resilience** with visionary leadership

An astute and unwavering leadership at the helm, was instrumental in the Group's navigation through a tumultuous year.

Directors' Report

Saddek Omar El Kaber
Chairman

Following a year of robust financial results in 2019, Bank ABC began 2020 optimistic about its prospects for the year ahead, supported by a bedrock balance sheet. However, by the time March arrived, everything had changed as the impact of the pandemic began to be felt across the world.

On behalf of the Directors of the Bank ABC Group, it is my pleasure to submit the annual report for 2020 to the shareholders. It highlights the Bank's achievements and consolidated financial performance during this extraordinary year and outlines its strategic direction for 2021.

A year like no other

The International Monetary Fund's annual report for last year declared 2020 to be "a year like no other". The reason, of course, was the COVID-19 pandemic, which has swept around the globe, transforming the way we live, work and conduct business. Following a year of robust financial results in 2019, Bank ABC began 2020 optimistic about its prospects for the year ahead, supported by a bedrock balance sheet. However, by the time March arrived, everything had changed as the impact of the pandemic began to be felt across the world.

These unprecedented challenges were addressed right away with the establishment of a Crisis Management Team as early as February 2020. The Bank responded swiftly to protect the health and safety of its people and to ensure the stability of the business. We strictly adhered to the measures and protocol prescribed by the local authorities across our global network and also promptly deployed the necessary Information Technology infrastructure to enable our staff, where possible, to work remotely from home with VPN (Virtual Private Network) access under a solid information security framework.

In addition to supporting our employees, we remained steadfast in ensuring business continuity. We adopted a "War Room" approach to address three critical aspects: **operational resilience,** to prioritise staff wellbeing and business continuity across the group network, **financial resilience,** to focus on contingency planning; and **client impact** to consider unique requirements of our clients in these extraordinary times. The Crisis Management teams met daily to monitor developments and regulations as they unfolded and determined the necessary actions across our countries of presence.

The early priority for the Bank was to protect its employees, preserve capital and liquidity, as well as conduct portfolio reviews, aimed at identifying any vulnerabilities in individual clients, sectors and geographies that could arise from the pandemic. On this last point, and working closely with our regulators across the global network, we supported our clients with forbearances, providing them with appropriate relief during the crisis. None of such clients have become impaired as a result of such indulgence.

The Bank's support also extended to the wider community as we announced, giving a US$10 million fund for COVID-19 pandemic relief across our MENA network.

We adopted a "War Room" approach to address three critical aspects: operational resilience, to prioritise staff wellbeing and business continuity across the group network, financial resilience, to focus on contingency planning; and client impact to consider unique requirements of our clients in these extraordinary times.

Key achievements

Despite the unprecedented challenges of the year, with our prudent strategy and agile and adaptive mindset, I am delighted to share that 2020 witnessed a number of remarkable achievements for the Group, in line with our strategic value drivers:

- A key pillar of Bank ABC's strategy is to seek inorganic growth and, after extensive due diligence and negotiations in 2020, we entered into an **agreement to acquire BLOM Bank Egypt** in January 2021. Completion is expected in Q2 2021. The BLOM platform will enable us to increase the size of our Egyptian franchise by three times, significantly expanding our market share in one of the most promising MENA geographies.
- In response to the UK's departure from the EU, and to continue to efficiently serve our clients in Europe, we have successfully restructured our operations in continental Europe under a new subsidiary, **Arab Banking Corporation SA,** regulated as a Financial Institution in France with its headquarters in Paris and branches in Frankfurt and Milan.
- We have digitised end-to-end, our middle market corporate business in our Latin American platform, Banco ABC Brasil, which enabled a significant growth in this rich spread segment during the year. Likewise, we have launched at the beginning of 2021 an ambitious project to fully digitise our customer onboarding process in the wholesale bank of the Group, which we hope will start delivering a new customer experience and bringing efficiency during 2021.
- Bank ABC became the first private sector bank in Algeria to achieve full regulatory approval to operate an Islamic window catering to both corporate and retail client segments. Branded 'alburaq', it was successfully launched in February 2021.
- We have maintained our investment grade ratings with top rating agencies. Standard & Poor's reaffirmed our BBB- credit rating and Stable outlook, reflecting our financial strength, resilience, and our ability to weather challenging conditions in our key markets. Capital Intelligence also affirmed the Group's long-term credit rating to BBB+ with a stable Outlook, noting the quality of the Bank's assets and strength of liquidity. Fitch downgraded Bank ABC from BBB- to BB+, a technical downgrade necessary because they impose a maximum 3-notch rating uplift above the Bahrain Sovereign

rating, which was downgraded to B+ from BB-. However, Fitch also revised our ratings outlook from 'Negative' to 'Stable' citing our solid risk framework, quality capital, sound liquidity, stable funding, and competent management.

- The Financial Times publication "The Banker" named Bank ABC the **Bank of the Year- Bahrain for 2020,** in recognition of its robust growth strategy, resilient performance, pioneering strides in digital transformation and prudent COVID-19 pandemic response. This accolade comes to us for the second time in five years. A little over a year old, **ila Bank** is still the only purely digital, mobile-only, cloud-based bank in Bahrain. It has exponentially grown during 2020, berating all expectations. Its dynamic brand was recognised with four **Transform awards** for visual identity, the **Gartner Eye on Innovation Award** for its AI-powered, emotionally intelligent digital assistant, "Fatema". ila also received the **Seamless Middle East** 2020 award for Digital Banking Experience of the Year.
- A year in which in-person events were cancelled across the world, Bank ABC was proud to host the **4th MEA Fintech Forum,** on a state-of the art virtual platform, hosting more than 2,000 professionals, international fintech pioneers and thought leaders.
- Committed to promoting digital innovation in financial services, we started a series of webinars called **"Talks @ ABC Labs"** for our staff across the Group and selected partners. We also established strategic partnership for launching **FinHub973** for supporting the digital transformation of financial services in Bahrain, an initiative sponsored by Central Bank of Bahrain.

Financial performance

The Group had a strong start to the year supported by a robust balance sheet, good client transaction pipeline and a clear plan for growth driven by our digital agenda and wholesale bank transformation. However, as the year progressed, our financial results were heavily impacted by the unique combination of COVID-19, collapse in oil prices and consequent economic and market pressures, together with the emergence of some major regional fraud cases, which significantly elevated Loan Loss Provisions to abnormally high levels, impacting the Group's financial performance.

Overall in 2020, the underlying* business and client revenues held up well in all our markets of operation, achieving 91% of previous year levels, when normalised for hedging and adjusted for uncontrollable market factors, primarily the depreciation of the Brazilian Real by ~23%, creating a significant translation impact on revenues from Banco ABC Brasil (BAB).

In response, extensive measures were taken on operating expenses to mitigate the reduction in revenues, so that on an underlying* basis, the Group achieved a net operating profit of US$282 million compared to US$351 million in 2019.

However, such a strong performance in an extreme year was overshadowed by a significant ECL charge of US$329 million (FY 2019 US$82 million), of which US$183 million was the result of unforeseeable major client frauds in the region. The remainder of US$146 million was elevated due to the pandemic and the forward-looking nature of IFRS 9, representing a significant increase on previous year's levels, similar to the experience of other market players.

On a headline basis, the Group's consolidated net loss attributable to the shareholders of the parent, for the year 2020 was US$89 million, compared to a net profit of US$194 million reported for the same period last year and

The Financial Times publication The Banker named Bank ABC the Bank of the Year- Bahrain for 2020, in recognition of its robust growth strategy, resilient performance, pioneering strides in digital transformation and prudent COVID-19 pandemic response. This accolade comes to us for the second time in five years.

the total operating income was US$646 million, 25% lower compared to US$865 million reported for the same period last year. Operating expenses were at US$486 million, 7% lower than US$524 million for the same period last year. Cost savings initiatives have been undertaken, while reprioritising the continuing investments into the Group's digital transformation and strategic initiatives.

The Group's total assets stood at US$30.4 billion at the end of the December 2020, compared to US$30.1 billion at the 2019 year-end. On an underlying* basis, total assets grew by 7%. Deposits were at US$21.3 billion, compared to the levels of US$21.0 billion at 2019 year-end. Despite the prevailing conditions, our deposit experience remained steady underscoring the confidence of our clients. Our efforts to diversify and improve the quality of our deposit base continue.

The Group's Capital and Liquidity ratios are strong, CET1 at 16.2%, Tier 1 at 16.6% and total capital adequacy ratio (CAR) 17.5%, with a comfortable buffer above the minimum regulatory requirements.

> We have set the blueprint for the digital transformation programme of wholesale banking, which would take us into the post-pandemic future with a compelling customer value proposition that would reinforce our customer acquisition plans and cement our existing relationships.

Business performance

The **Wholesale Banking** business achieved a good income performance in the circumstances by focusing on resilient sectors and customer segments that expose the Bank to relatively lower risks. We have set the blueprint for the digital transformation programme of wholesale banking, which would take us into the post-pandemic future with a compelling customer value proposition that would reinforce our customer acquisition plans and cement our existing relationships.

Expanding on our build-out of **Global Transaction Banking** (GTB) business, within Trade Finance, we rolled out the Global Receivables Financing programme with an increased focus on winning new business from our clients. With regards to traditional trade transactions, the Bank advised, issued and processed over US$10 billion of Documentary Trade flows across all our branches and subsidiaries. Strengthening our Cash Management capabilities, the Bank managed to grow its liabilities base focusing on vital sectors that continued to generate cash despite the negative impact of COVID-19.

The Bank's **Treasury and Financial Markets** performed strongly against targets, capitalising on the low interest rates and sharp volatility in the financial markets, whilst ensuring that the Bank maintained strong liquidity metrics throughout the year. The Bank launched the online FX trading platform for its clients in the UK and US. Our FX rates are now available on leading Multi-bank platforms, which enables us to widen our client base and deepen existing relationships.

In **Capital Markets,** uncertainty around the pandemic was offset by an increase in global liquidity due to the stimuli from Central Banks all over the world. Due to this our focus was on providing funding solutions to sovereign and sovereign-related entities in our core markets through syndicated loans and debt capital markets, ending the year with volumes similar to previous years, and ending the year with ranking #1 in the MENA league tables for Syndications.

Our franchise enhancing **Specialised Finance** business also had a productive year, notwithstanding the challenges caused by the global pandemic, and it closed a number of deals and secured a new major financial advisory mandate.

Our **Islamic finance** franchise, represented by wholly owned subsidiary, Bank ABC Islamic, had a successful year supporting its significant client base across our network and product capability. Additionally, a great deal of work was done in laying the groundwork for the launch of a new Islamic banking window in Algeria.

Our **North American and Latin American** business have shown a solid growth during 2020, compensating for the slower growth in our European business as a result of the stagnation in trade flows, demonstrating once again the added value of our diversified global services.

Our **Retail Banking** business across MENA (Algeria, Egypt, Jordan, Tunisia) showed remarkable resilience and adaptability in face of the pandemic and the subsequent lockdowns, which severely impacted the walk-in customers in our branches. We have witnessed a strong attraction to our digital platform from our customers, increasing its new users and overall usage by 26% and 50% consecutively, enabling features such as payroll transfers and contactless payments as well as other products and services.

We also continue to expand **AFS'** digital payments and Fintech services across Middle East and Africa. Its new C-team, comprised of internationally experienced industry leaders from the payments and fintech space, including a new CEO, Chief Finance and Strategy Officer, Chief Transformation Officer and Chief Operating Officer, will provide guidance and leadership to uplift skills and expedite AFS' strategic objectives.

As noted, the **acquisition of BLOM Bank Egypt** was a major accomplishment for the year and fulfils a key part of our longstanding strategy to grow the franchise inorganically in the region. The acquisition will give us a much stronger market position, increasing our market share from 0.2% to 1%, and taking us from being number 36 in the market to number 17. We expect the transaction to complete in Q2-2021 and then a merger plan will follow to combine with our existing Bank ABC Egypt operations, to create a new powerhouse in the Egyptian banking landscape. As with all acquisitions, the post-merger integration will be critical to success, and we will be developing a robust plan that will secure regulatory approvals and capture synergies while preserving the best of both banks in terms of culture and talent.

Operational efficiency and resilience

Throughout the year, we continued to focus on enterprise data and our risk and disaster recovery protocols. The outbreak of the pandemic prompted the adoption of a separate Pandemic Business Continuity plan and a wide-ranging reinforcement of our cyber-security protocols. We also undertook extensive stress-testing of accounts and operational procedures. Likewise, we deployed our IT strategy with the rollout of Office 365 across the network enabling our staff to work from anywhere as long as they are connected to internet, from any location and device.

We upgraded our market risk system, in compliance with International Monetary Fund and also joined the ORX (Operational Riskdata eXchange) to heighten our operational risk practice and strengthen our risk management capabilities.

We also went live with Phase 1 of the Kondor Treasury Back Office system (Fusion KTP), a back-office transaction processing system in Bahrain, supporting our Marketable Securities activities across both Proprietary and Client books.

Getting the European subsidiary ready in time for Brexit was a major undertaking that affected all the key operating systems. These systems were tested separately and coordinated with the offices in London, Frankfurt, Milan, and Paris to ensure the security of the Bank.

From a regulatory perspective, the Bank has implemented all CBB directives to ensure compliance with them, inclusive of the transition to IBOR.

Risk Management

As a result of the COVID-19 event, we reviewed our portfolio of obligors and associated exposures across all units in the Group. In order to appropriately estimate the Expected Credit Loss (ECL) for our portfolio as a result of the pandemic, we used the most recent macro-economic data, along with IMF forecasts and applied overlays on the ECL estimates based on internal stress testing analysis. While estimating the overlays, considerations were given to potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well as the potential trajectory of the subsequent recovery. We also considered the likely differential impacts on portfolio and sector classes, including pronouncements from different regulatory bodies regarding IFRS 9 application in the context of COVID-19.

Enhancements to our portfolio concentration management and single obligor thresholds were carried out to strengthen our credit capabilities and improve our credit risk mitigation for 2021.

The Group Risk Appetite was reviewed, and changes made to reflect the new normal arising from the pandemic, further sharpen our focus on enterprise risk management and include ESG metrics demonstrating the Group's focus in proactively leading the way in the ESG space.

The Bank has also introduced a dedicated Board Compliance Committee to reinforce its focus on regulatory compliance and financial crime matters.

2021 Outlook

It is anticipated that the introduction of the COVID-19 vaccine will help the global economy to recover as the pandemic is brought under control and trade and confidence improve. The IMF's projections continue to expect an expansion of about 5% in 2021, acknowledging that uncertainties may persist. Bank ABC will focus on different sectors in its markets of operation to continue its growth and building the bank of the future.

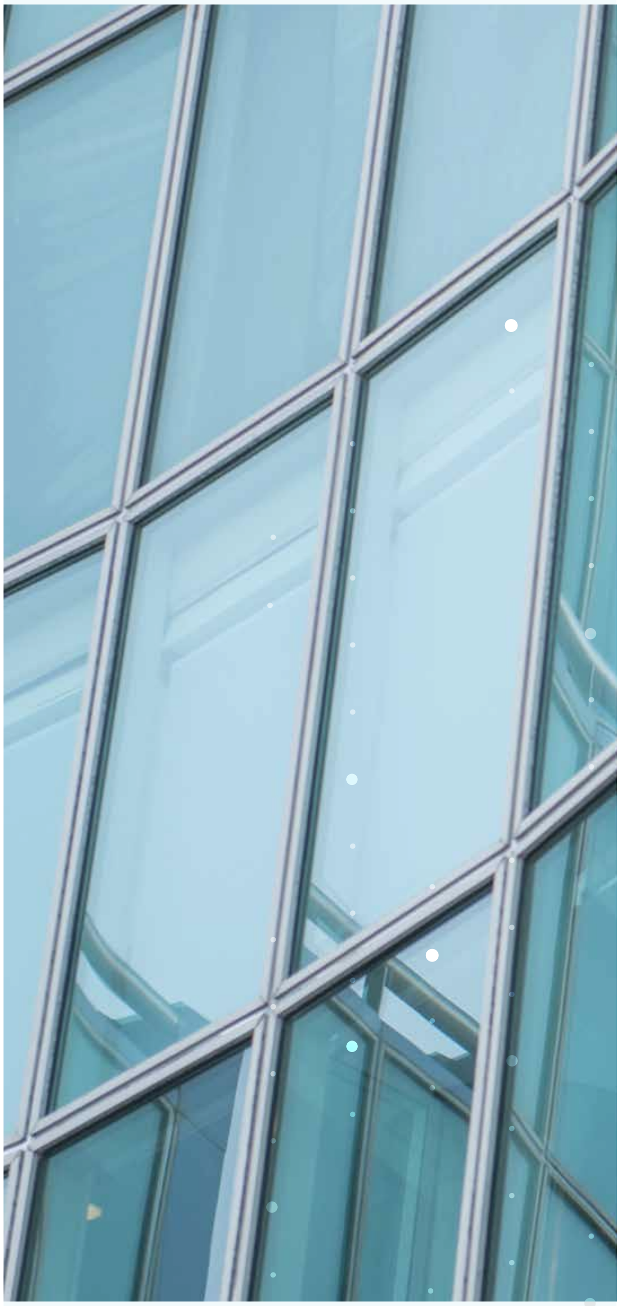
We are committed to enhancing our Wholesale Banking business with future-proof technology and operating model. The Bank will also be exploring plans for our ground-breaking digital mobile-only bank, ila, to expand across MENA.

As we look forward to a new financial year with cautious optimism, my fellow directors and I would like to express our heartfelt appreciation to our principal shareholders, the Central Bank of Libya, and the Kuwait Investment Authority, for their support. We are also grateful to our shareholders for their ongoing faith and trust in the Bank's handling of the pandemic crisis during 2020 and our unwavering ambition to become MENA's leading international bank. We also extend the deepest gratitude to the management and employees of Bank ABC for their exemplary efforts during this extraordinary year.

We are hopeful that Bank ABCs' successes will continue through a productive and successful 2021.

Saddek Omar El Kaber
Chairman

Bank ABC will focus on different sectors in its markets of operation to continue its growth and building the bank of the future.



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.

Mr. Saleem has gained professional experience from his service over 35 years at Kuwait Investment Authority since 1986 where he held various positions including the Treasury Department Manager from 2006 to date. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He currently holds the position of Vice Chairman in the Arab Banking Corporation. He served previously in the State of Kuwait as Chairman and Board Member of audit and investment committees including He has been a Chairman or a member of the board of directors in a number of companies such as Generations Fund Holding Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company, Kuwait Flour Mill & Bakeries Company. He also participated in many theoretical and practical courses at leading banks and global financial institutions in areas of portfolios management, investment, and capital markets.

Mr. Khaled Al Hassoun
Director

AC RemCo CC ‡ >|<

Bacholor'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 (1999-2004), 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 CC ‡ §

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 CC ‡ §

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.

Dr. Tarik Yousef
Director

AC GC CC ‡ >|<

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 CC ‡ §

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, Member of the Strategy Committee, Member of the Investment Committee at the Central Bank of Libya, and Member of the Steering Committee of the Banking system upgrade project. 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 23 years' experience is primarily in the financial market; money and capital markets.

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
CC	Member of the Compliance Committee
‡	Non-Executive
§	Independent
>|<	Non-independent

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 Boards of Bank ABC Islamic and Arab Banking Corporation SA. He is also the Deputy Chairman of ABC International Bank plc, and has more than 30 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 over 30 years of banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. Mr. Al Waary represents the Bank as Chairman of Bank ABC Jordan, Chairman of the Arab Financial Services Company, Chairman of ila Bank Advisory Board and Vice Chairman of Bank ABC Egypt.

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 - Economics, 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 was appointed 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 in Algeria.

Mr. Christopher Wilmot
Group Treasurer

MBA from the University of Strathclyde Business School.

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 over 30 years of treasury, investment and financial markets experience, covering both conventional and Islamic banking disciplines, of which the last 25 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. Sedjwick Joseph
Group Chief Credit & Risk Officer

MBA, Cochin University of Science and Technology; B. Tech (Engineering) – National Institute of Technology, Calicut.

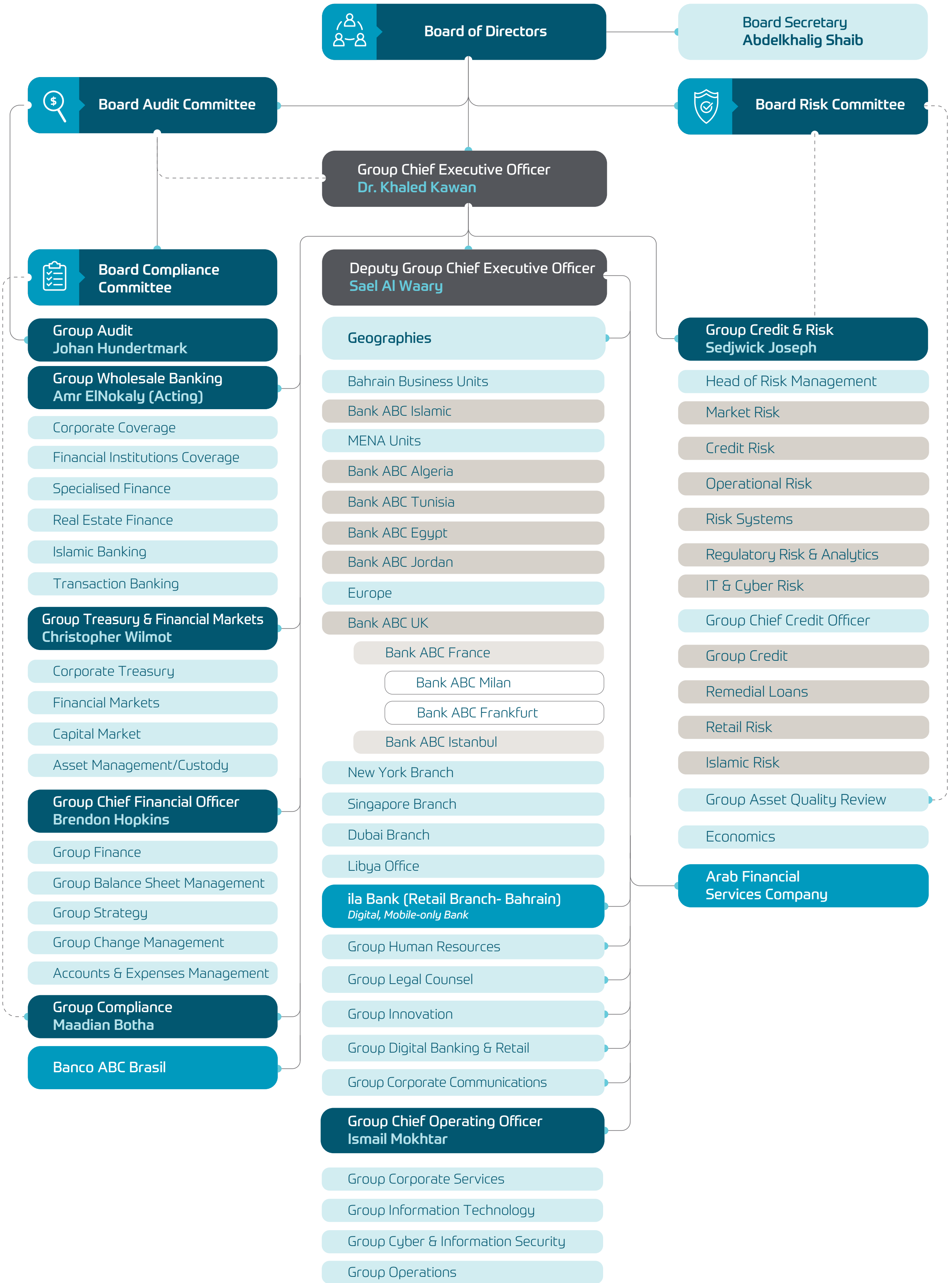
Mr. Joseph joined ABC International Bank plc in Dec 2015 as Chief Risk Officer. He was appointed as the Group Chief Credit and Risk Officer in July 2020. He has over 25 years of banking experience across credit, risk management, portfolio management and analytics. His experience spans across wholesale, retail, private and business (SME) banking products. Previously he was the Chief Risk Officer for Habib Bank AG Zurich (HBZ). Prior to HBZ, Mr. Joseph was with Barclays and Standard Chartered Bank holding both country and regional roles across multiple geographies of Europe, US, Asia, Middle East and Africa.

Mr. Johan Hundertmark
Group Chief Auditor

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

Mr. Hundertmark is a Chartered Accountant and member of the Royal Netherlands Institute of Chartered Accountants, he is a Chartered member of the Dutch Institute of Financial Controllers and he holds a Master's Degree in Business Economics at the University of Tilburg. He was trained at Ernst & Young and KPMG in the Netherlands before joining ABN Amro Bank N.V. where 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



Group Performance

(US$ million)

The ABC Group

2020 Highlights	ABC Parent (ABC B.S.C.)	ABC Group
Total Assets	17,405	30,407
Total Non-trading investments	3,919	6,696
Total Loans and advances	5,294	15,656
Total Deposits	10,404	21,263
Shareholders' Funds	3,767	3,767

MENA Subsidiaries

2020 Highlights	ABC Algeria	ABC Jordan	ABC Egypt	ABC Tunisie
Total Assets	605	1,670	755	447
Total Non-trading investments	40	458	177	40
Total Loans and advances	365	908	309	237
Total Deposits	394	1,293	617	277
Shareholders' Funds	180	225	116	30
Number of Branches	24	26	27	16

Wholesale Banking and Other Subsidiaries

2020 Highlights	ABC Int'l Bank plc	ABCSA	Banco ABC Brasil	ABC Islamic Bank	AFS
Total Assets	3,688	835	7,735	2,262	70
Total Non-trading investments	456	-	777	842	-
Total Loans and advances	2,564	529	4,353	1,057	-
Total Deposits	2,574	593	5,811	1,949	33
Shareholders' Funds	680	223	833	291	9
Number of Branches	1	3	11	-	-

Financial
Highlights

as of 31 December

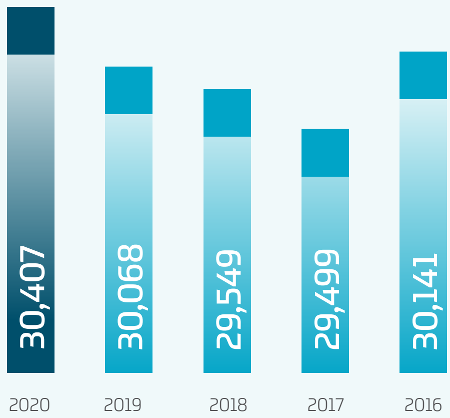
	2020	2019	2018	2017	2016
Earnings (US$ million)					
Net interest income	**516**	564	559	556	538
Other operating income	**130**	301	258	313	327
Total operating income	**646**	865	817	869	865
Profit before credit loss expense, taxation and non-controlling interests	**160**	341	343	407	429
Credit loss expense	**(329)**	(82)	(79)	(96)	(92)
(Loss) Profit before taxation and non-controlling interests	**(169)**	259	264	311	337
Net (loss) profit for the year from continuing operations	**(89)**	194	202	193	183
Financial Position (US$ million)					
Total assets	**30,407**	30,068	29,549	29,499	30,141
Loans and advances	**15,656**	16,452	14,884	15,329	14,683
Placements with banks and other financial institutions	**1,803**	2,051	2,991	3,170	4,130
Trading securities	**171**	507	977	1,051	711
Non-trading investments	**6,696**	5,836	5,661	5,599	5,635
Shareholders' funds	**3,767**	4,031	3,862	3,930	3,826
Ratios (%)					
Profitability					
Net interest margin	**1.9**	2.0	2.1	2.0	1.9
Cost: Income ratio (costs as % of gross operating income)	**75**	61	58	53	50
Net (loss) profit as % of average shareholders' funds	**(2.4)**	4.9	5.2	5.0	4.8
Net profit as % of average assets	**(0.30)**	0.65	0.71	0.65	0.61
Dividend cover (times)	**-**	-	2.17	2.07	1.96
Capital					
Risk weighted assets (US$ million)	**24,483**	25,741	23,977	24,045	23,737
Capital base (US$ million)	**4,285**	4,609	4,352	4,504	4,538
Risk asset ratio - Tier 1	**16.6**	16.9	17.2	17.7	17.5
Risk asset ratio – Total	**17.5**	17.9	18.2	18.7	19.1
Average shareholders' funds as % of average total assets	**12.4**	13.2	13.4	13.1	12.8
Loans and advances as a multiple of shareholders' funds (times)	**4.2**	4.1	3.9	3.9	3.8
Total debt (including non-controlling interests) as a multiple of shareholders' funds (times)	**7.1**	6.5	6.7	6.5	6.9
Borrowings as multiple of shareholders' funds (times)	**0.48**	0.52	0.52	0.55	1.12
Assets					
Loans and advances as % of total assets	**51.5**	54.7	50.4	52.0	48.7
Securities as % of total assets	**22.6**	21.1	22.5	22.5	21.1
Impaired loans as % of gross loans	**5.2**	3.7	4.0	3.5	4.1
Aggregate provisions as % of impaired exposures*	**101.1**	101.9	100.7	103.2	90.3
Loans provisions as % of gross loans	**5.3**	3.6	3.7	3.6	3.7
Impaired securities as a % of gross non-trading debt securities**	**1.3**	1.3	1.8	2.1	2.1
Securities provisions as a % of gross non-trading debt instruments**	**1.47**	1.54	2.10	2.05	2.02
Liquidity					
Liquid assets ratio	**36.1**	35.4	39.1	37.6	45.4
Deposits to loans cover (times)	**1.4**	1.3	1.4	1.3	1.4
Share Information					
Basic Earnings per share - Profit for the year	**($0.03)**	$0.06	$0.07	$0.06	$0.06
Dividends per share - Cash	**-**	-	$0.03	$0.03	$0.03
Net asset value per share	**$1.22**	$1.30	$1.24	$1.26	$1.23
Capitalisation (US$ 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)**	(6)	(4)	-	-

* Includes all On and Off Balance sheet exposures. Comparative years prior to 2018 represent the loan loss provisions as % 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).

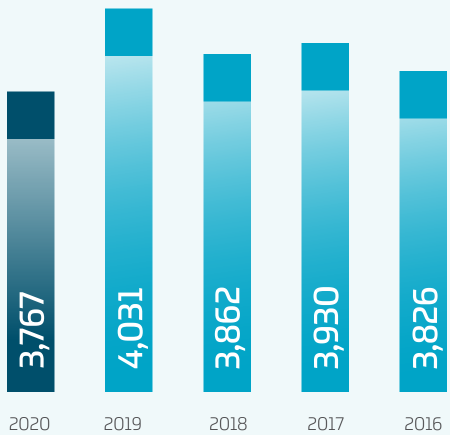
Total Assets
(US$ million)

30,407



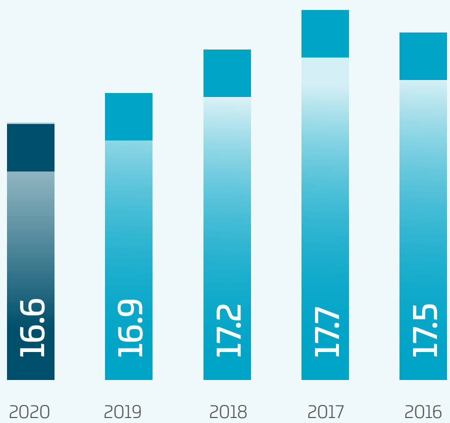
Shareholders' Funds
(US$ million)

3,767



Risk Asset ratio - Tier 1
(%)

16.6



Innovation driven **resilience** with operational excellence

Swift and prudent action steered operational and financial resilience, and directed our course of action across 2020.

Review of

Operations

Dr. Khaled Kawan
Group CEO

Our review of operations for the 2020 reporting year opens by underscoring the Bank's remarkable resilience in the face of unprecedented challenges, staying steadfast on its transformative journey and closing the year with a significant strategic achievement, the agreement to acquire BLOM Bank Egypt, giving us tremendous growth potential in one of the most promising markets in MENA.

STRATEGIC DELIVERY

Our review of operations for the 2020 reporting year opens by underscoring the Bank's remarkable resilience in the face of unprecedented challenges, staying steadfast on its transformative journey and closing the year with a significant strategic achievement, the agreement to acquire BLOM Bank Egypt, giving us tremendous growth potential in one of the most promising markets in MENA.

Bank ABC entered this 'year like no other' with much enthusiasm, having just launched our digital mobile-only bank ila in Bahrain and moving confidently ahead on our strategic journey. However, with the outbreak of the COVID-19 pandemic, as the borders closed, travel ceased, businesses struggled, and the global economy was brought to its knees, a swift realignment of priorities was essential. Bank ABC Group responded with a comprehensive crisis management plan that addressed first the safety of our employees, the financial stability of the Group, and the bank resilience by ensuring business continuity was in place.

The early priority for the Bank was to preserve capital and liquidity as well as conduct credit portfolio reviews, which were aimed at identifying any vulnerabilities in individual clients, sectors and geographies that could arise from the pandemic. Working closely with our regulators across our markets of presence, we supported our eligible clients with forbearances to provide them with appropriate relief during the crisis.

Throughout this period the Bank remained committed to its strategic value drivers and our key strategy of "digitising the bank", which gained an even greater relevance and urgency during the pandemic. Our robust IT infrastructure focus on innovation and operational efficiency, and continued investment in our digital platforms were not just able to aid business continuity but enabled our clients to continue making transactions and monitoring their finances using ABC Digital across the network, and through ila Bank in Bahrain.

The Wholesale Banking digital transformation programme was set in motion, moving ahead with an "enhance, leap-frog and disrupt" approach. An ambitious project to fully digitise the Bank's wholesale banking client onboarding process is underway and we digitised, end-to-end, our middle market corporate business in our Latin American platform, Banco ABC Brasil, which enabled significant growth in this rich spread segment during the year.

The Bank's strategic aim of seeking inorganic growth in core markets achieved a major breakthrough during 2020 with Bank ABC entering an agreement to acquire BLOM Bank in Egypt, following intense negotiations and due diligence work over a period of six months. Egypt is a key strategic market for the Group, where it has had a full banking presence since 1999. The acquisition of BLOM Bank, with its 41 branches, will help to position Bank ABC's Egyptian franchise within the top 20 banks in the country, increasing its market share considerably and building new capabilities, particularly in retail, corporate, and SME lending. Once regulatory approvals have been obtained, the integration processes will commence in Q2-2021. This achievement is a source of great pride for the Bank, during a particularly difficult year, beset by a number of challenges, the Bank had the appetite and groundwork in place to move swiftly when a suitable opportunity presented itself.

FINANCIAL PERFORMANCE

2020 began with a strong balance sheet, a promising pipeline of customer transactions, and ambitious plans for growth, driven by the transformation of the wholesale bank. As we moved into Q2, the Group's financial results were heavily affected by the unique combination of the pandemic, a collapse in oil prices, and economic and market uncertainty, along with the emergence of some major regional fraud cases, which elevated Loan Loss Provisions to abnormally high levels. Additionally, depreciation of the Brazilian Real by ~23%, created a significant translation impact on revenues from Banco ABC Brasil (BAB).

Factoring in this backdrop, extensive measures were taken to reduce operating expenses to mitigate the reduction in revenues, therefore on an underlying* basis, the Group achieved a net operating profit of US$282 million, compared to US$351 million in 2019.

Factoring in this backdrop, extensive measures were taken to reduce operating expenses to mitigate the reduction in revenues, therefore on an underlying* basis, the Group achieved a net operating profit of US$282 million, compared to US$351 million in 2019.

On a headline basis, the Group's consolidated net loss attributable to the shareholders of the parent, for the year 2020 was US$89 million, compared to a net profit of US$194 million reported for the same period in 2019 and the total operating income was US$646 million, 25% lower compared to US$865 million reported for the same period last year. Operating expenses were at US$486 million, 7% lower than US$524 million for the same period in 2019 reflecting the cost saving initiatives undertaken, while reprioritising the continuing investments into the Group's digital transformation and strategic initiatives.

The Group's total assets stood at US$30.4 billion at the end of December 2020, compared to US$30.1 billion at the 2019 year-end; on an underlying basis, total assets grew by 7%. Deposits were at US$21.3 billion, compared to the levels of US$21.0 billion at 2019 year-end. Despite the prevailing conditions, our deposit experience

* 'Underlying' basis referred above calculated after adjusting for normalisation of tax treatment of currency hedges in Banco ABC Brasil which have an offsetting effect between Income and tax, FX depreciation and other one-off exceptional items. Further details are explained in the Investor presentation available on Bank ABC website.

remained steady underscoring the confidence of our clients. Efforts to diversify and improve the quality of our deposit base continue.

Impairment charges stood at US$329 million (2019: US$82 million), of which US$183 million resulted from unforeseeable client frauds in the region. Without the one-off fraud element, the Group would have been in a net profit position of US$94 million. The Group's Capital and Liquidity ratios are strong, CET1 at 16.2%, Tier 1 at 16.6% and total capital adequacy ratio (CAR) 17.5%, with a comfortable buffer above the minimum regulatory requirements.

GLOBAL BUSINESS LINES

Wholesale Banking

Wholesale banking began the year with ambitious plans to fuel growth by increasing its number of corporate relationships. The impact of the pandemic and subsequent challenges led to a more risk-sensitive approach towards identifying business opportunities across resilient sectors such as health care, pharmaceuticals, fast-moving consumer goods, trading and manufacturing, and telecommunications and technology.

While acclimatising to the new normal, the Bank managed to keep all stakeholders and staff well connected, and with demonstrated prudence and flexibility, we enabled clients to operate in the changing business environment.

Wholesale Banking achieved 86% of the previous year's operating income despite the extreme market conditions, by focusing on resilient sectors and customer segments that, relatively, exposed the Bank to lower risks.

Wholesale banking began the year with ambitious plans to fuel growth by increasing its number of corporate relationships.

The pandemic further propelled us on our mission to develop the 'Bank of the Future' and to that effect, an ambitious roadmap for the Wholesale Banking Digital Transformation was formalised in 2020, with the aim of delivering a compelling value proposition that would reinforce our customer acquisition plans and cement our existing relationships. As mentioned, the digital client onboarding project is already underway and aims to deliver a new customer journey and greater efficiency for the Bank.

The programme currently focuses on digitising our Global Transaction Banking (GTB) business along the three key pillars of Documentary Trade, Supply Chain Financing & Cash Management. The Bank is progressing well with launching new platforms and solutions, as well as completing a Proof of Concept with Import Letters of Credit using Distributed Ledger Technology.

On the business front for GTB, a Global Receivables Finance Product Approval Programme was rolled out to harmonise and enable further development of our open account trade product offerings. Bank ABC advised, issued and processed over US$10Bn of Documentary Trade flows across all our branches and subsidiaries. The Global Trade Debt and Distribution (GTDD) business originated US$1.1Bn of new business, distributed US$800mn of Trade Assets - demonstrating the ability to tap market liquidity and mitigate credit risk throughout the year, and tapped into five new investors, taking the total number of investors to 59. The Supply Chain Finance volumes crossed US$ 2Bn inclusive of global multi debtor programmes and single obligor facilities in 2020. In addition, GTB and WB Coverage teams generated Liabilities from Corporates and NBFIs of over US$1.2 Bn in 2020.

In Specialised Finance, although 2020 saw a general reduction in infrastructure and industrial investment, there were still opportunities for project finance, leveraged finance, and mergers and acquisitions. The Specialised Finance team focused on arranging mandates in sectors that were relatively unaffected by the pandemic, such as telecommunications, fertilizers and financial advisory.

Several deals were closed during the year and a new major financial advisory mandate was secured. The deals included closing a capital call facility with one of the world's largest private equity funds, arranging an equity bridge loan to a UAE-based customer in the utilities sector, and an RAB-structured transaction with a government-related entity in the GCC. The team brought the year to a close by securing its first advisory mandate for a project in Algeria to raise funding for a gas field development.

Islamic Finance also navigated this turbulent year with caution and made some notable achievements. It was successful in obtaining all the regulatory approvals to set up an Islamic window in Algeria "alburaq", which was launched in February 2021. Although activity on the corporate side was subdued with lowered risk appetite, the team managed to onboard six new corporate clients. Focus was shifted towards institutional and sovereign business, which remained strong in 2020. There was a modest reduction of 4% in its total operating income, from US$46.6 million in 2019 to US$44.9 million in 2020.

Group Treasury and Financial Markets

2020 emerged as one of the strongest years for Group Treasury and Financial Markets (GTFM) in terms of business activity and revenue, whilst ensuring the Bank remained on a firm footing, meeting all regulatory and functional requirements. The Bank was well positioned to capitalise on the lowering of interest rates and the sharp increase in volatility within the financial markets, all the while ensuring that it maintained strong liquidity metrics throughout the year. This enabled the team to finish the year 25% above their revenue targets.

GTFM entered the year with a solid pipeline of activity and transactions in Q1, and as the pandemic unfolded, transitioned into contingency planning around liquidity and funding. This became a key component of the crisis management structure we set in place to ensure financial and operational resilience whilst meeting unique client requirements. At the peak of the crisis, GTFM was able to provide substantial support and meet the urgent liquidity requirements of several key clients. In addition to strengthening its existing relationships, this is expected to lead to further transactions down the line.

It generated a net operating income of US$117m against US$79m in 2019. The outperformance comes on the back of active management of every portfolio and product line coupled with a relentless search for opportunities to maximise returns and stabilise liabilities. The CD programme reached an all-time high and DPM's volumes increased to US$2.1bn to ensure strong liquidity metrics at year end.

Given the economic backdrop, our Financial Markets Sales business saw considerable growth in funding solutions for clients across Repo/Reverse Repo and Islamic Collateralised Lending, supported by our strong liquidity position. Given our market access, we also witnessed significant growth across our credit and commodities businesses whilst FX flows remained subdued due to reduced corporate activity.

2020 emerged as one of the strongest years for Group Treasury in terms of business activity and revenue, whilst ensuring the Bank remained on a firm footing, meeting all regulatory and functional requirements.

From a digitisation perspective, we launched our online FX trading platform for clients in the UK and US, and our FX rates are now available on leading Multi-bank platforms. This has empowered us to widen our client base and deepen existing relationships and is testament to our resilience and extensive market reach.

In Capital Markets, corporate activity remained low; however, demand for funding from sovereigns and sovereign-linked entities picked up as a direct result of budgetary shortfalls, with the drop in oil revenues, pandemic-related uncertainties, and stimulus packages. Debt Capital Market activity in our core markets (MENAT), has been the strongest the Bank has seen so far with issuance volumes at about US$120 billion, over two-thirds of which came from sovereigns and sovereign-linked entities. Some of the major deals included a US$ 2billion Sukuk issuance for the Kingdom of Bahrain as JLM and Bookrunner, US$1 billion Sukuk issuance for the Government of Sharjah and Dubai Islamic Bank respectively, acting as JLM and Bookrunner. We also facilitated a US$600 million Sukuk issuance for Islamic Corporation for the Development of the Private Sector, and a US$750 million Sukuk issuance for Dubai Aerospace Enterprise as JLM and Bookrunner.

Loan markets followed a period of slow activity at the start of the year but ended 2020 achieving business volumes like previous years. The mix of borrowers was different, being skewed towards sovereigns and government-related entities. On the Syndication front, some of the major transactions of the year included a US$2 billion facility arranged for the Arab Republic of Egypt. The Bank also served as Joint Coordinator / Global and Conventional Agent / IMLA / Bookrunner for a 5-year Conventional and Murabaha Facility of US$450 million for Batelco; Joint Coordinator, MLA and Bookrunner for a 3-year facility of US$650 million for Bank Muscat and an US$800 million facility for Oman Gas, in which we acted as MLA and Bookrunner. The Bank ended the year ranking #1 in the MENA league tables for Syndications.

GEOGRAPHIC MARKETS

MENA

As country lockdowns and curfews took effect, airports and government departments closed down, and travel was restricted, businesses came under pressure and both interest rates and the price of oil fell dramatically.

Despite the challenges of the year, Bank ABC was able to outperform its revenues of 2019 by 2% marking a solid achievement given the central bank regulated waivers of free income and drastic interest rate cuts. At the same time, we added new functionalities to our internet banking platform, ABC Digital, and more products were added to the product family, including the contactless card, which was a vital development for helping customers cope with the pandemic.

The number of new online banking users and internet banking activity increased by 26% and 50% respectively.

> Egypt was the best-performing economy in the MENA region before the pandemic, reporting growth exceeding 5%.

As part of the digitalisation strategy, the units also reviewed the brick & mortar branches model vs the digital delivery.

Algeria

Bank ABC Algeria entered 2020 with a conservative agenda in anticipation of a slowdown in activity due to continued political and economic unrest. This was further heightened by the arrival of the pandemic, with the rescheduling of loans and changes in regulations. Against this backdrop, there was a swift realignment of priorities and anticipatory measures were taken to minimise the impact, including the postponement of certain investments such as the refurbishment of branches. However, the Bank has finalised an important deal to secure and acquire a new headquarter in Algiers.

Despite the difficult environment, Bank ABC Algeria increased its client base by 4500 new customers and successfully converted part of its portfolio into resilient sectors, such as agro-food and pharmaceuticals, which helped to cushion it from the effects of the pandemic. Operational profit rose by 14% (YoY) despite a 9% depreciation of the Algeria Dinar to USD.

As mentioned above, the Bank achieved full regulatory approval to open its Islamic Banking window under the name 'alburaq', which was launched successfully in February 2021.

Investments in infrastructure during 2019 meant that the Bank was well placed to deal with a dramatic increase in demand for digital services. However, branches were also kept open for the convenience of customers with strict health and safety protocols.

Egypt

Egypt was the best-performing economy in the MENA region before the pandemic, reporting growth exceeding 5% and the Bank anticipated growth across all products and businesses in 2020.

With the arrival of the pandemic, the emphasis on digital transactions fueled demand within Bank ABC Egypt with ABC Digital enrollments reaching 12,800 users with an active ratio of 51%, against the targets of reaching 13,275 and 50% respectively. External transfers and credit card payment penetration also exceeded targets, reaching 35% (target: 30%) and 8% (target: 7%) respectively.

Bank ABC Egypt ended the year positioned as one of the leading banks in the auto loans market in Egypt, with the loan book reaching EGP 454 million in December 2020.

Despite the Central Bank's COVID-19 waivers and concessions, Bank ABC Egypt exceeded its original assets budget for Retail Assets for 2020, reaching EGP

2.43 billion versus the EGP 2.09 billion budgeted. Total operating income for the bank of EGP 706 million was achieved versus a normalised budget of EGP 868 million. After absorbing the Covid 19 impact, the Total Operating income for the year was at same level as last year and the loan book grew by EGP 670 million to reach EGP 4.8 billion by end 2020, also supported by the successful rollout of the digital banking initiatives.

For 2021, Bank ABC Egypt looks forward to expanding its footprint further to receiving regulatory approvals and finalising the acquisition of BLOM Bank Egypt, with the launch of new products, growth in customer numbers, and the further development of digital banking capabilities.

Jordan

In Bank ABC Jordan, the pandemic had a positive impact on the adoption of digital channels, with a larger number of clients being onboarded during the year than initially planned (76% of wholesale banking clients, up from 53% in 2019). The volatility in the international markets, with high trading volumes, through ABCI contributed positively to Bank ABC Jordan to benefit from brokerage fees.

Although tightening liquidity in the market presented a challenge, we were able to maintain adequate levels in both our net stable funding and liquidity coverage ratios and grew assets by 4%. The Bank maintained excellent capital adequacy levels and has maintained its revenues (Total operating income) at the same level of 2019. The bank has contributed $1MM in donations for COVID 19 and despite that its net profit before taxes came better than last year by 22%.

Tunisia

The economic slowdown and political unrest marked the Tunisian economic landscape, and the Bank had a major change at the executive management level with its CEO, Mr. Ali Kooli assuming the role of Minister of Finance, Economy & Investment in the Tunisian government this year. However, the Bank's existing succession plan enabled it to achieve a smooth transition, with Ms. Chedia Bichiou assuming the function of Acting CEO with immediate effect.

The Bank was able to show a record level of total operating income, +1% over 2019. It was also able to consolidate its customer deposit base by 6.8%, moving from US$321 million to US$343 million. In terms of impairment, the Bank registered no provisions on its wholesale portfolio and the provisions on its retail loans portfolio were 38% below budget.

For 2021, Bank ABC Egypt looks forward to expanding its footprint further to receiving regulatory approvals and finalising the acquisition of BLOM Bank Egypt, with the launch of new products, growth in customer numbers, and the further development of digital banking capabilities.

Other notable achievements include gaining significant new wholesale banking clients. The Bank was also able to extend its digital banking features through the addition of domestic and international transfers, bulk salary payments, and e-statements and e-advice. Bank ABC Tunisia became the first unit in the Group to host Vostro accounts in the local currency for the international banks HSBC and Crown Agents Limited.

Bank ABC Europe (ABCIB)

As the pandemic began to take effect early in the year, the UK and most of Europe enforced a near-complete shutdown, leading to much greater cautiousness on the part of investors and consumers. The trade finance and receivables business took a major hit with manufacturing delayed and continued apprehension around commercial real estate. For Bank ABC Europe, there was a general push to preserve capital and liquidity. As markets began to stabilise by Q3, the Bank worked proactively to build client loyalty by supporting them through this challenging time. ABCIB achieved approximately 81% of its revenues from the previous year, however, it has ensured that the quality of its book and its profitability has remained strong, to ensure future sustainability.

In preparation for Brexit, a new European subsidiary, Bank ABC SA, was formed in October. Headquartered in Paris, and with branches in Milan and Frankfurt, it will handle all continental European business, restructured under the new entity.

Banco ABC Brasil (BAB)

BAB's aggressive strategy for growth, diversification, innovation and technology at the beginning of 2020 was tempered by the country's economic climate and impact of the pandemic. Against the backdrop of growing concerns about liquidity, provisions, and the contraction of both the economy and companies, the Bank saw an opportunity to diversify by pursuing a lower risk middle market, which performed very well.

Despite that, during 2020, the Bank continued to focus on three growth levers: increase of client and transaction volumes, expansion of its product portfolio, optimisation of distribution channels. Overall, corporate activity remained healthy, with demand for loans and other credit instruments providing an opportunity to widen the portfolio. The focus on the middle market segment – focusing on clients with annual sales of approximately US$5 million and US$40 million, contributed to adding more than 740 new clients to the franchise, close to a 40% annual growth.

Regarding product expansion, the Bank continued to execute the plans defined for each specific product launched during the last 18 months – including Energy Trading, Project Finance and Equity Capital Markets – and to launch new initiatives, including its captive insurance broker and to finance sellers of online marketplaces.

Regarding the optimisation of distribution channels, the Bank launched its ABC Link – a model to distribute financial services through independent partners – and to analyse offering private payroll loans, leveraging on its corporate relationships. BAB was able to absorb a significant reduction in interest rate, depreciation of the Real and increase in the lost credit, by virtue of an excellent revenue performance during the year.

By the end of the year, investment bank activities also revived, particularly in Debt Capital Markets. The Treasury ended the year on a strong footing. However, due to a conservative approach that increased provisions, particularly in the sectors affected by the pandemic, and even without the respective increase in past-due loans, there was a substantial increase in the cost of risk.

All those factors added to a lower reference interest rate and the BRL falling by 23%, resulted in a reduced profitability after tax compared with 2019.

On the leadership side, at the end of 2020, following a two-year transition period, CEO Anis Chacur left the role and was succeeded by former Deputy CEO, Sergio Lulia.

Arab Financial Services (AFS)

Throughout 2020, solid business continuity plans enabled AFS to continue operating and serving its customers, chiefly merchant traders and retailers, with essential services. The Company also swiftly enhanced its technical capabilities to enable employees to service customers remotely in multiple regions.

Many companies on the acquiring side of AFS's business were badly affected by the COVID-19 pandemic, but it worked closely with retailers, merchant traders, and SMEs to reduce service rates and help them through the crisis. The digital payments provider also focused more closely on industries that were less negatively impacted by the pandemic, such as large supermarket groups, and helped them with data optimisation. Merchants were provided with gateway solutions to enable them to move to digital; corporate clients were onboarded to enable them to settle and convert payments through automated processes, and dynamic currency conversion was launched to enable tourists and visitors to conduct transactions in their own currency.

Throughout 2020, solid business continuity plans enabled AFS to continue operating and serving its customers, chiefly merchant traders and retailers, with essential services. The Company also swiftly enhanced its technical capabilities to enable employees to service customers remotely in multiple regions.

A new strategic partnership with Bahrain Fintech Bay was established aimed at further developing the fintech ecosystem in Bahrain and continuing its transformation into a cashless, digital economy. AFS has also collaborated with the telecommunications provider STC to enable STCPay acceptance.

As we enter 2021, business conditions are more encouraging, aided in part by the pandemic as online commerce grew from 8% to 50% through the enablement of contactless payments, and AFS's market share has reached 35% in Bahrain and Oman. The number of users for the Company's digital wallet – bwallet reached 90,000.

With a new C-suite team in place, comprised of internationally experienced industry leaders from the payments and fintech space, including a new CEO, Samer Soliman, Chief Finance and Strategy Officer, Chief Transformation Officer and Chief Operating Officer, AFS is focusing its energies in 2021 on creating a strategic platform that enables fintechs to go live faster, better, and in a more cost-effective way.

ila Bank

Within two months of going live, Bank ABC's digital mobile-only bank, ila, was dealing with the impact of a global crisis. Despite that, it significantly surpassed all internal KPIs for the year 2020 and has cemented its position as one of the top-tier players in Bahrain.

In the first year of its operation, the Bank has seen tremendous growth, which can be attributed to its intuitive product offering, agile delivery, and robust all-digital platform. It released five app upgrades each with major feature releases and enhancements.

At the end of 2020 ila Bank's total assets stood at BD 60.8 million and customer deposits were at BD 49.4 million. The Bank recorded a total operating income of BD 0.6 million.

ila gained regional recognition having won the Seamless Middle East award for the best digital banking experience in 2020. Its striking brand identity was recognised at the Transform Awards, where it won three titles (overall winner and gold for visual identity and typography) and it also won the prestigious Gartner Eye on Innovation Award for its AI-powered, emotionally intelligent, digital assistant, Fatema. It stood as the second highest-rated app for 2020 on both Apple and Google Play stores amongst finance apps in Bahrain.

SUPPORTING OUR BUSINESS OBJECTIVES

The Bank pre-emptively identified the need for a pandemic plan in 2019 and as a result, was positioned well to respond to the Covid-19 outbreak. Our response plan included moving the majority of our colleagues to work remotely, with the help of robust IT and cybersecurity infrastructure in place. Because of these swift measures the Group was able to ensure continuity of operations throughout 2020.

> Within two months of going live, Bank ABC's digital mobile-only bank, ila, was dealing with the impact of a global crisis. Despite that, it surpassed all set KPIs for the year 2020 by 200% and has cemented its position as one of the top-tier players in Bahrain.

At the same time, **Group Operations** continued to invest in strategic projects designed to simplify our operations. Amongst many initiatives underway, the Group implemented the first phase in a multi-year project to re-platform the Group's Treasury Operations, delivering high levels of Straight Through Processing thereby strengthening operational resilience. Further phases will be delivered in 2021. The Group also embarked on ambitious plans to deploy Artificial Intelligence in the Groups Trade Operations area to increase client service and operational resilience.

IT and Information and Cyber Security performed well throughout a demanding year, with the successful delivery on several fronts; the swift expansion of its secure technologies to enable staff around the Group to operate and collaborate remotely in a pandemic; updating its core banking systems across all functional areas to establish the Bank's new subsidiary in Europe, Bank ABC SA; on-going new feature releases and app enhancements for ila Bank and a number of group-wide critical regulatory projects.

New functionalities were added to ABC Digital, the Bank's online banking platform, for the MENA units, including bulk salary payments and we upgraded the market risk system in preparation for IBOR transition. The Bank also went live with the back-office transaction processing system for ALMM and LCR, while continuing to deliver on multi-year strategic and regulatory projects, namely IFRS9, as well as supporting Tunisia and Algeria units with ATM switches.

The **Group Innovation** function has been deeply involved in driving the digitisation programme for Group Wholesale Banking. Additionally, to promote a culture of innovation in the organisation, it launched a series of webinars called *"Talks @ ABC Labs"* for staff across the Group and select partners, to steer discussion on critical subjects, imperative for the digital transformation of banks such as enterprise agility, next-generation payments and data-driven business models. The Group also launched its first-ever innovation challenge to introduce Robotic Process Automation (RPA) technology.

The pandemic brought about unique challenges to **Risk Management** with severe market volatility at the start of the pandemic to supporting clients while at the same time preserving capital, liquidity and enhanced portfolio reviews during the year. We reviewed our portfolio of obligors and associated exposures across all units in the Group. To appropriately estimate the Expected Credit Loss (ECL) for our portfolio because of the pandemic, we used the most recent macros -economic data along with IMF forecasts and applied overlays on the ECL estimates based on internal stress testing analysis. While estimating the overlays, considerations were given to the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. We also considered the likely differential impacts on portfolio and sector classes, including pronouncements from different regulatory bodies regarding IFRS 9 application in the context of COVID-19.

Enhancements to our portfolio concentration management and single obligor thresholds were carried out to strengthen our credit capabilities and improve our credit risk mitigation for 2021.

The Group Risk Appetite was reviewed, and changes made to reflect the new normal arising from the pandemic, further sharpen our focus on enterprise risk management and include ESG metrics demonstrating the Group's focus in proactively leading the way in the ESG space within MENA.

Group Finance, with Group IT, also completed its multi-year programme to introduce a financial Enterprise Data Warehouse to improve the speed and analysis on consolidated reporting and MIS.

On the **Compliance** front, several new initiatives were undertaken during the year, including the introduction of a new Vendor Code of Conduct, a new electronic system (eKYC) which is used to verify information against Bahrain's Ministry of the Interior's databases and helps expedite client onboarding. Bank ABC is the first bank in Bahrain to use this system. Another highlight was the development of a new compliance methodology and the separation from the Audit Committee, of a new Board committee, focused exclusively on Compliance. The training of staff remained a focal point to ensure ongoing knowledge of relevant matters.

Group Human Resources played an instrumental role in ensuring that the Bank transitioned successfully to the work-from-home arrangements, resulting in the least possible impact on productivity. Practical materials were produced to help staff, including 'working from home' guides that were translated and distributed throughout the Group's geographies. HR also oversaw COVID-19 testing and the implementation of isolation measures, as required.

The move to online interviews ensured continued efficiency in the recruitment process and had a clear environmental impact as there was less movement of staff around the world. It is anticipated that online interviewing will continue after the pandemic subsides.

The ABC Digital Academy was already in operation when the pandemic crisis erupted, but it proved particularly useful in 2020 as staff enjoyed 24/7 access to development opportunities during different levels of lockdown throughout the world. The Bank is also sponsoring three Bank ABC scholarship students from Bahrain, Algeria and Jordan, for further studies at world-class universities.

Group Corporate Services' momentum to complete both head office refurbishments in Bahrain and Jordan, was significantly impacted by the pandemic with an immediate shift in priorities. It was able to promptly provide safe workplaces for staff by enhancing cleaning, security and social distancing measures, and developed a Group Standard for Managing Premises in a Pandemic.

Additionally, while continuing with the head office refurbishment project in Bahrain, Bank ABC has integrated several upgrades to enhance its energy efficiency, mainly by way of reducing energy consumption and atmospheric emissions at its Head office building. These include the installation and upgrade of the building envelop, building control system, new energy-efficient chillers, motion detecting light system, enhanced lighting controls linked to solar gain, LED lighting, reduced number of printers and new binds to reduce solar gain. It also deployed a number of water reduction schemes within the Head Office. As for waste management, the Bank adopted several measures that led to a significant reduction in resource consumption, such as centralised printing, "follow-me" printing which only prints after tapping an ID and donation of office furniture and accessories.

Throughout this extremely difficult year, keeping all stakeholders informed and engaged was extremely important. To that effect, **Group Corporate Communications** launched several initiatives, like the daily COVID-19 news bulletin, the weekly newsletter *"The Weekly Teller"*, Group-wide informative campaigns and online staff activities. A mass video communication channel for Group-wide access was set up, enabling executive management to directly communicate with the whole Group. Given the challenges posed by the pandemic and internal cost optimisation mandate of the Bank, Group Corporate Communications organised the 4th MEA Fintech Forum, on a virtual platform. The event had a stellar line up of speakers and over 2000 delegates in attendance over two days from across the globe.

To conclude, I would like to thank all Bank ABC employees for their fortitude, dedication, and loyalty during this tumultuous year. Your hard work and adaptability during exceptional and uncertain times have helped to keep the Bank ABC Group not only operational but successful as well. We have been able to progress on our strategy and to achieve many firsts. We have built great momentum, which I will help us accelerate on the transformation journey as the world recovers from the pandemic.

Dr. Khaled Kawan
Group Chief Executive Officer

We have been able to progress on our strategy and to achieve many firsts. We have built great momentum, while I will help us accelerate on the transformation journey as the world recovers from the pandemic.

ila – A Year of Achievements

Bank ABC's digital mobile-only bank ila, in its first year of existence, redefined banking services in Bahrain, offering a unique digital banking experience and was a regional trailblazer in terms of innovation and the archetype of the Group's endeavour to develop a banking solution that truly reflects its customers.

Launched in November 2019 in the Kingdom of Bahrain, ila embodies the pioneering spirit of the Group and its ambition to develop the bank of the future, and aims to drive the region's financial services to the next frontier. ila combines human-centric design with cutting-edge technology to deliver banking solutions personalised for each customer's unique needs.

Arabic for the word 'to' – ila makes a simple promise; to propel users from where they are to where they want to be. In it's first year of operation, it significantly surpassed all internal KPIs for the year 2020 and has cemented its position as one of the top-tier banking players in Bahrain.

New Features

- Hassala
- Jamiyah
- In-app Donations
- ila Premium

ila in 2020: Milestones

Operations

The bank achieved **200% of its set business KPIs**

Released five app upgrades, each with major new features and enhancements

New products launched and continuous enhancements in user experience

Execution

Remarkable growth of customer base and market

The 2nd highest rated finance app in Bahrain on both Apple and Google Play stores for year 2020

ila has one of the most engaged customer bases on social media with 4-6% average engagement rate

Recognition

Ambition

Planned expansion across core Bank ABC network, with a focus on innovative products (digital payments, asset products and financial management)

ila's award-winning digital assistant 'Fatema' is developing multi-lingual capabilities to serve the wider community and is an AI and financial literacy awareness ambassador in the region. A majority of its dynamic team is comprised of local Bahraini professionals, many of whom are under 40 years of age. A truly local bank, ila has proven that it is committed to listening to its customers and is shaping the future of retail banking with them.

Corporate Governance

(All figures stated in US dollars 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 2020 (31 December 2019: 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 2020:

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 2020 and 31 December 2019.

	2020			2019		
% 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**	**1,296**	**4.1**	128,344,432	1,301	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**	**1,301**	**100.0**	**3,110,000,000**	**1,306**	**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, which the Ministry of Industry and Commerce of Bahrain issued for the first time in March 2010 (and was later amended on 19th March 2018 when the Ministry of Industry and Commerce of Bahrain issued the Decree No. (19) for 2018 concerning the issuance of the Corporate Governance Code (the "Code"), The Code is applicable to all joint stock companies incorporated in Bahrain, including joint stock companies licensed by the Central Bank of Bahrain. 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. Bank ABC reviews on a regular basis the Corporate Governance Charter and, whenever required, makes the necessary and appropriate amendments. 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; and
- the detailed mandates of each of the committees of the Board.

Recent Corporate Governance Changes

On 29th December 2019, the Central Bank of Bahrain notified regulated entities (including Bank ABC) that it was amending the High Level Controls Module of the CBB Rulebook (which includes the CBB's corporate governance requirements) to state that, when an independent non-executive director (an "INED") has completed three terms of office on the board of directors of a CBB regulated bank, such director will not be able to be classified as an INED thereafter if re-appointed (the "CBB Three Term Limit"). As a result of this rule, the Corporate Governance Charter was amended in February 2020 to reflect the CBB Three Term Limit.

Additionally, the Group Risk Committee Charter was amended in February 2020 so as to reflect a number of changes to the Board Risk Committee mandate, as recommended by the Board Risk Committee, which mainly reflect recent changes to the HC Module and Bank ABC organisational changes, such as the Board Risk Committee must be chaired by an INED and include a majority of members who are independent of day-to-day risk taking activities.

In July 2020, Bank ABC established a Group Compliance Committee, separate from the Group Audit Committee of Bank ABC, and in December 2020 Bank ABC approved the Group Compliance Charter. The Corporate Governance Charter was amended to reflect the establishment of the Group Compliance Committee and changes were also made to the Group Audit Committee charter to remove any reference to the compliance function.

Also, in December 2020, and as part of Bank ABC continuous effort to refresh and update the Corporate Governance Charter as required, Bank ABC identified, amongst others, three main areas in the Code where changes to the Corporate Governance Charter may be necessary. These areas included appointment of a corporate governance officer, corporate social responsibility, and membership controls in relation to chairmanship of the Audit Committee. The Corporate Governance Charter was, therefore, amended to reflect these three areas.

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 2020, 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; and

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 2020 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.

Biographies of the Board of Directors are included in pages 16-17.

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; and

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 2020.

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 2020. 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, the Remuneration Committee, Group Compliance Committee, and Board Risk 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 2020.

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; and

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

BOARD OF DIRECTORS (CONTINUED)

Compensation & interests of Directors (continued)

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 2020 amounted to US$1,479,240 (2019: US$1,870,216), which was divided between the three elements as follows:

Board remuneration 2020	(US$)
Monthly Retainer Fee*	1,212,500
Attendance Allowance	148,500
Travel Allowance (Per Diem & Airfare)	118,240
Total	**1,479,240**

** Part of the Monthly Retainer Fee was accrued but not paid. This is an amount of $812,500 for the period May to December 2020.*

The aggregate remuneration paid to the members of the Remuneration Committee with respect to their membership of such committee for the year 2020 was US$20,000, which sum is included in the monthly retainer fee (2019: US$20,000).

No Director owned or traded Bank ABC shares in 2020.

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 four 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 **Group Compliance Committee,** which is responsible to the Board for monitoring compliance of the Group in the various countries in which the Group operates. The Committee also assists the Board in discharging its governance and oversight responsibilities for the Compliance risk management framework of Bank ABC and of Bank ABC's compliance with applicable laws and regulations on a group wide basis. The Group Compliance Committee meets not less than four times a 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 2020, 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. Mohammad 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. Mohammad 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
Group Compliance 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

BOARD OF DIRECTORS (CONTINUED)

Attendance of Directors

The details of Directors' 2020 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 Remu-neration Committee	The Compliance Committee
Mr. Saddek Omar El Kaber Chairman	7(7)	N/A	N/A	N/A	N/A	N/A
Mr. Mohammad Saleem Deputy Chairman	7(7)	4(5)	2(2)	N/A	N/A	N/A
Mr. Ali Al Ashhab Director	7(7)	5(5)	N/A	N/A	N/A	N/A
Dr. Anwar Al Mudhaf Director	7(7)	5(5)	N/A	6(6)	2(2)	2(2)
Mr. Bashir Omer Director	7(7)	5(5)	N/A	6(6)	2(2)	2(2)
Dr. Farouk El Okdah Director	7(7)	N/A	2(2)	N/A	N/A	N/A
Mr. Khaled Al Hassoun Director	7(7)	N/A	N/A	5(6)	2(2)	0(2)
Dr. Tarik Yousef Director	7(7)	N/A	2(2)	6(6)	N/A	2(2)
Dr. Yousef Al Awadi Director	7(7)	5(5)	2(2)	6(6)	N/A	2(2)

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 2020.

Meeting dates during 2020:

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 four times a year, the Corporate Governance Committee meet no less than once a year, and the Group Compliance Committee meets no less than four times a year. The Group Compliance Committee was established in July 2020 and had only two meetings in 2020 after it was established.

The Board Strategy Committee meets as required to be effective. In 2020, no meeting of the Board Strategy Committee was held.

The details of the dates of the Board and Board committee meetings in 2020 are set out below:

	Dates of Meetings
Board	9 February 2020 29 March 2020 19 April 2020 28 June 2020 26 July 2020 15 November 2020 5&6 December 2020
The Board Risk Committee	29 January 2020 29 March 2020 24 June 2020 10 October 2020 9 December 2020
The Corporate Governance Committee	9 February 2020 2 December 2020
The Group Audit Committee	30 January 2020 5 April 2020 25 June 2020 23 July 2020 11 October 2020 10 December 2020
The Remuneration Committee	8 February 2020 2 December 2020
The Group Compliance Committee	11 October 2020 10 December 2020

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 management structure at Bank ABC.

Senior managers did not hold or trade any shares in Bank ABC during 2020.

The management organisation chart is included in pages 16-17.

COMPLIANCE

Bank ABC is committed to maintaining the highest standards of ethical and professional conduct, including complying with all applicable rules and regulations. The Group Compliance Officer (GCO), together with local Heads of Compliance and Money Laundering Reporting Officers (MLROs), support the Board and Senior Management in effectively managing the compliance risks faced by the Bank. The GCO reports directly to the Group Board Compliance Committee (BCC) and the Group Chief Executive Officer (Group CEO).

The Group Compliance Oversight Committee (GCOC) is a Senior Management committee overseeing compliance risk management across the Bank. This year it 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) are established in each business unit group-wide. Chaired by the heads of the local units, the CFCCs meet on at least a quarterly basis.

Reflecting the increasing requirements and expectations of regulators, correspondent banks and stakeholders, the Bank continues to invest significantly in managing compliance risks through enhancements in systems and Compliance Function capacity and capability.

Centralisation of the Bank's SWIFT message screening alert management within the Group Transaction Monitoring Unit (TMU) is now complete. Other key activities such as the management of screening lists, changes to good guys, ongoing fine tuning of screening algorithms and system change management are also handled centrally at Head Office 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 continues to review and finetune its financial crime compliance systems. 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.

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 compliance risk management such as conduct, financial crime and anti-bribery and corruption. To provide more in-depth knowledge to relevant stakeholders, the Bank also provides roles-based training to relevant staff.

Compliance issues are tracked via the Bank's Governance, Risk, Compliance system (GRC) tool. GRC is an integrated tool with operational risk and audit, providing the Bank with a holistic risk management governance capability.

EXTERNAL AUDITORS

1. In 2020, the Bank ABC Group paid its external auditors US$1,881,607 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$545,785 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 2021. 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 was presented and passed in the annual general meeting held in March 2021.

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.

REMUNERATION POLICIES OF BANK ABC IN COMPLIANCE WITH THE REQUIREMENTS OF THE CBB (CONTINUED)

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.

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.

Summary

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.

REMUNERATION POLICIES OF BANK ABC IN COMPLIANCE WITH THE REQUIREMENTS OF THE CBB (CONTINUED)

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, if triggered, is paid according to the approved scheme on the below categorisation:

- Approved persons in business lines: For the GCEO and the five most highly-paid business line employees, variable pay is 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.

Triggering the variable compensation scheme is dependent on meeting the agreed financial budget of the year and it is capped at a percentage of Net Profit. 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.

Bank ABC reviewed its remuneration practices and redesigned its variable compensation scheme in order to be fully compliant with the CBB's requirements.

Remuneration

a) 2020

Employee Group	Number of Employees (as on 31/12/20)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	11	9.4	0.5
Approved Persons in Control Functions	27	10.5	0.9
Other Material Risk Takers	67	16.8	2.0
Other staff of Bahrain operations not covered above	329	41.5	3.8
Total	**434**	**78.2**	**7.2**

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	0.2	0.1	-	0.3
Approved Persons in Control Functions	0.5	-	0.1	0.3
Other Material Risk Takers	1.0	-	0.2	0.8
Other staff of Bahrain operations not covered above	3.8	-	-	-
Total	**5.5**	**0.1**	**0.3**	**1.4**

*no guaranteed bonus was awarded in 2020

	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	-	-	1	0.6
Approved Persons in Control Functions	-	-	1	0.1
Other Material Risk Takers	-	-	7	1.7
Other staff of Bahrain operations not covered above	-	-	18	2.8
Total	**-**	**-**	**27**	**5.2**

		Shares		
Deferred awards	Cash US$ million	Number	US$ million	Total US$ million
Opening Balance	1.3	13.6	14.6	15.9
Awarded during the period	0.1	1.2	1.4	1.5
Paid out/released through performance adjustments	(0.4)	(4.9)	(6.6)	(7.0)
Closing Balance	**1.0**	**9.9**	**9.4**	**10.4**

b) 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	12.8	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**	**13.6**	**14.6**	**15.9**

Innovation driven **resilience** with

responsible governance

Governance that provides the structural foundation to build a culture of growth and resilience.

Risk Management

Executive summary

This document comprises of the Group's (as defined below) capital and risk management disclosures as at 31 December 2020.

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) as modified by the Central Bank of Bahrain (CBB).

The principal purpose of these disclosures is to meet the disclosure requirements of the CBB through their directives on public disclosures under the Basel III framework. This document 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 risk. 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 at 31 December 2020 amounted to US$ 24,483 million (2019: US$ 25,741 million), comprising 87% (2019: 87%) credit risk, 6% (2019: 7%) market risk and 7% (2019: 6%) operational risk. The total capital adequacy ratio was 17.5% (2019: 17.9%), 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 must 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, treasury shares, reserves, retained earnings, non-controlling interests, profit for the period 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 appetite above the CBB thresholds. The Group will recourse to its recovery planning measures prior to the breach of its Board approved risk thresholds.

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% capital conservation buffer as part of Pillar I 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.

The Group's ICAAP has been benchmarked to international practice, and adapted as appropriate, relevant and proportionate to Bank ABC's business model. The Pillar II Capital assessment is based on Group Capital Management Framework (GCMF) which aligns with the CBB's ICAAP and IST (Integrated Stress Testing) module requirements.

c. Pillar III

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.

1. The Basel III framework (continued)

c. Pillar III (continued)

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.

Impact of COVID 19

The unprecedented challenges posed by the COVID 19 pandemic to the global economy have prompted various Governments, Central Banks and other regulatory authorities to roll out a number of regulatory measures to contain the impact of the pandemic on economies. The nature and extent of these regulations vary between each jurisdiction, but these generally include regulations aimed at customer support, enabling financial and operational capacity resilience, and temporary amendments to capital and liquidity frameworks.

The Bank has enhanced its approach and oversight of key risk management frameworks in the rapidly evolving environment. This includes heightened review of key matrices, early warning indicators and initiation of relevant mitigating actions to ensure that the Bank's matrices are within the risk appetite. The impact of COVID 19 is also disclosed in the audited consolidated financial statement and where relevant, in the subsequent sections of this document.

2. Group structure and overall risk

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.

b. Risk and capital management

Governance

The Governance framework within the Bank is driven by the Board with clearly defined roles and responsibilities for Board level committees, Management committees and Executive Management within the Bank.

Board Level

The Board has five committees, amongst which the Board Risk Committee (BRC) is tasked with oversight of all key risk matters in the Bank. 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.

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 principal subsidiaries as at 31 December 2020, 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 SA (note "a")	France	100.0
Banco ABC Brasil S.A.	Brazil	61.0
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	60.3
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
Arab Banking Corporation – Algeria	Algeria	88.9
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
Arab Banking Corporation – Tunisie	Tunisia	100.0

Note "a": ABC SA was incorporated by the Bank as a subsidiary of ABC International Bank Plc in 2018, however it started in operations in 2020.

Management Committees

The current committee structure provides for the Group Risk Committee (GRC) and Group Asset Liability Committee (GALCO) reporting to the Board Risk Committee and the Group Compliance Oversight Committee (GCOC) to Board Compliance Committee.

The primary objectives of the **GRC** is to define, develop and monitor the Group's overarching risk management framework taking into account the Group's strategy and business plans. The **GALCO** is responsible for defining Asset & Liability management policy, which includes capital, liquidity & funding and market risk in line with the Risk Appetite Framework. The **GCOC** is responsible for strengthening the focus on compliance within the Group's risk management framework.

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.

Three lines model

The Bank employs the three lines model to protect value of the Group. Some of the key responsibilities split by each line are presented below:

1st Line: (Ownership & Management)

- Day to day management and control of relevant risk related to their area of responsibility;
- Designing and implementing controls to respond to any changes in the risk profile;
- Identification, evaluation and reporting their key risk exposure;
- Root cause analysis of risk events and action planning to prevent recurrence;
- Tracking of action plans and performance assurance/testing to ensure that completed actions are proved effective;
- Maintaining appropriate and adequate documentation to evidence compliance with their risk accountabilities and responsibilities.

2nd Line: (Assisting with Managing Risks)

- Development and maintenance of the Risk Policy and Framework;
- Review and challenge of actions being undertaken by the 1st Line in respect of relevant risks;
- Reporting to relevant committees on significant risks and control weaknesses and progress undertaken by the 1st Line in mitigating risks outside of the risk appetite.

3rd Line: (Assurance)

- Independent assurance of the effectiveness of Controls;
- Risk based programme of audit activity; and
- Reporting to the Audit Committee.

The **Credit & Risk Group (CRG)** is the second line risk function responsible for assisting, identifying and managing credit, market and operational risks arising from the Group's activities, and makes recommendations to the relevant central committees about appropriate policies and procedures for managing these risks. All areas of risk are overseen by the Group Chief Credit & Risk Officer, who reports into the Group CEO and the Chair of the BRC.

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

Group Audit functions as a third line of defense 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 risk based review on the design and operating effectiveness of the control environment across the group on all aspects of risk management, including Bank's policies and procedures.

c. 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. 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

2. Group structure and overall risk (continued)

c. Risk in Pillar I (continued)

CREDIT RISK (CONTINUED)

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 policies and standards aligned with the Group Credit Policy and its associated standards, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs. The Group's retail lending is managed under a framework that considers the entire credit cycle. Retail obligor facilities are offered under product programs. The product programs are governed by a set of policies and standards describing the product program approval , monitoring, reporting and recovery processes.

Refer note 24.4 to the audited consolidated financial statement for definition and policies for management of credit risk.

MARKET RISK

Refer notes 24.6 to the audited consolidated financial statement for definition and policies for management of market risk.

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 value 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	4
Unquoted Equities	5
	9
Unrealised loss at 31 December 2020	-

There were no sales with respect to equity positions in the banking book for the year ended 31 December 2020.

OPERATIONAL RISK

Refer note 24.10 to the audited consolidated financial statement for definition and policies for management of Operational Risk.

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 sound 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.

d. 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 and the liquidity risk appetite framework extends to all entities within the Group.

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.

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

All offshore 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, including daily monitoring of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), and these are regularly reported to the senior management. The Bank regularly conducts liquidity stress testing that ensures **Liquidity Survival Horizon (LSH)** is always maintained above the agreed threshold.

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 Assets Buffer **(LAB)** and the Group's Contingency Funding Plan **(GCFP)** ensure that the Group can withstand potential liquidity shocks and market disruptions.

INTEREST RATE RISK IN BANKING BOOK (IRRBB)

The Group measures and controls IRRBB using a number of quantitative measures. Quantitative measures employed include limits, interest rate sensitivity gap analysis, and stress testing using the six shocks as per the Basel standards 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 at the consolidated Group level. The gap analysis measures the interest rate exposure arising from differences in the timing and/or amounts of interest sensitive assets and liabilities 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 at 31 Dec 2020, 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$ 16.8 million (representing <5% of Net Interest Income) and economic value equity impact of US$ 151.0 million (< 5% of Tier 1 capital) were well below the risk appetite thresholds for IRRBB.

Currency-wise details of the impact from a parallel shift of 200bps are as follows:

All amounts in US$ million

Currency	**Impact on Group's Earnings**	**Economic Value Equity Impact**
United States Dollar (USD)	(0.4)	(63.7)
Pound Sterling (GBP)	(0.1)	n/a
Euro (EUR)	n/a	(7.1)
Brazilian Real (BRL)	(14.2)	(30.8)
Algerian Dinar (DZD)	(1.7)	(4.0)
Egyptian Pound (EGP)	0.4	(5.0)
Jordanian Dinar (JOD)	(0.7)	(19.3)
Tunisian Dinar (TND)	0.1	(11.9)
Other	(0.2)	(9.2)
Total	**(16.8)**	**(151.0)**

2. Group structure and overall risk (continued)

d. Risk in Pillar II (continued)

INTEREST RATE RISK IN BANKING BOOK (IRRBB) (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	1,752	-	-	-	-	-	1,752
Trading securities	148	-	-	-	1	22	171
Placements with banks and other financial institutions	1,650	127	20	4	2	-	1,803
Securities bought under repurchase agreements	1,618	69	90	46	-	-	1,823
Non-trading investments	925	733	486	407	4,136	9	6,696
Loans and advances	7,782	4,032	1,493	812	1,530	7	15,656
Other assets	-	-	-	-	-	2,506	2,506
TOTAL ASSETS	**13,875**	**4,961**	**2,089**	**1,269**	**5,669**	**2,544**	**30,407**
LIABILITIES & EQUITY							
Deposits from customers	8,940	4,505	584	1,881	435	828	17,173
Deposits from banks	1,669	1,115	213	570	1	28	3,596
Certificates of deposit	190	188	72	15	29	-	494
Securities sold under repurchase agreements	703	400	-	48	-	-	1,151
Taxation & Other liabilities	-	-	-	-	-	2,431	2,431
Borrowings	696	1,024	-	-	75	-	1,795
Total equity	-	-	-	-	-	3,767	3,767
TOTAL LIABILITIES & EQUITY	**12,198**	**7,232**	**869**	**2,514**	**540**	**7,054**	**30,407**
OFF B/S ITEMS							
Interest rate contracts	938	1,771	(52)	12	(2,669)	-	-
TOTAL OFF B/S ITEMS	**938**	**1,771**	**(52)**	**12**	**(2,669)**	**-**	**-**
Interest rate sensitivity gap	**2,615**	**(500)**	**1,168**	**(1.232)**	**2,459**	**(4,510)**	**-**
Cumulative interest rate sensitivity gap	**2,615**	**2,115**	**3,283**	**2,051**	**4,510**	**-**	**-**

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. Further, the majority of the interest bearing assets are on floating rate basis.

CONCENTRATION RISK

Refer note 24.3.2 to the audited consolidated financial statement for the definition and policies for management of concentration risk.

Under the single obligor regulations of the CBB and other host regulators, the Bank has to obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

As at 31 December 2020, 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	796	-	796
Counterparty B	750	-	750

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 the statutory, regulatory and supervisory requirements including industry laws with which the Bank must by law comply with, or which it voluntarily adheres to.

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 defense 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 in contrast to setting aside capital for its management. The Group Reputational Risk Committee reporting to the GCOC oversees the reputational risk framework.

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

Climate change presents significant risks to the Banking Sector. In relation to climate change, Bank ABC will complete its governance requirements and include impact arising from climate change scenarios in its capital calculations for ICAAP 2021. The BRC will oversee Bank ABC's plans on climate change to ensure an appropriate strategic response to this risk. The Bank is committed to enhancing its approach to climate change in line with regulatory guidance and industry best practices and will have appropriate parameters in place to monitor this risk.

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 the Group's 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 at 31 December 2020 was 17.5% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.6% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-weighted assets (RWA)	
Credit risk	**21,350**
Market risk	**1,501**
Operational risk	**1,632**
Total	**24,483**
Tier 1 ratio	**16.6%**
Capital adequacy ratio	**17.5%**

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.

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

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.)	33.7%	34.7%
ABC International Bank Plc*	18.0%	19.8%
Banco ABC Brasil S.A.*	14.7%	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 for the above referred units, 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.

The Bank relies on risk adjusted performance metrics to manage return on capital on transactions, the results of which inform the capital allocation to the Bank's business transaction.

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 5.

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	29	29	-	-	-	2	-
Claims on sovereigns	5,718	5,671	47	40	104	433	54
Claims on public sector entities	2,182	1,984	198	153	7	1,399	175
Claims on multilateral development banks	443	443	-	-	-	68	9
Claims on banks	7,502	6,661	841	1,955	418	3,398	425
Claims on corporate portfolio	15,629	12,947	2,682	602	158	13,722	1,715
Regulatory retail exposures	891	844	47	-	-	668	84
Past due loans	156	156	-	-	-	156	20
Residential retail portfolio	2	2	-	2	-	1	-
Commercial mortgage	223	223	-	-	-	223	28
Equity portfolios	36	36	-	-	-	77	10
Other exposures	874	665	209	-	-	1,201	150
	33,685	**29,661**	**4,024**	**2,752**	**687**	**21,348**	**2,670**

Monthly average gross exposures and the risk-weighted assets for the year ended 31 December 2020 were US$ 33,752 million and US$ 21,568 million respectively.

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	Year-end Capital Charge	Capital charge - Minimum*	Capital charge - Maximum*
Interest rate risk	495	62	61	93
- Specific interest rate risk	9	1	1	10
- General interest rate risk	486	61	60	83
Equity position risk	33	4	4	4
Foreign exchange risk	973	122	113	123
Options risk	-	-	-	-
Total	**1,501**	**188**	**178**	**220**

* 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 2020.

c. Capital requirement for operational risk

The Group applies the “Standardised Approach” for calculating its Pillar I operational risk capital. As at 31 December 2020, 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	34	18 %	10	77
Trading and sales	185	18 %	52	416
Payment and settlement	24	18 %	7	55
Commercial banking	523	15 %	123	981
Agency services	-	15 %	-	-
Retail banking	53	12 %	10	79
Asset management	11	12 %	2	16
Retail brokerage	6	12 %	1	8
Total	**836**		**205**	**1,632**

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

d. Capital base

The Group's capital base primarily comprises of:

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

ii) **Additional Tier 1 capital:** Eligible portion of a perpetual financial instrument issued by a subsidiary of the Bank;

iii) **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 2020, 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$ 92 million at 31 December 2020. 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 Basel Standards. 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 Public Disclosure (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	3,971
AT 1	84
Total Tier 1 capital	4,055
Tier 2	230
Total capital base	**4,285**
Risk-weighted assets	
Credit risk	21,350
Market risk	1,501
Operational risk	1,632
Total Risk-weighted assets	**24,483**
CET 1 ratio	16.2%
Tier 1 ratio	16.6%
Capital adequacy ratio	17.5%

The details about the composition of capital are provided in appendices PD 1 and PD 2.

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.

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	29	-	29
Claims on sovereigns	5,678	5,568	110
Claims on public sector entities	2,029	932	1,096
Claims on multilateral development banks	443	443	-
Claims on banks	5,547	4,697	851
Claims on corporate portfolio	15,026	1,697	13,329
Regulatory retail exposure	891	-	891
Past due loans	156	-	156
Residential retail portfolio	-	-	-
Commercial mortgage	223	-	223
Equity portfolios	36	-	36
Other exposures	874	-	874
	30,932	**13,337**	**17,595**

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 Credit Risk Management framework ensures that the credit portfolio is managed in line with the Group Risk Appetite Standards.

The Group's credit risk distribution (based on internal risk ratings) at 31 December 2020 is shown below:

34.3% Satisfactory

26.6% Adequate

12.1% Good

11.4% Superior

8.4% Excellent

4.5% Exceptional

1.5% Marginal

0.7% Special Mention

0.5% Substandard

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 audited 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 document 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	3,124	172	-	-	63	63
Western Europe	4,569	54	57	56	-	-
Other Europe	1,208	12	16	12	-	-
Arab World	14,623	1,371	623	523	26	22
Other Africa	74	-	-	-	-	-
Asia	1,283	185	30	30	-	-
Australia/New Zealand	105	-	-	-	-	-
Latin America	8,699	958	139	88	-	-
	33,685	**2,752**	**865**	**709**	**89**	**85**

In addition to the above specific ECL the Group has ECL (Stages 1 & 2) amounting to US$ 203 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	-	-	-	29	-	-	-	-	**29**
Claims on sovereigns	1,056	346	21	3,008	-	479	-	808	**5,718**
Claims on public sector entities	32	129	-	1,654	-	158	-	209	**2,182**
Claims on multilateral development banks	172	49	3	124	10	85	-	-	**443**
Claims on banks	374	1,516	1,041	3,363	48	147	1	1,012	**7,502**
Claims on corporate portfolio	1,425	2,244	140	4,964	16	412	104	6,324	**15,629**
Regulatory retail exposures	-	-	-	659	-	-	-	232	**891**
Past due loans	-	1	4	101	-	-	-	50	**156**
Residential retail portfolio	-	2	-	-	-	-	-	-	**2**
Commercial mortgage	-	223	-	-	-	-	-	-	**223**
Equity portfolios	-	1	-	35	-	-	-	-	**36**
Other exposures	64	59	-	687	-	1	-	63	**874**
Gross credit exposure	**3,124**	**4,569**	**1,208**	**14,623**	**74**	**1,283**	**105**	**8,699**	**33,685**
Eligible collateral	172	54	12	1,371	-	185	-	958	2,752

The Bank uses different credit mitigation techniques such as collaterals, guarantees and netting agreements to reduce credit risk. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur. The Bank holds collateral against its credit facilities in the form of physical assets, cash deposits, securities and guarantees. Only guarantees provided by eligible Corporate and Financial Institutions of acceptable credit quality are accepted by the Bank.

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
Western Europe	-	-	-	1	1
Other Europe	-	-	4	-	4
Arab World	24	63	8	5	100
Latin America	37	4	10	-	51
	61	**67**	**22**	**6**	**156**

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	2,891	2,354	537	52	137	95	-	-
Mining and quarrying	121	113	8	-	26	8	-	-
Agriculture, fishing and forestry	1,239	1,149	90	-	18	17	-	-
Construction	1,795	1,493	302	12	112	108	-	-
Financial services	12,853	11,322	1,531	2,608	12	9	74	74
Trade	357	324	33	11	177	172	-	-
Personal / Consumer finance	1,004	946	58	-	31	28	-	-
Commercial real estate financing	645	601	44	-	18	14	-	-
Government	4,801	4,763	38	6	-	-	-	-
Technology, media and telecommunications	517	417	100	-	29	29	-	-
Transport	942	809	133	-	39	25	-	-
Energy	1,283	1,125	158	36	-	-	-	-
Utilities	1,460	1,033	427	-	-	-	-	-
Distribution	1,042	962	80	10	-	-	-	-
Retailers	345	253	92	-	-	-	-	-
Other services	2,390	1,997	393	17	265	203	15	11
	33,685	**29,661**	**4,024**	**2,752**	**864**	**708**	**89**	**85**

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 / Con-sumer finance	Com-mercial real estate financing	Govern-ment	Technology, media and telecommuni-cations	Trans-port	Energy	Utilities	Distribu-tion	Retailers	Other services	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29	**29**
Claims on sovereigns	-	-	-	-	1,414	-	-	-	4,304	-	-	-	-	-	-	-	**5,718**
Claims on public sector entities	226	14	-	1	562	-	-	-	427	34	199	511	195	-	-	13	**2,182**
Claims on multilateral development banks	-	-	-	-	443	-	-	-	-	-	-	-	-	-	-	-	**443**
Claims on banks	-	-	-	-	7,502	-	-	-	-	-	-	-	-	-	-	-	**7,502**
Claims on corporate portfolio	2,622	89	1,238	1,693	2,926	352	44	516	70	483	728	772	1,265	1,042	345	1,444	**15,629**
Regulatory retail exposures	-	-	-	-	-	-	891	-	-	-	-	-	-	-	-	-	**891**
Past due loans	42	18	1	4	3	5	3	4	-	-	14	-	-	-	-	62	**156**
Residential retail portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	**2**
Commercial Mortgage	-	-	-	97	-	-	-	126	-	-	-	-	-	-	-	-	**223**
Equity portfolios	1	-	-	-	3	-	26	-	-	-	-	-	-	-	-	6	**36**
Other exposures	-	-	-	-	-	-	41	-	-	-	-	-	-	-	-	833	**874**
	2,891	**121**	**1,239**	**1,795**	**12,853**	**357**	**1,005**	**646**	**4,801**	**517**	**941**	**1,283**	**1,460**	**1,042**	**345**	**2,389**	**33,685**

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	27	4	10	1	**42**
Mining and quarrying	18	-	-	-	**18**
Agriculture, fishing and forestry	1	-	-	-	**1**
Construction	1	-	2	1	**4**
Financial services	-	2	-	1	**3**
Trade	-	3	-	2	**5**
Personal / Consumer finance	1	1	-	1	**3**
Commercial real estate financing	-	-	4	-	**4**
Transport	11	-	3	-	**14**
Other services	2	57	3	-	**62**
	61	**67**	**22**	**6**	**156**

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	29	-	-	-	29	-	-	-	-	-	-	29
Claims on sovereigns	1,861	424	385	300	2,970	1,502	1,188	-	-	11	2,701	5,671
Claims on public sector entities	445	469	29	218	1,161	553	248	21	-	1	823	1,984
Claims on multilateral development banks	-	6	30	218	254	169	20	-	-	-	189	443
Claims on banks	2,841	1,013	690	837	5,381	1,279	-	-	-	1	1,280	6,661
Claims on corporate portfolio	2,517	1,787	1,527	1,288	7,119	4,508	846	3	-	471	5,828	12,947
Regulatory retail exposures	9	25	48	54	136	252	377	55	16	8	708	844
Past due loans	39	22	10	57	128	22	6	-	-	-	28	156
Residential retail portfolio	-	-	-	-	-	-	1	1	-	-	2	2
Commercial mortgage	49	-	12	50	111	112	-	-	-	-	112	223
Equity portfolios	-	-	-	-	-	-	-	-	-	36	36	36
Other exposures	1	7	5	7	20	7	-	-	-	638	645	665
	7,791	**3,753**	**2,736**	**3,029**	**17,309**	**8,404**	**2,686**	**80**	**16**	**1,166**	**12,352**	**29,661**

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	25	4	6	5	40	4	-	-	3	-	7	47
Claims on public sector entities	17	57	20	39	133	61	-	4	-	-	65	198
Claims on banks	178	234	76	97	586	157	77	-	21	-	255	841
Claims on corporate portfolio	176	352	414	420	1,362	1,210	109	-	1	-	1,320	2,682
Regulatory retail exposures	-	12	1	4	17	28	-	1	1	-	30	47
Other exposures	-	-	-	-	-	-	2	-	1	206	209	209
	396	**659**	**517**	**565**	**2,138**	**1,460**	**188**	**5**	**27**	**206**	**1,886**	**4,024**

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
Financial services	3	-
Energy	23	-
Utilities	6	-
Manufacturing	56	8
Construction	5	3
Mining & quarrying	3	-
Transport	-	2
Personal / consumer finance	3	2
Commercial real estate financing	4	-
Trade	19	-
Agriculture, fishing & forestry	2	4
Technology, media & telecommunication	(1)	-
Other services	163	7
ECL (Stages 1&2)	43	-
	329	**26**

4. Credit risk - Pillar III disclosures (continued)

e. Impaired assets and provisions for impairment (continued)

Restructured facilities

The carrying amount of restructured facilities amounted to US$ 650 million as at 31 December 2020. Out of the total restructured facilities 58% relate to performing customers (including short term restructuring carried out due to current Covid-19 situation) on which an ECL of US$ 13 million is being held. In line with CBB guidelines loans qualifying for relief from additional ECL charges is included in this amount. These restructuring did not have any impact on carrying values thereby no modification loss was recorded on these. The Group continues to record interest on performing customers as normal and interest on non-performing customers is recorded on receipt basis.

Ageing analysis of impaired loans and securities

In accordance with the guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest suspended when either principal or interest is overdue by 90 days, whereupon interest credited to income is reversed. Following an assessment of significant increase in credit risk, an exposure is moved to Stage 3 and lifetime ECL recognised if there is objective evidence that a credit facility is impaired, as mentioned above.

Movement in expected credit losses

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Loans			
At beginning of the year	58	67	492
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	1	(1)	-
Transfer to stage 2	(1)	2	(1)
Transfer to stage 3	(1)	(3)	4
Net remeasurement of loss allowance	13	32	308
Write-backs / recoveries	-	-	(48)
Amounts written-off	-	-	(25)
Exchange adjustments and other movements	(4)	(2)	(20)
Balance at reporting date	**67**	**95**	**708**

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Investments			
At beginning of the year	13	4	74
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	(2)	-	11
Write-backs / recoveries	-	-	-
Amounts written-off	-	-	-
Exchange adjustments and other movements	4	(4)	-
Balance at reporting date	**15**	**-**	**85**

	Expected Credit Losses		
	Stage 1	**Stage 2**	**Stage 3**
Other financial assets and off-balance sheet items			
At beginning of the year	16	13	15
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	-	-	16
Write-backs / recoveries	-	-	-
Amounts written-off	-	-	-
Exchange adjustments and other movements	(2)	-	5
Balance at reporting date	**14**	**13**	**36**

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	2,148
Direct credit substitutes, guarantees and acceptances	3,041
Undrawn loans and other commitments	1,865
	7,054
RWA	**2,619**

At 31 December 2020, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 146 million.

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

5. Off balance sheet exposure and securitisations (continued)

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. After approval, these limits are 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 at 31 December 2020. The aggregate notional amounts for interest rate and foreign exchange contracts as at 31 December 2020 were as follows:

	Derivatives		
US$ million	**Interest rate contracts**	**Foreign exchange contracts**	**Total**
Notional – Trading book	14,534	12,848	27,382
Notional – Banking book	4,188	423	4,611
	18,722	**13,271**	**31,993**
Credit RWA (replacement cost plus potential future exposure)	354	83	437
Market RWA	486	972	1,458

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 at 31 December 2020, the CVA capital charge for the portfolio was US$ 208 million.

6. Capital management

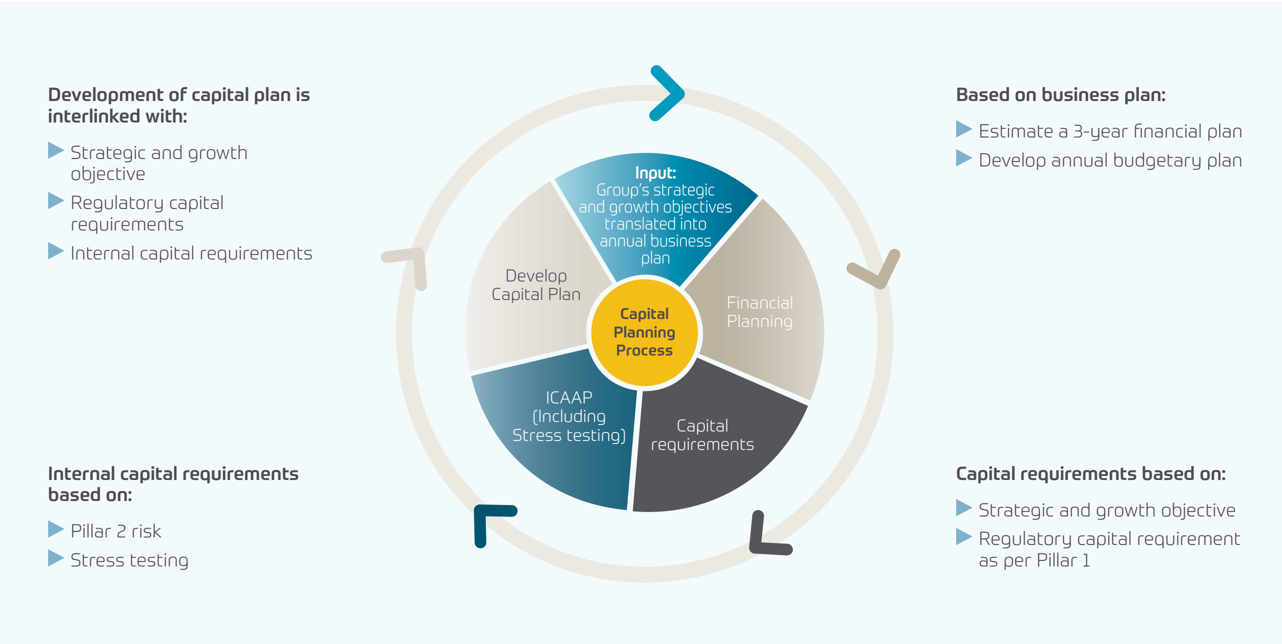
Our strategy and business objectives underpin our capital management framework which is designed to maintain sufficient levels of capital to support our organic and inorganic strategy, and to withstand extreme but plausible stress conditions. The capital management objective aims to maintain an optimal 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 ICAAP is subject to independent review by external consultants as required by the relevant statutes. 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.



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.

6. Capital management (continued)

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*	- For Conduct risk - Based on peak historical losses over a five year period. - For Non Conduct Risk - Based on the PRA method of C1 and C2. The third scenario C3 of the PRA method will be incorporated in the next ICAAP cycle.
Liquidity and Funding Risk	Liquidity and funding risk is covered under ILAAP and sufficient High Quality Liquid Asset Buffers (LAB) held to address this risk
Interest Rate Risk in the Banking Book (IRRBB)	Capital requirements assessed based on six stress scenarios in alignment with Basel IRRBB 2016 guidelines (BCBS 368). Capital requirements is assessed against internal threshold for EAR and EVE.
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 stress 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

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 is 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 to drive higher returns while balancing risks.

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 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*	42
Claims on directors & senior management	3
Claims on staff	29

**Unfunded exposures after applying CCF.*

8. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 31 December 2020 amounted to US$ 1,151 million. The carrying value of securities sold under repurchase agreements at the year end amounted to US$ 1,257 million.

Amounts paid for assets purchased under resale agreements at the year end amounted to US$ 1,823 million 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$ 1,957 million.

9. 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 at 31 December 2020	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	1,054	b
3	Accumulated other comprehensive income (and other reserves)	(308)	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)	219	d
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,069**	
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)	53	e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	4	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	40	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*	-	

	Basel III Common Disclosure Template	PIR as at 31 December 2020	Reference
	Common Equity Tier 1 capital: regulatory adjustments (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**	**97**	
29	**Common Equity Tier 1 capital (CET1)**	**3,972**	
	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)	83	9
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**83**	
	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)**	**83**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,055**	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

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

	Basel III Common Disclosure Template	**PIR as at 31 December 2020**	**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)	70	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	160	h*
51	**Tier 2 capital before regulatory adjustments**	**230**	
	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)**	**230**	
59	**Total capital (TC = T1 + T2)**	**4,285**	
60	**Total risk weighted assets**	**24,483**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.2%	
62	Tier 1 (as a percentage of risk weighted assets)	16.6%	
63	Total capital (as a percentage of risk weighted assets)	**17.5%**	
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)	7.2%	

	Basel III Common Disclosure Template	PIR as at 31 December 2020	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	3	
73	Significant investments in the common stock of financials	26	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	218	
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)	203	h*
77	Cap on inclusion of provisions in Tier 2 under standardised approach	267	
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*	

** As adjusted based on CBB circular "OG/226/2020"*

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

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	1,752	-
Cash and balances at central banks	-	1,282
Placements with banks and similar financial institutions	1,803	4,097
Reverse repurchase agreements and other similar secured lending	1,823	-
Financial assets at fair value through P&L	171	171
Non-trading investments	6,696	-
Investment at Amortised Cost	-	1,213
Investments at FVOCI	-	5,498
Loans and advances	15,656	15,817
Investment properties	-	-
Interest receivable	-	284
Other assets	2,305	1,943
Investments in associates and joint ventures	-	26
Goodwill and intangible assets	-	53
Property, plant and equipment	201	201
TOTAL ASSETS	**30,407**	**30,585**
Deposits from banks	3,596	7,184
Deposits from customers	17,173	13,585
Certificate of deposits issued	494	493
Repurchase agreements and other similar secured borrowing	1,151	1,151
Interest payable	-	243
Taxation	80	-
Other liabilities	1,974	1,787
Borrowings	1,795	1,703
Subordinated liabilities	-	-
Additional Tier 1 Instrument	-	92
TOTAL LIABILITIES	**26,263**	**26,238**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	663	663
Non - controlling interest	377	377
Expected credit losses	-	203
TOTAL SHAREHOLDERS' EQUITY	**4,144**	**4,347**

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	1,752	-	
Cash and balances at central banks	-	1,282	
Placements with banks and similar financial institutions	1,803	4,097	
Reverse repurchase agreements and other similar secured lending	1,823	-	
Financial assets at fair value through P&L	171	171	
Loans and advances	15,656	15,817	
Non-trading investments	6,696	6,711	
Of which investment NOT exceeding regulatory threshold	-	*6,711*	
Interest receivable	-	284	
Other assets	2,305	1,943	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*4*	*f*
Of which deferred tax assets arising from temporary differences	-	*218*	
Investments in associates and joint ventures	-	26	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*26*	
Goodwill and intangible assets	-	53	
Of which goodwill	-	-	
Of which other intangibles (excluding MSRs) phased in at 100%	-	*53*	*e*
Of which MSRs	-	-	
Property, plant and equipment	201	201	
TOTAL ASSETS	**30,407**	**30,585**	

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 (continued)

US$ million	Balance sheet as in published financial statements	Consolidated PIR data	Reference
LIABILITIES & SHAREHOLDERS' EQUITY			
Deposits from banks	3,596	7,184	
Deposits from customers	17,173	13,585	
Certificate of deposits issued	494	493	
Repurchase agreements and other similar secured borrowing	1,151	1,151	
Interest payable	-	243	
Taxation	80	-	
Other liabilities	1,974	1,787	
Borrowings	1,795	1,703	
Subordinated liabilities	-	-	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	-	
Additional Tier 1 Instrument	-	92	
Of which amount eligible for AT1	-	*37*	g
Of which amount eligible for TII	-	*9*	i
Of which amount Ineligible	-	*46*	
TOTAL LIABILITIES	**26,263**	**26,238**	
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	663	663	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*1,054*	*1,054*	*b*
Net profit for the current year	*(89)*	*(46)*	*c1*
Legal reserve	*520*	*520*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(902)*	*(902)*	*c4*
Cumulative changes in fair value	*20*	*20*	*c5*
Pension fund reserve	*(40)*	*(40)*	*c6*
Non - controlling interest	377	377	
Of which amount eligible for CETI	-	*219*	*d*
Of which amount eligible for ATI	-	*46*	*g*
Of which amount eligible for TII	-	*61*	*i*
Of which amount ineligible	-	*51*	
Expected credit losses	-	203	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	*203*	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,144**	**4,347**	

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
2	Unique identifier	ABC	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	Laws of the Federative Republic of Brazil
Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	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$3,110	BRL 481 (of which US$ 37 equivalent eligible for AT1)
9	Par value of instrument	1	300,000
10	Accounting classification	Shareholders' equity	Liability- Amortised cost
11	Original date of issuance	Various	Various
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Yes
16	Subsequent call dates, if applicable	N/A	N/A
Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Floating
18	Coupon rate and any related index	N/A	Average market yield of 6.76%, equivalent to 3.5579 times the current Selic Rate [1] of 1.90% p.a.
19	Existence of a dividend stopper	N/A	No

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 3: Main features of regulatory capital instruments (continued)

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

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.

Group Financial Review

Statement of Profit or loss

The Group reported a net loss of US$89 million in 2020, compared with a net profit of US$194 million for 2019.

The Group had a strong start to the year supported by a robust balance sheet, a promising client transaction pipeline and clear growth plan, driven by our digital agenda and wholesale bank transformation. However, as the year progressed, our financial results were heavily impacted by the unique combination of COVID-19, collapse in oil prices and consequent economic and market pressures, together with the emergence of some major regional fraud cases, which significantly elevated Loan Loss Provisions to abnormally high levels.

Net interest income was 9% lower than 2019 at US$516 million (2019: US$564 million). Similarly, non-interest income was lower by 57% to US$130 million as compared to the prior year (2019: US$301 million) mainly due to tax treatment of currency hedges in Banco ABC Brasil US$ 103 million which have an offsetting effect between income and tax.

The Group continues to remain focused on the Bank's four strategic value drivers and it has also simplified the target operating model. Overall, the underlying business and client revenues held up well in all our markets of operation, achieving 91% of previous year levels when normalised for hedging and adjusted for uncontrollable market factors, primarily depreciation of the Brazilian Real ~23% creating a significant translation impact on revenues from Banco ABC Brasil (BAB).

Credit loss expense for the year were US$329 million, compared with the previous year's US$82 million. The Group's net operating income was US$317 million, against US$783 million in 2019.

Operating expenses amounted to US$486 million (2019: US$524 million). Loss before taxation and income attributable to non-controlling interests was US$169 million, compared to a profit of US$259 million in 2019. Taxation on operations outside Bahrain was a credit of US$94 million (2019: charge of US$23 million). After income attributable to non-controlling interests of US$14 million (2019: US$42 million), the net loss for the year was US$89 million (2019: US$194 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$15,656 million (2019: US$16,452 million). Non-trading investments increased by US$860 million to US$6,696 million and money market placements decreased by US$248 million to US$1,803 million. Liquid funds decreased by US$122 million to US$1,752 million.

Deposits from customers increased by US$507 million to US$17,173 million. Deposits from banks, certificates of deposit and repos totalled US$5,241 million (2019: US$5,304 million), while borrowings totalled US$1,795 million (2019: US$2,080 million).

Total assets of the Group at the end of the year stood at US$30,407 million (2019: US$30,068 million). Average assets for the year were US$29,976 million (2019: US$29,658 million) and average liabilities, including non-controlling interests, were US$26,255 million (2019: US$25,734 million).

Credit commitments, contingent items and derivatives

The notional value of the Group's consolidated off-balance sheet items stood at US$39,047 million (2019: US$41,094 million), comprising credit commitments and contingencies of US$7,054 million (2019: US$8,214 million) and derivatives of US$31,993 million (2019: US$32,880 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$3,056 million (2019: US$3,640 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 2020 was US$1,458 million (2019: US$1,645 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, mainly across the Arab world, the Americas, and Western Europe. The Group's liabilities and equity are predominantly in the Arab world, 68% (2019: 64%), followed by Latin America 19% (2019: 22%), chiefly in the Brazilian subsidiary.

	Financial assets		Liabilities & equity		Loans & advances	
(%)	**2020**	2019	**2020**	2019	**2020**	2019
Arab world	**46**	44	**68**	64	**47**	45
Western Europe	**10**	8	**7**	7	**11**	10
Asia	**4**	7	**1**	2	**2**	3
North America	**9**	9	**3**	2	**5**	3
Latin America	**26**	27	**19**	22	**29**	31
Others	**5**	5	**2**	3	**6**	8
	100	100	**100**	100	**100**	100

An analysis of the maturity profile of financial assets according to when they are expected to be recovered or settled, or when they could be realised, shows that at the end of 2020, 57% (2019: 60%) had a maturity of one year or less. Loans and advances maturing within one year amounted to 62% (2019: 63%). The proportion of liabilities maturing within one year was 53% (2019: 53%).

	Financial assets		Liabilities & equity	
(%)	**2020**	2019	**2020**	2019
Within 1 month	**28**	26	**20**	20
1-3 months	**10**	13	**15**	15
3-6 months	**9**	9	**7**	6
6-12 months	**10**	12	**11**	12
Over 1 year	**36**	34	**27**	27
Undated	**7**	6	**20**	20
	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 2020 is given below:

	Funded exposure		Credit commitments & contingent items		Derivatives*	
(US$ millions)	**2020**	2019	**2020**	2019	**2020**	2019
Customer type						
Banks	**5,954**	5,468	**1,557**	2,048	**314**	254
Non-banks	**15,757**	16,271	**5,295**	5,770	**195**	175
Sovereign	**6,189**	6,379	**202**	396	**7**	11
	27,900	28,118	**7,054**	8,214	**516**	440
Risk rating						
1 = Exceptional	**1,144**	1,338	**462**	584	**-**	-
2 = Excellent	**2,664**	2,803	**292**	351	**8**	38
3 = Superior	**3,455**	2,939	**227**	425	**357**	308
4 = Good	**3,227**	3,589	**1,029**	1,089	**17**	16
5 = Satisfactory	**8,957**	9,224	**3,118**	3,628	**73**	46
6 = Adequate	**7,786**	7,585	**1,611**	1,839	**60**	31
7 = Marginal	**405**	463	**127**	178	**-**	1
8 = Special Mention	**102**	34	**157**	73	**-**	-
9 = Substandard	**151**	129	**14**	46	**1**	-
10 = Doubtful	**7**	13	**17**	1	**-**	-
11 = Loss	**2**	1	**-**	-	**-**	-
	27,900	28,118	**7,054**	8,214	**516**	440

* 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.

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 2020 was US$864 million (2019: US$635 million). ECL allowances including stage 3 provisions at the end of 2020 stood at US$870 million (2019: US$617 million).

The total of all impaired securities as at the end of 2020 was US$89 million (2019: US$74 million). ECL allowances, including stage 3 provisions, at the end of 2020 stood at US$100 million (2019: US$91 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	99	38	61
3 months to 1 year	276	209	67
1 to 3 years	215	194	21
Over 3 years	274	267	7
	864	**708**	**156**

Impaired securities

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	15	11	4
1 to 3 years	-	-	-
Over 3 years	74	74	-
	89	**85**	**4**

Group capital structure and capital adequacy ratios

The Group's capital base of US$4,285 million comprises Tier 1 capital of US$4,055 million (2019: US$4,358 million) and Tier 2 capital of US$230 million (2019: US$251 million). The consolidated capital adequacy ratio as at 31 December 2020, calculated in accordance with the prevailing Basel III rules, was 17.5% (2019: 17.9%), well above the 12.5% minimum set by the Central Bank of Bahrain. The capital adequacy ratio comprised predominantly Tier 1 ratio of 16.6% (2019: 16.9%), 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 benefitted from its sustained focus on an implementation of its 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.

Against the turbulent backdrop of 2020, Bank ABC continued to showcase its resilience and agility in adapting to the "new normal". The Bank has maintained a strong balance sheet, excellent liquidity, and stability in pre-provision profitability, although disrupted by exceptional fraud impact. We were also able to expand our business by the acquisition of BLOM Bank Egypt and achieved a remarkable head-start of our digital consumer bank in Bahrain.

With the Bank's health intact, we remain confident that our efforts will bear more fruits during 2021. The Group also continues to develop a more efficient Bank, while investing in its digital transformation and operational optimisation. The overall portfolio quality remains solid, with sound credit underwriting standards, and the Bank's balance sheet is also strong, with excellent capital and liquidity ratios. The Bank is confident in the strength of its underlying business and believes it is well positioned for growth in 2021 and beyond.

Regional geopolitical conditions

On the back of vaccine developments and increased fiscal support in key economies around the world, the IMF has updated it global projections to show a stronger recovery of 5.5% in 2021 from an adjusted contraction of 3.5% in 2020. In GCC alone, recovering oil prices and vaccine rollouts and improving relations with Qatar, would drive economic recoveries, although it will take time to return to pre-crisis levels. Despite the expected volatility, shareholders should take confidence in the Bank's prudent approach to market, sector and client stress-testing, strength of its balance sheet and strategy to drive business on back of digital innovation, which will help it through the post-pandemic recovery and any other regional uncertainties.

Energy Prices

Global energy started 2020 strong, but the arrival of COVID-19 in March caused worldwide demand to plummet as governments closed businesses and restricted travel. Brent crude dropped from US$64 a barrel in January to US$18 a barrel by April 2020. However, by December 2020, it was back over US$45/b on better demand expectations and the likelihood OPEC+ will delay its planned 2mb/d January production ramp-up for at least 3 months. A surprisingly quick return of Libyan output (1mb/d according to NOC) presents headwinds, but market fundamentals should tighten materially as the expected strong H2 2021 recovery in demand combines with the collapse in upstream investment and only delayed recovery in US shale output. This could push prices back around US$60/b at the back end of 2021. Brent could average US$53/b in 2021 and US$55/b 2022 from US$43/b in 2020. This is a bullish projection, being upheld by leading global banks, however Bank ABC is mindful of the downside risks that still remain.

Stability of financial markets

As countries responded to the pandemic by freezing economic activity, the markets saw unprecedented financial turmoil. Government stimulus packages and support prompted a significant recovery mid-year however, a resurgence in cases pushed markets back in the autumn. A Brexit agreement at the end of 2020, which safeguarded nearly US$1 trillion in annual trade, helped to shore up markets. The US-China trade war remains ongoing, although the change of leadership in the US is prompting some optimism that the situation will improve.

Foreign currencies

Bank ABC is a US Dollar-based bank, which became scarce in the market and more expensive by April 2020. This created a liquidity crisis for our clients and other FI's in the region. Additionally, the Brazilian real depreciated to an all-time low, falling by ~23% which had a significant impact on revenues from Banco ABC Brasil. Bank ABC not only provided liquidity to other banks but also carefully monitored its own, without having to resort of any drastic measures. In 2021, exchange rates are expected to be increasingly driven by how quickly confidence builds in the post-pandemic global recovery.

Volatility of currency markets

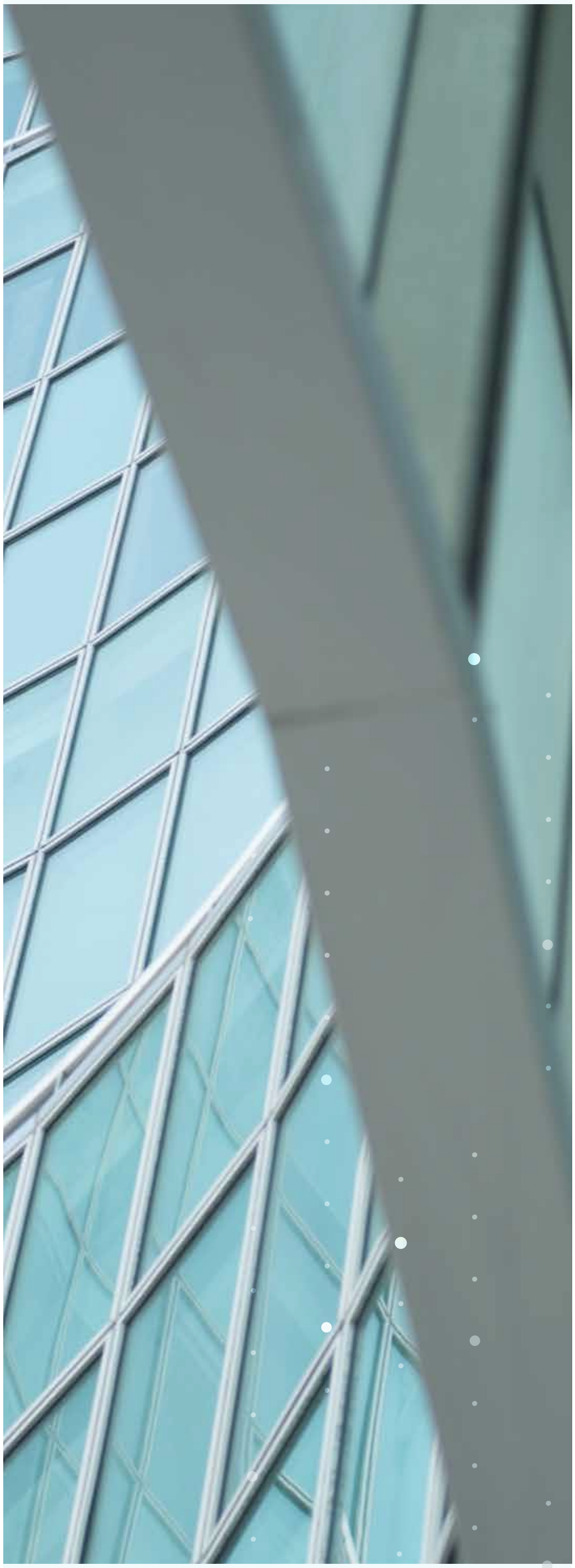
Managing risk attached to FX is a fundamental part of the Bank's risk management approach, which is supported by a healthy balance sheet, a conservative framework of limits, and tight controls.

Interest rate levels

Historically low interest rates led to a decrease in net interest income for the year. The Group's lending and marketable securities holdings are based predominantly on floating and short-term interest rates, which generally helps to insulate them from interest rate swings.

The Group's capital base of US$4,285 million comprises Tier 1 capital of US$4,055 million (2019: US$4,358 million) and Tier 2 capital of US$230 million (2019: US$251 million). The consolidated capital adequacy ratio as at 31 December 2020, calculated in accordance with the prevailing Basel III rules, was 17.5% (2019: 17.9%), well above the 12.5% minimum set by the Central Bank of Bahrain. The capital adequacy ratio comprised predominantly Tier 1 ratio of 16.6% (2019: 16.9%), 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.



Innovation driven **resilience** with exemplary financial performance

Commendable performance in a 'year like no other' indicating bankable capabilities and swift adaptability.

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

Building a better working world

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

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/mena
C.R. No. 29977-1

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 2020 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as modified by the CBB.

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 these requirements and 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 2020. 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

Description of key audit matter	How the key audit matter was addressed in the audit
The process for estimating the impairment provision on loans and advances associated with credit risk in accordance with IFRS 9 Financial instruments (IFRS 9) is a significant and complex area. IFRS 9 requires use of expected credit loss ("ECL") models for the purposes of calculating impairment loss. The 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 subject to credit risk. The Covid-19 global pandemic has significantly impacted management's determination of ECL due to the fact that it has required application of significant judgements resulting in higher uncertainty of ECL estimates as well as forward-looking macroeconomic inputs. This may result in material changes to the estimates of ECL for Stage 1 and 2 in future periods.	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 the significant increase in credit risk criteria with the requirements of IFRS 9 and regulatory guidelines issued with respect to Covid-19; - the Group's ECL modeling techniques and methodology against the requirements of IFRS 9 incorporating consideration of Covid-19 impacts; - the basis of determination of any management overlays applied by the Group to incorporate the effects of the Covid-19 global pandemic on its modelled ECL outcome; - the theoretical soundness and tested the mathematical integrity of the models.

Building a better
working world

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

Impairment provision for loans and advances (continued)

Description of key audit matter	How the key audit matter was addressed in the audit
In order to capture the future uncertainties and related impacts arising due to effects of the payment holidays provided by the Group and the local regulators and other government initiatives which were not captured by the modelled ECL, the Group has applied their expert judgement with respect to: a) the quantitative and qualitative adjustments to macroeconomic factors; and b) determination of significant increase in credit risk and consequent staging of customers with special emphasis on customers severely affected by Covid-19. Because of the complexity of the requirements under IFRS 9, the significance of the judgements applied and the high degree of estimation uncertainty arising due to Covid-19 and the Group's exposure to loans and advances subject to credit risk forming a major portion of the Group's assets, the audit of ECL is a key area of focus.	• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL models, including approvals for any changes to the models, ongoing monitoring / validation, model governance and mathematical accuracy. We have also tested the completeness and accuracy of the data used and evaluated the reasonableness of the management assumptions. • We understood and assessed the significant modeling assumptions for exposures as well as overlays incorporating the consideration of Covid-19 impacts with a focus on: - Key modeling assumptions adopted by the Group; and - Basis for and data used to determine overlays.

Description of key audit matter	How the key audit matter was addressed in the audit
As at 31 December 2020, the Group's gross loans and advances amounted to US$ 16,526 million and the related ECL amounted to US$ 870 million, comprising US$ 162 million of ECL against Stage 1 and 2 exposures and US$ 708 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. 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.	• 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 keeping in view the long term effects of Covid-19 on customers severely affected by it; and - The 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 the 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 subject to credit risk as required under IFRS as modified by the CBB. We also involved our specialists in performing the above procedures.

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

Building a better working world

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2020 annual report

Other information consists of the information included in the Group's 2020 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 as modified by the CBB 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.

- 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 2020 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 Kazim Merchant.

Ernst & Young

Partner's registration no: 244
18 February 2021
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2020 (All figures in US$ Million)

	Note	2020	2019
ASSETS			
Liquid funds	6	**1,752**	1,874
Trading securities	7	**171**	507
Placements with banks and other financial institutions		**1,803**	2,051
Securities bought under repurchase agreements	26	**1,823**	1,398
Non-trading investments	8	**6,696**	5,836
Loans and advances	9	**15,656**	16,452
Other assets	11	**2,305**	1,767
Premises and equipment		**201**	183
TOTAL ASSETS		**30,407**	30,068
LIABILITIES			
Deposits from customers		**17,173**	16,666
Deposits from banks		**3,596**	3,897
Certificates of deposit		**494**	399
Securities sold under repurchase agreements	26	**1,151**	1,008
Taxation	12	**80**	63
Other liabilities	13	**1,974**	1,466
Borrowings	14	**1,795**	2,080
Total liabilities		**26,263**	25,579
EQUITY			
Share capital	15	**3,110**	3,110
Treasury shares		**(6)**	(6)
Statutory reserve		**520**	520
Retained earnings		**965**	1,051
Other reserves		**(822)**	(644)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,767**	4,031
Non-controlling interests		**377**	458
Total equity		**4,144**	4,489
TOTAL LIABILITIES AND EQUITY		**30,407**	30,068

The consolidated financial statements were authorised for issue by the Board of Directors on 18 February 2021 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 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

31 December 2020 (All figures in US$ Million)

	Note	2020	2019
OPERATING INCOME			
Interest and similar income	16	**1,175**	1,460
Interest and similar expense	17	**(659)**	(896)
Net interest income		**516**	564
Other operating income	18	**130**	301
Total operating income		**646**	865
OPERATING EXPENSES			
Staff		**291**	343
Premises and equipment		**43**	42
Other		**152**	139
Total operating expenses		**486**	524
NET OPERATING PROFIT BEFORE CREDIT LOSS EXPENSE AND TAXATION		**160**	341
Credit loss expense	10	**(329)**	(82)
(LOSS) PROFIT BEFORE TAXATION		**(169)**	259
Taxation on foreign operations	12	**94**	(23)
(LOSS) PROFIT FOR THE YEAR		**(75)**	236
Profit attributable to non-controlling interests		**(14)**	(42)
(LOSS) PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**(89)**	194
BASIC AND DILUTED (LOSS) EARNINGS PER SHARE (EXPRESSED IN US$)	31	**(0.03)**	0.06

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Khaled Kawan
Group Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020 (All figures in US$ Million)

	Note	2020	2019
(LOSS) PROFIT FOR THE YEAR		**(75)**	236
Other comprehensive income:			
Other comprehensive (loss) 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		**(234)**	(25)
Debt instruments at FVOCI:			
Net change in fair value during the year	15	**(22)**	81
		(256)	56
Other comprehensive (loss) income that will not be reclassified (or recycled) to profit or loss in subsequent periods:			
Net change in pension fund reserve		**(8)**	(2)
Net change in fair value of equity securities during the year	15	**-**	(2)
		(8)	(4)
Other comprehensive (loss) income for the year		**(264)**	52
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(339)**	288
Attributable to:			
Shareholders of the parent		**(267)**	261
Non-controlling interests		**(72)**	27
		(339)	288

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020 (All figures in US$ Million)

	Note	2020	2019
OPERATING ACTIVITIES			
(Loss) profit for the year		**(75)**	236
Adjustments for:			
Credit loss expense	10	**329**	82
Depreciation and amortisation		**45**	41
Gain on disposal of non-trading debt investments - net	18	**(20)**	(13)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		**217**	49
Trading securities		**236**	427
Placements with banks and other financial institutions		**215**	1,016
Securities bought under repurchase agreements		**(673)**	205
Loans and advances		**(733)**	(1,650)
Other assets		**(710)**	(191)
Deposits from customers		**1,560**	213
Deposits from banks		**45**	(298)
Securities sold under repurchase agreements		**145**	(258)
Other liabilities		**673**	270
Other non-cash movements		**(288)**	(101)
Net cash from operating activities		**966**	28
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(5,867)**	(4,234)
Sale and redemption of non-trading investments		**5,294**	4,221
Purchase of premises and equipment		**(42)**	(42)
Sale of premises and equipment		**14**	4
Investment in subsidiaries - net		**20**	12
Net cash used in investing activities		**(581)**	(39)
FINANCING ACTIVITIES			
Issue of certificates of deposit - net		**101**	360
Issue of borrowings		**231**	197
Repayment of borrowings		**(377)**	(123)
Repurchase of borrowings	14	**(126)**	(6)
Dividend paid to the Group's shareholders		**-**	(93)
Dividend paid to non-controlling interests		**(8)**	(23)
Purchase of treasury shares	15	**-**	(2)
Net cash (used in) from financing activities		**(179)**	310
Net change in cash and cash equivalents		**206**	299
Effect of exchange rate changes on cash and cash equivalents		**(111)**	17
Cash and cash equivalents at beginning of the year		**1,657**	1,341
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**1,752**	1,657

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020 (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 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)		(23)	(116)
Purchase of treasury shares	-	(2)	-	-	-	-	-	-	(2)		-	(2)
Transfers during the year	-	-	19	(19)	-	-	-	-	-		-	-
Other equity movements in subsidiaries	-	-	-	3	-	-	-	-	3		-	3
At 31 December 2019	3,110	(6)	520	1,051	100	(754)	42	(32)	4,031		458	4,489
(Loss) profit for the year	-	-	-	(89)	-	-	-	-	(89)		14	(75)
Other comprehensive loss for the year	-	-	-	-	-	(148)	(22)	(8)	(178)		(86)	(264)
Total comprehensive loss for the year	-	-	-	(89)	-	(148)	(22)	(8)	(267)		(72)	(339)
Dividend	-	-	-	-	-	-	-	-	-		(8)	(8)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-		-	-
Transfers during the year	-	-	-	-	-	-	-	-	-		-	-
Other equity movements in subsidiaries	-	-	-	3	-	-	-	-	3		(1)	2
At 31 December 2020	**3,110**	**(6)**	**520**	**965**	**100**	**(902)**	**20**	**(40)**	**3,767**		**377**	**4,144**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 482 million (2019: US$ 479 million).

The attached notes 1 to 34 form part of these consolidated financial statements.

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 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 applicable rules and regulations issued by the CBB including the recently issued CBB circulars on regulatory concessionary measures in response to novel coronavirus ("COVID-19"). These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments' (IFRS 9). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Refer to note 2.4 for further details; and

(b) recognition of financial assistance received from the government and/or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of 2.1(a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' (IAS 20). Refer to note 2.4 for further details.

The above framework for basis of preparation of the annual consolidated financial statements of the Group is hereinafter referred to as 'IFRS as modified by the CBB'.

The accounting policies, estimates and assumptions used in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with IFRS as issued by IASB, except for the modifications to accounting policies as mentioned above and in note 2.4 and 3, all of which have been applied retrospectively. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period. Refer to note 2.4 and 3 for further details.

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 and 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$), which is also the Bank's functional currency. All values are rounded to the nearest million (US$ 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 2020. Control is achieved when the Bank has:

2 BASIS OF PREPARATION (CONTINUED)

2.3 Basis of consolidation (continued)

- 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.

2.4 Directives issued by the CBB and Government assistance

During the year ended 31 December 2020, based on a regulatory directive issued by the CBB (refer note 2.1 above) as concessionary measures to mitigate the impact of COVID-19 and customer requests received, the Group provided payment holidays on financing exposures amounting to US$ 894 million as part of its support to impacted customers, however, this did not result in any modification loss.

Further, an amount of US$ 4 million (representing amount of financial assistance received from the Government of the Kingdom of Bahrain) has been recognised in profit or loss during the current year as the Group had no modification loss to be recorded in equity (in line with note 2.1). The amount was recorded as a deduction from related expenses in the consolidated statement of profit or loss.

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 change in basis of preparation as explained in note 2.1 and the adoption of the following new and amended standards and interpretations, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2020:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)

IBOR reform phase 1 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 an economic relationship exists and whether prospectively the hedging relationship is expected to be effective.

The Group applied the IBOR reform phase 1 amendments retrospectively to hedging relationships that existed at 1 January 2020 or were designated thereafter and that are directly affected by interest rate benchmark reform. The Group has not yet converted its hedging instruments from LIBOR to an alternate benchmark rates as of the reporting date.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "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 clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact, to the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

3.2 New and amended standards and interpretations issued but not yet effective

New and amended 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.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (CONTINUED)

3.2 New and amended standards and interpretations issued but not yet effective (continued)

Classification of Liabilities as Current or Non-current - Amendments to IAS 1 (continued)

- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

These amendments are effective for reporting periods beginning on or after 1 January 2023, with early application permitted. The Group is not expected to be affected by these amendments on the date of transition.

Amendments to IAS 37 – Onerous Contracts: — Cost of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group is not expected to be affected by these amendments on the date of transition.

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (IBOR reform phase 2)

On 27 August 2020 the IASB published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform phase 2). IBOR reform phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an IBOR with an alternative nearly risk-free profit rate. The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

The impact of the replacement of interbank offered rates with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending past 2021, when it is likely that these IBORs will cease being published or any subsequent timeline as determined by the relevant bodies. The Group is currently assessing the impact of the transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

Annual improvements 2018-2020 cycle

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter;
- IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities;
- IAS 41 Agriculture – Taxation in Fair Value Measurements; and
- Illustrative Examples accompanying IFRS 16 Leases – Lease Incentives.

These improvements are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group is not expected to be affected by these amendments on the date of initial application.

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, less provision for impairment.

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 of accounting.

4.6 Premises and equipment

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Premises and equipment (continued)

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

	Years
Freehold buildings	30
Freehold buildings fixtures and fittings/alterations	10
Leasehold buildings	Lower of lease term or 30 years
Leasehold improvements/ alterations	Lower of lease term or 10 years
Office machines, equipment and furniture	5
IT Projects (including computer hardware and software)	3-7
Motor vehicles	5

4.7 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

4.8 Leases - Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are also subject to impairment. The Group discloses right of use assets under other assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group discloses lease liabilities under other liabilities.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4.9 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.

4.10 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.

4.11 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.

4.12 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. Refer to note 2.4 for additional details relating to government grants received during the year.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

4.13 Recognition of income and expenses

4.13.1 The effective interest rate (EIR) method

Under IFRS 9 Financial instruments (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 financial assets measured at fair value through other comprehensive income (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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.13 Recognition of income and expenses (continued)

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

future cash receipts or payments 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 or liability.

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.

4.13.2 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.

4.13.3 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 and other 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.

4.13.4 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.

4.14 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.

4.15 Financial instruments

4.15.1 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.

4.15.2 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 4.16 and 4.17.

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 fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (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.

4.15.3 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Financial assets

4.16.1 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:

- 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 'Income from trading book' in the year in which it arises. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

4.16.2 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 realising 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.

4.16.3 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.

4.16.4 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.

4.16.5 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Financial assets (continued)

4.16.6 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 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.

4.16.7 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.

4.17 Financial liabilities

4.17.1 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 the issuer, 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 issuer 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.

4.17.2 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.

4.18 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Impairment (continued)

- 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 up to 12-month ECL.
- 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, 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 reorganisation; 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Impairment (continued)

Stage 3 (continued)

- 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 also uses published external information from International Monetary Fund (IMF).

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 amortised 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 validated. 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. Refer note 24.4.1 for additional details.

4.19 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.

4.20 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 4.18.

4.21 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Cash flow hedge (continued)

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.

(d) IBOR reform phase 1 impacts

The Group has applied IBOR reform phase 1 for the first time during the year ended 31 December 2020. IBOR reform phase 1 provide number of reliefs, that apply to all hedging relationships directly affected by IBOR reform. The reliefs apply during the period before the replacement of an existing interest rate benchmark with an alternative risk free rate. A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reform phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform.

IBOR reform phase 1 requires that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

4.22 Fair value measurement

The Group measures financial instruments at fair value at each reporting 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.

4.23 Taxation on foreign operations

There is no tax on corporate income of the Bank 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.

4.24 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 functional currency at the rates of exchange ruling at the reporting date. Any gains or losses are taken to the consolidated statement of profit or loss.

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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

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 reporting date. 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.

4.25 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.

4.26 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.

4.27 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.

4.28 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.28 Borrowings (continued)

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.

4.29 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'.

4.30 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.

4.31 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.

4.32 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.

As a result of the impact of COVID-19, the Group has considered providing its customers with extensions / forbearance in payment schedules. These were assessed on a case by case basis and in line with local regulatory guidelines in each jurisdiction. Further, forbearances granted were approved by appropriate governance and local regulatory guidelines and appropriate management judgement were applied for staging and ECL purposes.

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 2020 (All figures in US$ Million)

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 31 December 2020	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	-	-	1,752	1,752
Trading securities	171	-	-	171
Placements with banks and other financial institutions	-	-	1,803	1,803
Securities bought under repurchase agreements	-	-	1,823	1,823
Non-trading investments	-	5,484	1,212	6,696
Loans and advances	65	513	15,078	15,656
Other assets	982	-	1,240	2,222
	1,218	5,997	22,908	30,123
LIABILITIES				
Deposits from customers	-	-	17,173	17,173
Deposits from banks	-	-	3,596	3,596
Certificates of deposit	-	-	494	494
Securities sold under repurchase agreements	-	-	1,151	1,151
Taxation and other liabilities	874	-	1,123	1,997
Borrowings	-	-	1,795	1,795
	874	-	25,332	26,206

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	-	1,166	1,681
	1,033	5,119	23,647	29,799
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	-	1,028	1,491
Borrowings	-	-	2,080	2,080
	463	-	25,078	25,541

31 December 2020 (All figures in US$ Million)

6 LIQUID FUNDS

	2020	2019
Cash on hand	**29**	31
Balances due from banks	**470**	311
Deposits with central banks	**1,253**	1,238
Treasury bills and other eligible bills with original maturities of three months or less	**-**	77
Cash and cash equivalents	**1,752**	1,657
Treasury bills and other eligible bills with original maturities of more than three months	**-**	217
	1,752	1,874
ECL allowances	**-**	-
	1,752	1,874

7 TRADING SECURITIES

	2020	2019
Debt instruments	**154**	491
Equity instruments	**17**	16
	171	507

31 December 2020 (All figures in US$ Million)

8 NON-TRADING INVESTMENTS

	2020	2019
Debt securities		
At amortised cost	1,213	912
At FVOCI	5,574	5,005
	6,787	5,917
ECL allowances	(100)	(91)
Debt securities - net	6,687	5,826
Equity securities		
At FVOCI	9	10
Equity securities	9	10
	6,696	5,836

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

	2020	2019
AAA rated debt securities	333	444
AA to A rated debt securities	2,595	2,132
Other investment grade debt securities	1,240	1,733
Other non-investment grade debt securities	2,417	1,542
Unrated debt securities	202	66
	6,787	5,917
ECL allowances	(100)	(91)
	6,687	5,826

Following are the stage wise break-up of debt securities as at 31 December 2020 and 31 December 2019:

	2020			
	Stage 1	Stage 2	Stage 3	Total
Debt securities, gross	6,698	-	89	6,787
ECL allowances	(15)	-	(85)	(100)
	6,683	-	4	6,687

	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

31 December 2020 (All figures in US$ Million)

An analysis of movement in the ECL allowances during the years ended 31 December 2020 and 31 December 2019 are as follows:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**13**	**4**	**74**	**91**
Transfers to stage 1	**-**	**-**	**-**	**-**
Transfers to stage 2	**-**	**-**	**-**	**-**
Transfers to stage 3	**-**	**-**	**-**	**-**
Net transfers between stages	**-**	**-**	**-**	**-**
Additions	**-**	**-**	**11**	**11**
Recoveries / write back	**(2)**	**-**	**-**	**(2)**
Charge for the year - net	**(2)**	**-**	**11**	**9**
Amounts written-off	**-**	**-**	**-**	**-**
Exchange adjustments and other movements	**4**	**(4)**	**-**	**-**
As at 31 December	**15**	**-**	**85**	**100**

	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)
Exchange adjustments and other movements	-	-	(28)	(28)
As at 31 December	13	4	74	91

Interest income received during the year on impaired investments classified under Stage 3 amounted to US$ nil million (2019: nil).

31 December 2020 (All figures in US$ Million)

9 LOANS AND ADVANCES

Below is the classification of loans and advances by measurement:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
At FVTPL				
- Wholesale	**65**	**-**	**-**	**65**
At FVOCI				
- Wholesale	**513**	**-**	**-**	**513**
At Amortised cost				
- Wholesale	**13,508**	**825**	**828**	**15,161**
- Retail	**696**	**55**	**36**	**787**
	14,782	**880**	**864**	**16,526**
ECL allowances	**(67)**	**(95)**	**(708)**	**(870)**
	14,715	**785**	**156**	**15,656**

	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

Below is the classification of loans and advances by industrial sector:

	Gross loans		ECL allowances		Net loans	
	2020	2019	**2020**	2019	**2020**	2019
Financial services	**3,528**	3,614	**26**	22	**3,502**	3,592
Energy	**939**	1,180	**18**	9	**921**	1,171
Utilities	**884**	1,012	**9**	4	**875**	1,008
Distribution	**958**	968	**2**	4	**956**	964
Retailers	**253**	395	**3**	2	**250**	393
Manufacturing	**2,365**	2,841	**120**	65	**2,245**	2,776
Construction	**1,594**	1,400	**116**	140	**1,478**	1,260
Mining and quarrying	**120**	114	**11**	9	**109**	105
Transport	**829**	956	**35**	12	**794**	944
Personal/consumer finance	**885**	707	**36**	37	**849**	670
Commercial real estate financing	**554**	422	**21**	8	**533**	414
Residential mortgage	**6**	7	**1**	1	**5**	6
Trade	**495**	586	**176**	161	**319**	425
Agriculture, fishing and forestry	**1,112**	1,324	**23**	30	**1,089**	1,294
Technology, media and telecommunications	**301**	369	**30**	30	**271**	339
Government	**659**	277	**4**	2	**655**	275
Other services	**1,044**	897	**239**	81	**805**	816
	16,526	17,069	**870**	617	**15,656**	16,452

31 December 2020 (All figures in US$ Million)

An analysis of movement in the ECL allowances during the years ended 31 December 2020 and 31 December 2019 are as follows:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**58**	**67**	**492**	**617**
Transfers to stage 1	**1**	**(1)**	**-**	**-**
Transfers to stage 2	**(1)**	**2**	**(1)**	**-**
Transfers to stage 3	**(1)**	**(3)**	**4**	**-**
Net transfers between stages	**(1)**	**(2)**	**3**	**-**
Additions	**14**	**32**	**307**	**353**
Recoveries / write back	**-**	**-**	**(49)**	**(49)**
Charge for the year - net	**14**	**32**	**258**	**304**
Amounts written-off	**-**	**(1)**	**(25)**	**(26)**
Exchange adjustments and other movements	**(4)**	**(1)**	**(20)**	**(25)**
As at 31 December	**67**	**95**	**708**	**870**

	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

The fair value of collateral that the Group holds relating to loans and advances individually determined to be impaired and classified under Stage 3 at 31 December 2020 amounts to US$ 110 million (2019: US$ 114 million).

At 31 December 2020, interest in suspense on past due loans under Stage 3 amounts to US$ 136 million (2019: US$ 101 million).

31 December 2020 (All figures in US$ Million)

10 CREDIT LOSS EXPENSE

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Non-trading debt investments (note 8)	**(2)**	**-**	**11**	**9**
Loans and advances (note 9)	**14**	**32**	**258**	**304**
Credit commitments and contingent items (note 21)	**-**	**-**	**13**	**13**
Other financial assets	**-**	**-**	**3**	**3**
	12	**32**	**285**	**329**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Non-trading debt investments (note 8)	-	(2)	-	(2)
Loans and advances (note 9)	11	1	67	79
Credit commitments and contingent items (note 21)	1	2	3	6
Other financial assets	-	-	(1)	(1)
	12	1	69	82

11 OTHER ASSETS

	2020	2019
Interest receivable	**284**	316
Right-of-use assets	**57**	64
Trade receivables	**230**	269
Positive fair value of derivatives (note 20)	**983**	518
Assets acquired on debt settlement	**45**	69
Deferred tax assets	**222**	124
Bank owned life insurance	**40**	39
Margin dealing accounts	**36**	61
Staff loans	**29**	29
Advances and prepayments	**84**	39
Investments in an associate	**26**	22
Others	**269**	217
	2,305	1,767

The negative fair value of derivatives amounting to US$ 1,037 million (2019: US$ 520 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	
	2020	2019
As at 1 January	**64**	70
Add: New/terminated leases - net	**3**	5
Less: Amortisation	**(7)**	(10)
Others (including foreign exchange movements)	**(3)**	(1)
As at 31 December	**57**	64

31 December 2020 (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.

	2020	2019
Consolidated statement of financial position		
Current tax liability	22	20
Deferred tax liability	58	43
	80	63
Consolidated statement of profit or loss		
Current tax on foreign operations	12	24
Deferred tax on foreign operations	(106)	(1)
	(94)	23
Analysis of tax charge		
At Bahrain (income tax rate of nil)	-	-
On profits of subsidiaries operating in other jurisdictions	9	35
Credit arising from tax treatment of hedging currency movements	(103)	(12)
Income tax expense reported in the consolidated statement of profit or loss	(94)	23

The effective tax rates on the profit of subsidiaries in MENA was 32% (2019: 27%) and United Kingdom was 4% (2019: 13%) as against the actual tax rates of 19% to 38% (2019: 19% to 38%) in MENA and 19% (2019: 19%) in United Kingdom.

In the Bank's Brazilian subsidiary, the effective tax rate on normalised earnings was 23% (2019: 29%) as against the actual tax rate of 45% (2019: 42%), after taking into account the tax credit for the year of US$103 million arising from the tax treatment of hedging currency movements (2019: tax credit of US$ 12 million) on a certain transaction.

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

	2020	2019
Interest payable	243	388
Lease liabilities	60	69
Negative fair value of derivatives (note 20)	1,037	520
Employee related payables	100	130
Margin deposits including cash collateral	42	48
Deferred income	20	21
ECL allowances for credit commitments and contingent items (note 21)	57	38
Accrued charges and other payables	415	252
	1,974	1,466

The positive fair value of derivatives amounting to US$ 983 million (2019: US$ 518 million) is included in other assets (note 11). Details of derivatives are given in note 20.

31 December 2020 (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	
	2020	2019
As at 1 January	**69**	70
Add: New/terminated leases - net	**11**	5
Add: Interest expense	**2**	4
Less: Repayments	**(16)**	(9)
Others (including foreign exchange movements)	**(6)**	(1)
As at 31 December	**60**	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 2020

	Currency	Rate of Interest %	Parent bank	Subsidiaries	Total
Aggregate maturities					
2021	US$	LIBOR + 1.80%	**92**	**-**	**92**
2021	EUR	LIBOR + 1.10%	**-**	**92**	**92**
2022	US$	LIBOR + 2.25%	**1,330**	**-**	**1,330**
2023	US$	Libor + 1.20%	**-**	**175**	**175**
2021-2025	TND	10.00-11.50%	**-**	**14**	**14**
Perpetual*	BRL	3.55%	**-**	**92**	**92**
			1,422	**373**	**1,795**
Total obligations outstanding at 31 December 2019			**1,501**	**579**	**2,080**

During the year ended 31 December 2020, the Bank repurchased US$ 126 million of its subordinated term loan borrowings closer to its maturity date (2019: US$ 6 million). The resultant net gain on the repurchase is US$ nil (2019 : US$ nil).

* Additional Tier 1 ("AT1")

During 2019, a subsidiary of the Bank issued perpetual financial instruments. 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. The outstanding AT1 as at 31 December 2020 amounts to US$ 92 million.

31 December 2020 (All figures in US$ Million)

15 EQUITY

a) Share capital

	2020	2019
Authorised – 3,500 million shares of US$ 1 each (2019: 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 (2019: 3,110 million shares of US$ 1 each)	**3,110**	3,110

b) Treasury shares

The Group owns 15,884,355 treasury shares (2019: 14,997,026 shares) for a cash consideration of US$ 6 million (2019: US$ 6 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. There were no transfers made to the statutory reserve during the year as the Group incurred a loss.

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

	2020	2019
At 1 January	**42**	(37)
Net movement in fair value during the year	**(22)**	79
At 31 December	**20**	42

16 INTEREST AND SIMILAR INCOME

	2020	2019
Loans and advances	**812**	897
Securities and investments	**262**	359
Placements with banks and other financial institutions	**92**	193
Others	**9**	11
	1,175	1,460

17 INTEREST AND SIMILAR EXPENSE

	2020	2019
Deposits from banks	**167**	234
Deposits from customers	**421**	554
Borrowings	**63**	98
Certificates of deposit and others	**8**	10
	659	896

31 December 2020 (All figures in US$ Million)

18 OTHER OPERATING INCOME

	2020	2019
Fee and commission income - net*	**146**	199
Bureau processing income	**25**	33
Income from trading book - net	**(36)**	11
Gain on dealing in foreign currencies - net	**60**	28
Loss on hedging foreign currency movements**	**(103)**	(12)
Gain on disposal of non-trading debt investments - net	**20**	13
Other - net	**18**	29
	130	301

*Included in the fee and commission income is US$ 13 million (2019: 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.)	
			2020 %	2019 %
ABC International Bank Plc	Banking	United Kingdom	**100.0**	100.0
ABC SA (note 'a')	Banking	France	**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	**61.0**	61.1
ABC Algeria	Banking	Algeria	**88.9**	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**	60.3

Note 'a': ABC SA was incorporated by the Bank as a subsidiary of ABC International Bank Plc in 2018, however, it started its operations in 2020.

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 2020 (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.

	2020	2019
Proportion of equity interest held by non-controlling interests (%)	**39.0%**	38.9%
Dividends paid to non-controlling interests	**21**	22

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	2020	2019
Summarised statement of profit or loss:		
Interest and similar income	**473**	555
Interest and similar expense	**(330)**	(385)
Other operating income	**(30)**	116
Credit loss expense	**(59)**	(34)
Operating expenses	**(96)**	(128)
(Loss) profit before tax	**(42)**	124
Taxation *	**113**	(2)
Profit for the year	**71**	122
Profit attributable to non-controlling interests	**28**	47
Total comprehensive income	**(18)**	86
Total comprehensive income attributable to non-controlling interests	**(7)**	33

* This includes tax credit of US$ 103 million (2019: US$ 12 million) relating to hedging of currency movements as explained in note 12.

	2020	2019
Summarised statement of financial position:		
Total assets	**7,735**	8,093
Total liabilities	**6,902**	7,089
Total equity	**833**	1,004
Equity attributable to non-controlling interests	**325**	390
Summarised cash flow information:		
Operating activities	**362**	369
Investing activities	**(153)**	(377)
Financing activities	**(167)**	76
Net increase in cash and cash equivalents	**42**	68

31 December 2020 (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.

	2020			2019		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading						
Interest rate swaps	**298**	**238**	**8,602**	107	123	9,525
Currency swaps	**10**	**21**	**342**	31	8	632
Forward foreign exchange contracts	**56**	**43**	**5,630**	18	37	5,000
Options	**608**	**556**	**7,086**	348	285	8,373
Futures	**10**	**16**	**5,722**	11	10	4,234
	982	**874**	**27,382**	515	463	27,764
Derivatives held as hedges						
Interest rate swaps	**1**	**157**	**4,188**	3	56	4,638
Currency swaps	**-**	**-**	**63**	-	-	31
Forward foreign exchange contracts	**-**	**6**	**360**	-	1	447
	1	**163**	**4,611**	3	57	5,116
	983	**1,037**	**31,993**	518	520	32,880
Risk-weighted equivalents (credit and market risk)			**1,895**			2,226

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 2020, the Group recognised a net loss of US$ 101 million (2019: net loss of US$ 42 million) on hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to US$ 101 million (2019: gain of US$ 42 million).

b) The Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2020, the Group had deposits amounting to US$ 675 million (2019: US$ 644 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 consolidated 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

31 December 2020 (All figures in US$ Million)

20 DERIVATIVES AND HEDGING (CONTINUED)

Interest rate risk on fixed rate debt type instruments (fair value hedge) (continued)

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;

(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								
2020	**5,981**	**5,863**	**1,914**	**4,485**	**8,141**	**5,492**	**117**	**31,993**
2019	4,967	3,897	2,116	4,672	12,139	4,623	466	32,880

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 2020 or 2019 in relation to the interest rate swaps is however not significant to the Group.

31 December 2020 (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:

	2020	2019
Short-term self-liquidating trade and transaction-related contingent items	**2,148**	2,449
Direct credit substitutes and guarantees	**3,041**	3,349
Undrawn loans and other commitments	**1,865**	2,416
	7,054	8,214
Credit exposure after applying credit conversion factor	**3,021**	3,595
Risk-weighted equivalents	**2,619**	3,059

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	2020	2019
On demand	**1,342**	1,438
1 - 6 months	**1,817**	2,497
6 - 12 months	**1,143**	1,510
1 - 5 years	**2,710**	2,727
Over 5 years	**42**	42
	7,054	8,214

Exposure (after applying credit conversion factor) and ECL by stage

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Credit commitments and contingencies	**2,758**	**202**	**61**	**3,021**
ECL allowances	**12**	**13**	**32**	**57**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	3,281	289	25	3,595
ECL allowances	(14)	(13)	(11)	(38)

31 December 2020 (All figures in US$ Million)

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (CONTINUED)

An analysis of changes in the ECL allowances are as follows:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**14**	**13**	**11**	**38**
Transfers to stage 1	**-**	**-**	**-**	**-**
Transfers to stage 2	**-**	**-**	**-**	**-**
Transfers to stage 3	**-**	**-**	**-**	**-**
Net transfers between stages	**-**	**-**	**-**	**-**
Additions	**-**	**-**	**13**	**13**
Recoveries / write back	**-**	**-**	**-**	**-**
Charge for the year - net	**-**	**-**	**13**	**13**
Exchange adjustments and other movements	**(2)**	**-**	**8**	**6**
As at 31 December	**12**	**13**	**32**	**57**

	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

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 2020 (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:

	2020		2019	
Long (short)	Currency	US$ equivalent	Currency	US$ equivalent
Brazilian Real	**2,611**	**503**	2,448	609
Pound Sterling	**6**	**8**	(9)	(12)
Egyptian Pound	**1,724**	**110**	1,783	111
Jordanian Dinar	**104**	**146**	85	120
Algerian Dinar	**20,692**	**156**	16,860	142
Tunisian Dinar	**89**	**33**	99	36
Euro	**52**	**64**	10	11
Bahrain Dinar	**3**	**8**	7	19
Omani Riyal	**40**	**104**	21	55

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 2020

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2020:

Financial assets measured at fair value (net of ECL):

	Level 1	Level 2	Total
Trading securities	171	-	171
Non-trading investments	5,229	255	5,484
Loans and advances	-	514	514
Derivatives held for trading	349	633	982
Derivatives held as hedges	-	1	1

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2020:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	309	565	874
Derivatives held as hedges	-	163	163

31 December 2020 (All figures in US$ Million)

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

23.1 31 December 2020 (continued)

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	**1,213**	**1,213**
Financial liabilities		
Borrowings	**1,795**	**1,796**

23.2 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

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 2020 (31 December 2019: 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 strengthen 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.

24 RISK MANAGEMENT (CONTINUED)

24.2 Risk management structure (continued)

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.

Before entering into hedge transactions, the hedging strategy is reviewed and authorised at the appropriate level of committee 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 credit risk concentration

Concentration risk arises when the quantum of exposure to a single obligor or obligor group through ownership, control or interconnectedness is judged to be excessive. Risk concentration can also occur across economic activity, geographic areas or bank products. High levels of concentration in the event of a negative event e.g. changes in economic, political or other conditions may cause the Group to suffer higher than expected losses.

In order to avoid excessive concentrations of risk, the Group policies and standards include specific guidelines for country, industry, product and obligor limits aimed at maintaining a diversified portfolio. Where a concentration of risk is identified, action is taken to reduce or mitigate the concentration as appropriate.

24.4 Credit risk

Credit risk occurs when the Group's obligors fail to discharge contractual obligation between it and the Group as expected causing the Group to incur a financial loss. The Group controls credit risk by setting limits on the amount of risk it is willing to accept for an individual obligor within the limit framework described in more detail above under the heading Excessive credit risk concentration. The credit limit assigned to an obligor is based on its risk rating, the collateral posted in support of the facility and the facility maturity. Credit limits are approved at credit committees within a delegated authority framework.

Credit risk is managed by the Group Credit Committee ("GCC"), which is the main credit risk decision-making forum of the Group. GCC has the following roles and responsibilities:

- Review and decision credit proposals in line with its delegated authorities.
- Review and approve Internal Risk Ratings (IRR) and any overrides as applicable.
- Review and recommend the Group credit policy and other relevant credit standards
- Review and approve credit impairment provisions
- Credit portfolio reviews
- Review of credit resources and infrastructure
- Review its terms of reference annually

The first level of protection against undue credit risk is through country, industry single obligor and other risk threshold limits, together with customer credit limits, set by the BRC and the GCC 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, the Group's 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.

31 December 2020 (All figures in US$ Million)

24.4.1 Credit risk 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 EAD is considered for events over the lifetime of the instruments.

Internal Risk Rating (IRR) and the Probability of Default (PD) estimation process

The Group assigns an IRR to each obligor which maps to the Group's assessment of PD for the obligor. The IRR scale is aligned to that of the international rating agencies (see below). An obligor's IRR is reviewed at least annually.

The Group uses internal rating models tailored to the various categories of counterparties that take into account an obligor's financial standing, geographic location, its industry plus additional relevant information added through selective qualitative inputs to derive the IRR.

The credit grades are calibrated such that the risk of default increases exponentially as the credit quality weakens.

Credit Risk Rating Scale

The Group's rating method comprises 20 rating levels covering Stages 1 & 2 (1 to 8) and three default classes covering Stage 3 (9 to 11). The master scale maps the internal risk rating (IRR) to a percentage point which indicates a probability of default. The strongest credits are rated '1' as the credit quality weakens so the IRR increases in value. Obligors with an IRR of 4- or lower are investment grade, whilst IRR of 5+ or weaker are non-investment grade.

Rating models and process is subject to periodic validation and recalibration in order to ensure that the PD accurately reflects current market default experience.

The Group's internal credit rating grades along with 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.

Loss given default (LGD)

The credit risk mitigation assessment is based on a standardised LGD framework. The Group uses models to calculate the LGD values based on the collateral type and value, economic scenarios, seniority of tranche, industry and country of the borrower, 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 contract to be in default, if the terms of that contract have not been met. If the contractual repayments on a facility are 90 days past due the facility is moved to Stage 3 and specific ECL is recorded. During 2020, due to Covid-19 impacts, the CBB allowed certain exceptions to override the 90-day rule under certain circumstances, however, the Group has not adopted these exceptions. The Group considers treasury and interbank balances defaulted and takes immediate action when the required payments are not settled 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

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.1 Credit risk assessment and mitigation (continued)

Definition of default and cure (continued)

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;
- 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;
- Restructuring / rescheduling of the customers;
- Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties;
- Cross default of the borrower;
- The borrower requesting emergency funding from the Group;
- The borrower having past due liabilities to public creditors or employees; and
- The borrower is deceased.

It is the Group's policy to consider a facility as 'cured' when none of the criteria that caused the initial default have been present for at least 12 consecutive months and the existing contract is not in default.

The Bank employs 'cooling-off' periods when moving a cured account from Stage 3 (12 month) to Stage 2 (6 months) to Stage 1.

Credit risk grading and PD estimation process

The following are additional considerations for each type of portfolio held by the Group:

Wholesale portfolio

The wholesale portfolio includes obligors across sovereigns, banks, corporates, non-bank financial institutions and small and medium enterprises (SME) sub-sectors.

At the request of the obligor the Bank's first line of defense generates a paper to be considered at a business committee to confirm the facility is in line with the Bank's strategy and meets the Bank's profitability criteria. If approved at the business committee, a credit application form (CAF), is presented to the second line of defense which confirms that the request is factually correct and in line with the Bank's policies and standards relating to the risk being underwritten. The credit risk units of the Group validate the IRR being proposed. The CAF is then presented to a credit committee appropriate to the geography, product, IRR and amount requested for approval.

At a minimum the CAF contains the following information:

- Description of the facility request, the amount, its structure/risk mitigation, its purpose, terms and conditions, source of repayment and a commentary outlining the risks and mitigants to the repayment of the facility.
- Profitability analysis.
- Identification of the model inputs for expected credit loss (ECL) calculation namely, IRR, LGD of the facility through consideration and analysis of:
  - Historical and forecast financial information.
  - Any available relevant economic, sectorial, market, regulatory, reputational, or financial information on the obligor from third parties.
  - Collateral assessment.

Relationship managers in the first line of defence are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks.

The centralised credit unit in the second line of defence is responsible for:

- Independent credit review of the clients;
- Monitoring and maintaining oversight of the credit portfolio through client reviews, portfolio management information (MI) and key risk indicators (KRIs); and
- Supporting the GCC with reference to its roles and responsibilities.

Retail portfolio

The Group runs its retail lending via a series of product programmes which are approved by the relevant credit committees. The Group uses the 'roll rate' methodology for ongoing assessment of the ECL across the retail portfolio. The roll rate methodology uses statistical analysis of historical data on delinquency levels to estimate the amount of ECL that might reasonably be incurred. Management overlays are applied to ensure that the estimate of ECL is appropriate given the prevailing economic conditions at the reporting date.

Treasury portfolio

For debt securities in the non-trading portfolio, external rating agency credit grades are used unless the Bank has a different view on the IRR. These published credit ratings 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.

Significant increase in credit risk (SICR)

Obligors or specific facilities (or financial instruments) that have experienced an SICR since initial recognition are moved to Stage 2. The Bank monitors its portfolio to determine if an SICR event has occurred. The monitoring is undertaken in two ways:

- Through the annual and ad-hoc thematic review process and the regrading of the IRR and staging as appropriate;
- Mechanical observation of past due (see below) or notch movement of the IRR from inception to date; and
- Other qualitative factors such as obligors assigned to close monitoring, restructured / forbearance facilities, 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; and
- All exposures with external rating A- or above.

A backstop is applied, and the financial instrument is considered to have experienced SICR if the borrower is more than 30 days past due on its contractual payments. During 2020, the CBB provided certain reliefs, due to COVID-19, by increasing the number of days to 74 days for the backstop criteria, however, the Group has not applied the relaxed criteria by the CBB.

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

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.1 Credit risk assessment and mitigation (continued)

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. During 2020, the CBB provided certain reliefs, due to COVID-19, by reducing the cool-off period to 3 months, however, the Group has not applied the relaxed criteria by the CBB.

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.

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. Post COVID-19, the Group has also used judgement to consider the effects of government and other support measures and/ or other uncertainty factors to suitably adjust modelled ECL, which is elaborated below.

The calculation of ECL involves significant accounting judgements, estimates and assumptions. These are set out in note 4.18 and note 4.32. The level of estimation uncertainty has increased since 31 December 2019 as a result of the economic disruption and consequential impact of the Covid-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event; and
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the various government support schemes and the inherent limitations in data availability to facilitate a reliable segmentation.

Assessment and calculation of ECL during Covid-19

Considering the current scenario, the Group has applied overlays on the ECL estimates based on internal stress testing analysis (alongside significant judgements). While estimating the overlays, considerations were given to potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered the likely differential impacts on portfolio and sector classes, including pronouncements from different regulatory bodies regarding IFRS 9 application in the context of COVID-19.

As a result of the COVID-19 pandemic, the Group reviewed its entire portfolio of obligors and associated exposures. For those obligors where an SICR was considered as being probable in the short-term, the Group sought to reflect the change in risk through imposing overlays including lowering the respective credit rating. As the economic data is stabilising, the management overlay component is reducing but still not eliminated.

The Group's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Group operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative

31 December 2020 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.4 Credit risk (continued)

24.4.1 Credit risk assessment and mitigation (continued)

Assessment and calculation of ECL during Covid-19 (continued)

or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Group expects that post model adjustments will be applied for the foreseeable future.

Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations as a result of the Covid-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. They include the effect of government and other support programmes.

Management overlays reflect the significant uncertainty as a consequence of the COVID-19 pandemic. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes / segments, such as construction, energy, aviation, etc.. Additional information and sensitivity analysis in respect of the inputs to the ECL model under multiple economic scenarios is provided under economic variable assumptions in note 24.4.1.

Economic variable assumptions

An overview of the approach to estimating ECLs is set out above and in note 4.18. To ensure completeness and accuracy, the Group obtains the data used from third party sources (e.g. Moody's and IMF). The Group's Credit 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	2021	2022	2023	2024	2025
GDP growth rate	Base (40%)	[-3.77%, 7.26%]	[-0.48%, 14.13%]]	[2.46%, 17.58%]	[5.23%, 24.68%]	[7.37%, 32.15%]
	Upside (30%)	[3.82%, 11.72%]	[7.31%, 20.29%]	[9.39%, 21.58%]	[11.65%, 27.65%]	[13.44%, 35.30%]
	Downside (30%)	[- 16.22%, -0.39%]	[- 19.59%, 5.85%]	[- 17.31%, 13.48%]	[- 13.90%, 21.38%]	[- 10.77%, 29.26%]
Oil price	Base (40%)	8.45%	26.53%	31.23%	34.51%	39.67%
	Upside (30%)	19.22%	38.89%	43.76%	47.30%	52.76%
	Downside (30%)	-45.16%	-32.36%	-3.44%	8.06%	18.40%
Equity index	Base (40%)	[- 17.93%, 40.33%]	[- 8.34%, 49.93%]	[- 2.68%, 55.91%]	[0.54%, 64.45%]	[2.02%, 75.69%]
	Upside (30%)	[- 10.25%, 51.63%]	[- 0.57%, 57.76%]	[3.84%, 66.92%]	[4.66%, 76.15%]	[5.65%, 87.88%]
	Downside (30%)	[- 39.09%, -0.03%]	[- 23.36%, 22.37%]	[- 12.77%, 42.01%]	[- 4.57%, 52.65%]	[- 0.96%, 60.53%]

31 December 2020 (All figures in US$ Million)

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 scenarios) 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 -9.7% (2019: -4.9%) to an increase by 7.8% (2019: 6.6%.).

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.

	Gross maximum exposure	
	2020	2019
Liquid funds	**1,723**	1,843
Trading debt securities	**154**	491
Placements with banks and other financial institutions	**1,803**	2,051
Securities bought under repurchase agreements	**1,823**	1,398
Non-trading debt investments	**6,687**	5,826
Loans and advances	**15,656**	16,452
Other credit exposures	**2,222**	1,745
	30,068	29,806
Credit commitments and contingent items (note 21)	**7,054**	8,214
Total	**37,122**	38,020

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.

31 December 2020 (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

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			
	2020			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	2,647	237	1	2,885
Arab World	13,388	436	104	13,928
Asia	1,272	-	-	1,272
North America	2,620	16	-	2,636
Latin America	7,664	94	51	7,809
Other	1,532	2	4	1,538
Total	29,123	785	160	30,068

	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

The Group's liabilities and equity can be analysed by the following geographical regions:

	Liabilities and equity	
	2020	2019
Western Europe	1,996	2,064
Arab World	20,556	19,091
Asia	338	433
North America	863	692
Latin America	5,635	6,632
Other	680	894
Total	30,068	29,806

31 December 2020 (All figures in US$ Million)

The Group's commitments and contingencies can be analysed by the following geographical regions:

	Credit commitments and contingent items			
	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Western Europe	**697**	**138**	**3**	**838**
Arab World	**2,384**	**131**	**12**	**2,527**
Asia	**266**	**3**	**9**	**278**
North America	**699**	**82**	**7**	**788**
Latin America	**2,242**	**7**	**-**	**2,249**
Other	**366**	**8**	**-**	**374**
Total	**6,654**	**369**	**31**	**7,054**

	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

31 December 2020 (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 risk transfer into account), before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure			
	2020			
	Stage 1	Stage 2	Stage 3	Total
Financial services	11,074	50	3	11,127
Energy	1,097	28	-	1,125
Utilities	1,044	-	-	1,044
Distribution	954	8	-	962
Retailers	192	61	-	253
Manufacturing	2,199	121	42	2,362
Construction	1,294	195	4	1,493
Mining and quarrying	78	17	18	113
Transport	768	31	14	813
Personal /consumer finance	879	64	3	946
Commercial real estate financing	528	68	5	601
Residential mortgage	5	-	-	5
Trade	203	116	5	324
Agriculture, fishing and forestry	1,126	22	1	1,149
Technology, media and telecommunications	417	-	-	417
Government	4,819	-	-	4,819
Other services	2,446	4	65	2,515
Total	29,123	785	160	30,068

	Gross maximum exposure			
	2019			
	Stage 1	Stage 2	Stage 3	Total
Financial services	10,562	73	-	10,635
Energy	1,241	32	-	1,273
Utilities	1,086	21	-	1,107
Distribution	966	9	-	975
Retailers	326	68	-	394
Manufacturing	2,723	116	38	2,877
Construction	1,098	145	26	1,269
Mining and quarrying	86	11	8	105
Transport	924	64	-	988
Personal /consumer finance	766	59	6	831
Commercial real estate financing	453	11	8	472
Residential mortgage	5	-	1	6
Trade	230	195	2	427
Agriculture, fishing and forestry	1,317	19	17	1,353
Technology, media and telecommunications	478	-	-	478
Government	4,398	34	-	4,432
Other services	2,132	15	37	2,184
Total	28,791	872	143	29,806

31 December 2020 (All figures in US$ Million)

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	
	2020	2019
Financial services	**8,827**	8,797
Energy	**1,100**	1,273
Utilities	**1,044**	1,107
Distribution	**962**	975
Retailers	**253**	392
Manufacturing	**2,321**	2,820
Construction	**1,488**	1,178
Mining and quarrying	**113**	105
Transport	**813**	988
Personal / consumer finance	**946**	831
Commercial real estate financing	**601**	472
Residential mortgage	**-**	6
Trade	**318**	420
Agriculture, fishing and forestry	**1,149**	1,353
Technology, media and telecommunications	**417**	478
Government	**4,709**	4,263
Other services	**2,510**	2,167
Total	**27,571**	27,625

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			
	2020			
	Stage 1	Stage 2	Stage 3	Total
Financial services	**2,091**	**30**	**-**	**2,121**
Energy	**392**	**24**	**-**	**416**
Utilities	**853**	**22**	**-**	**875**
Distribution	**157**	**3**	**-**	**160**
Retailers	**183**	**19**	**-**	**202**
Manufacturing	**1,039**	**175**	**-**	**1,214**
Construction	**579**	**67**	**10**	**656**
Mining and quarrying	**17**	**-**	**-**	**17**
Transport	**236**	**-**	**7**	**243**
Personal /consumer finance	**103**	**-**	**-**	**103**
Commercial real estate financing	**86**	**-**	**-**	**86**
Trade	**57**	**13**	**-**	**70**
Agriculture, fishing and forestry	**153**	**-**	**-**	**153**
Technology, media and telecommunications	**182**	**10**	**-**	**192**
Government	**79**	**-**	**-**	**79**
Other services	**447**	**6**	**14**	**467**
Total	**6,654**	**369**	**31**	**7,054**

31 December 2020 (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)

	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

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	
	2020	2019
Financial services	**2,033**	2,230
Energy	**405**	392
Utilities	**875**	127
Distribution	**150**	68
Retailers	**202**	172
Manufacturing	**1,203**	1,141
Construction	**649**	817
Mining and quarrying	**17**	1,009
Transport	**243**	248
Personal /consumer finance	**103**	16
Commercial real estate financing	**86**	110
Trade	**64**	541
Agriculture, fishing and forestry	**153**	185
Technology, media and telecommunications	**192**	169
Government	**72**	42
Other services	**460**	769
Total	**6,907**	8,036

31 December 2020 (All figures in US$ Million)

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 2020	**High grade**	**Standard grade**	**Past due but not impaired**	**Past due and individually impaired**	**Total**
Liquid funds	**1,355**	**368**	**-**	**-**	**1,723**
Trading debt securities	**-**	**154**	**-**	**-**	**154**
Placements with banks and other financial institutions	**938**	**865**	**-**	**-**	**1,803**
Securities bought under repurchase agreements	**100**	**1,723**	**-**	**-**	**1,823**
Non-trading debt investments	**4,101**	**2,582**	**-**	**4**	**6,687**
Loans and advances	**3,962**	**11,461**	**77**	**156**	**15,656**
Other credit exposures	**2,068**	**211**	**-**	**-**	**2,279**
	12,524	**17,364**	**77**	**160**	**30,125**

	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	1,555	288	-	-	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
	12,230	17,358	75	143	29,806

31 December 2020 (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)

The table below shows the credit quality by class of financial asset net ECL, based on internal credit ratings.

31 December 2020	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt investments	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	1,355	-	938	100	4,090	3,914
Rating grades 5+ to 5-	178	154	137	1,073	1,107	6,228
Rating grades 6+ to 6-	189	-	715	650	1,486	4,454
Rating grade 7+ to 7-	-	-	-	-	-	116
Carrying amount (net)	1,722	154	1,790	1,823	6,683	14,712
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	-	-	-	-	-	-
Rating grades 5+ to 5-	-	-	-	-	-	87
Rating grades 6+ to 6-	-	-	13	-	-	268
Rating grade 7+ to 7-	1	-	-	-	-	282
Rating grade 8	-	-	-	-	-	151
Carrying amount (net)	1	-	13	-	-	788
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	4	156
Carrying amount (net)	-	-	-	-	4	156
Total	1,723	154	1,803	1,823	6,687	15,656

31 December 2020 (All figures in US$ Million)

31 December 2019	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt investments	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 2020 (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

	2020	2019
Loans and advances*	**650**	267

* This includes loans deferrals granted on account of COVID-19 US$ 156 million.

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.

The gross carrying value of financial assets modified during the year amounted to US$ nil with a corresponding ECL of nil (2019: gross carrying amount of US$ nil with a corresponding ECL of nil).

Due to the current COVID-19 scenario, central banks of various jurisdictions, where the Group operates, either required or recommended the Group to voluntarily provide payment deferrals or other forms of customer support. Accordingly, the Group provided obligors seeking forbearance in the form of a deferral of repayments or interest as a result of the impact of COVID-19 in line with local regulatory guidelines in each jurisdiction. The staging and ECL estimation for such customers and any associated reporting are also done in line with regulatory guidance. The CBB also issued several circulars with respect to COVID-19 outbreak to banks in the Kingdom of Bahrain with respect to deferral of repayments of principal and interest due for affected sectors, pursuant to which the Group has assessed the deferral requests received on a case by case basis in compliance with the CBB circulars. As the Group has not granted any interest waiver requests, no modification loss has been recognised during the year ended 31 December 2020. Further, forbearances granted were approved by appropriate governance and local regulatory guidelines were applied for staging and ECL purposes.

The Group provided forbearances to its customers with a corresponding outstanding of US$ 894 million as on 31 December 2020.

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$ 1,440 million (2019: US$ 878 million). Predominantly, the loan to value ratios for these exposures are in the range of 26% to 94% (2019: 28% to 80%).

31 December 2020 (All figures in US$ Million)

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	
	2020	2019
Trading securities		
- Debt Securities	**154**	491
Trading derivatives	**982**	515
Hedging derivatives	**1**	3
Financial assets designated at FVTPL		
- Loans and advances to customers	**65**	11

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.

31 December 2020 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

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 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.

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.

	2020			
	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**	**(1)**	**25**	**1**
Pound Sterling	**25**	**1**	**25**	**(1)**
Brazilian Real	**25**	**1**	**25**	**(1)**
Others	**25**	**1**	**25**	**(1)**

	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)

31 December 2020 (All figures in US$ Million)

Managing interest rate benchmark reform and associated risks

The Group holds interest rate swaps for hedging and risk management purposes. A significant portion of these instruments are indexed to US$ LIBOR.

The IBOR reforms exposes the Group to risks including risks relating to pricing, operations and information system. The Group anticipates that IBOR reform will impact its risk management and hedge accounting. The Group has established a project team to manage the transition for any of its contracts that could be affected. The team monitors and manages this project for the Group's transition to alternative rates and team reports to Group LIBOR Transition Committee. The project team evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

The Group applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

As of the reporting date, a consultation paper has been published to extend the timeline of this reform to June 2023 by ICE Benchmark Administration (IBA). Majority of the interest rate swaps included in the note 20 will be affected by IBOR reform.

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 2020 and 31 December 2019 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.

	2020			2019		
	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%**	**-**	**+/-25**	+/- 5%	-	+/-30
Pound Sterling	**+/- 5%**	**+/-1**	**-**	+/- 5%	+/-1	-
Egyptian Pound	**+/- 5%**	**-**	**+/-5**	+/- 5%	-	+/-5
Jordanian Dinar	**+/- 5%**	**+/-2**	**+/-9**	+/- 5%	+/-3	+/-9
Algerian Dinar	**+/- 5%**	**-**	**+/-8**	+/- 5%	-	+/-7
Tunisian Dinar	**+/- 5%**	**-**	**+/-2**	+/- 5%	-	+/-2
Bahrain Dinar	**+/- 5%**	**-**	**-**	+/- 5%	+/-1	-
Omani Riyal	**+/- 5%**	**+/-5**	**-**	+/- 5%	+/-3	-

24 RISK MANAGEMENT (CONTINUED)

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:

	Change in		Change in	
	% Change in equity price	**Effect on consolidated statement of profit or loss/ equity**	% Change in equity price	Effect on consolidated 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, 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 defense 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 monetised 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.

31 December 2020 (All figures in US$ Million)

24 RISK MANAGEMENT (CONTINUED)

24.11 Liquidity risk (continued)

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 2020, the Group's LCR and NSFR were at 324% (2019: 303%) and 122% (2019: 115%) respectively.

In addition, the internal liquidity/maturity profile is generated to summarise 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 2020 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.

At 31 December 2020	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	5,274	4,866	1,548	2,559	3,189	90	132	17,658
Deposits from banks	1,255	1,028	437	755	146	-	-	3,621
Certificates of deposits	189	188	73	15	32	-	-	497
Securities sold under repurchase agreements	704	400	-	50	-	-	-	1,154
Interest payable and other liabilities	1,974	-	-	-	-	-	-	1,974
Borrowings	-	95	57	118	1,713	1	92	2,076
Total non-derivative undiscounted financial liabilities on statement of financial position	9,396	6,577	2,115	3,497	5,080	91	224	26,980
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	3,442	2,891	909	2,964	3,040	25	-	13,271
Guarantees	2,460	-	-	-	-	-	-	2,460

31 December 2020 (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

31 December 2020 (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 2020	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	1,752	-	-	-	1,752	-	-	-	-	-	-	1,752
Trading securities	-	62	22	3	87	31	18	19	-	16	84	171
Placements with banks and other financial institutions	1,672	108	20	3	1,803	-	-	-	-	-	-	1,803
Securities bought under repurchase agreements	1,468	181	128	46	1,823	-	-	-	-	-	-	1,823
Non-trading investments	286	310	545	602	1,743	3,274	1,548	105	17	9	4,953	6,696
Loans and advances	3,283	2,271	1,873	2,349	9,776	5,136	672	71	1	-	5,880	15,656
Others	-	-	-	-	-	-	-	-	-	2,506	2,506	2,506
Total assets	8,461	2,932	2,588	3,003	16,984	8,441	2,238	195	18	2,531	13,423	30,407
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	3,952	3,351	1,491	2,475	11,269	5,750	79	75	-	-	5,904	17,173
Deposits from banks	1,148	599	391	744	2,882	714	-	-	-	-	714	3,596
Certificates of deposit	189	188	73	15	465	29	-	-	-	-	29	494
Securities sold under repurchase agreements	703	400	-	48	1,151	-	-	-	-	-	-	1,151
Borrowings	-	92	1	94	187	1,447	69	-	-	92	1,608	1,795
Others	-	-	-	-	-	-	-	-	-	2,054	2,054	2,054
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,144	4,144	4,144
Total liabilities, shareholders' equity and non-controlling interests	5,992	4,630	1,956	3,376	15,954	7,940	148	75	-	6,290	14,453	30,407
Net liquidity gap	2,469	(1,698)	632	(373)	1,030	501	2,090	120	18	(3,759)	(1,030)	-
Cumulative net liquidity gap	2,469	771	1,403	1,030		1,531	3,621	3,741	3,759	-		

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 2020 (All figures in US$ Million)

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	-		

31 December 2020 (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) and ila Bank.

	2020					
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	Total
Net interest income	121	166	70	143	16	516
Other operating income	41	53	47	(32)	21	130
Total operating income	162	219	117	111	37	646
Credit loss expense	(24)	(244)	-	(59)	(2)	(329)
Total operating expenses	(98)	(101)	(22)	(96)	(68)	(385)
Profit (loss) before taxation and unallocated operating expenses	40	(126)	95	(44)	(33)	(68)
Taxation expense on foreign operations	(16)	(1)	-	111	-	94
Unallocated operating expenses						(101)
Loss for the year						(75)
Operating assets as at 31 December 2020	3,648	8,542	10,310	7,745	162	30,407
Operating liabilities as at 31 December 2020	3,053	-	16,309	6,739	162	26,263

31 December 2020 (All figures in US$ Million)

	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
Credit loss expense	(22)	(26)	-	(34)	-	(82)
Total operating expenses	(97)	(113)	(22)	(128)	(42)	(402)
Profit before taxation and unallocated operating expenses	40	115	57	123	46	381
Taxation (expense) credit 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

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 2020 and 2019:

	Bahrain	Europe	Brasil	Other	Total
2020					
Total operating income	**234**	**93**	**113**	**206**	**646**
2019					
Total operating income	247	115	286	217	865

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2019: none).

31 December 2020 (All figures in US$ Million)

26 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year-end amounted to US$ 1,151 million (2019: US$ 1,008 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$ 1,257 million (2019: US$ 1,024 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$ 1,823 million (2019: US$ 1,398 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$ 1,957 million (2019: US$ 1,465 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	2020	2019
Deposits from customers	3,274	700	8	3,982	3,869
Borrowings	1,330	-	-	1,330	1,505
Short-term self-liquidating trade and transaction-related contingent items	171	-	-	171	348

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2020	2019
Commission income	6	10
Interest expense	93	161

Compensation of the key management personnel is as follows:

	2020	2019
Short term employee benefits	12	17
Post employment benefits	5	3
	17	20

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$ 16,579 million (2019: US$ 16,346 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$ 2,243 million (2019: US$ 1,775 million). Loans and advances, non-trading investments and placements include Islamic assets of US$1,122 million (2019: US$ 1,175 million), US$ 842 million (2019: US$ 818 million) and US$ 53 million (2019: US $285 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$ 407 million (2019: US$ 380 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:

	2020	2019
(Loss) profit attributable to the shareholders of the parent	**(89)**	194
Weighted average number of shares outstanding during the year (millions)	**3,086**	3,088
Basic and diluted (loss) earnings per share (US$)	**(0.03)**	0.06

31.2 Proposed dividends and transfers

	2020	2019
Proposed cash dividend for 2020 of nil per share (2019: nil per share)	**-**	-

31 December 2020 (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 2020 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

		2020	2019
CAPITAL BASE			
CET 1		**3,971**	4,262
AT 1		**84**	96
Total Tier 1 capital		**4,055**	4,358
Tier 2		**230**	251
Total capital base	[a]	**4,285**	4,609

		2020	2019
RISK-WEIGHTED EXPOSURES			
Credit risk weighted assets and off balance sheet items		**21,350**	22,412
Market risk weighted assets and off balance sheet items		**1,501**	1,690
Operational risk weighted assets		**1,632**	1,639
Total risk weighted assets	[b]	**24,483**	25,741
Risk asset ratio	[a/b*100]	**17.5%**	17.9%
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 2020 (All figures in US$ Million)

33 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2020	Cash flow, net	Foreign exchange movement	31 December 2020
Certificates of deposit	399	101	(6)	494
Borrowings	2,080	(272)	(13)	1,795
Total liabilities from financing activities	2,479	(171)	(19)	2,289

	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

34 SUBSEQUENT EVENTS

Subsequent to the year-end 2020, on 15 January 2021, the Bank has entered into a sale and purchase agreement with BLOM Bank SAL, Lebanon, to acquire its 99.4% stake of BLOM Bank Egypt at a proposed cash consideration valuing the Blom Bank Egypt's 100% ownership at EGP 6,700 million. The Group expects to complete the acquisition process during Q2, 2021. Completion of the acquisition is subject to a number of conditions and approvals including regulatory approvals in the Kingdom of Bahrain, Egypt and Lebanon.

Innovation driven **resilience** with sound conduct & global access

Resilience deeply rooted in a culture of ethics and integrity, and the bankability of our global network.

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 11). 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, recognising 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 favor 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

2. OUR PEOPLE (CONTINUED)

2.5 Safe Workplace (continued)

- 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.

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 USD 100 or above should be reported in accordance with the Anti-Bribery and Corruption Standard.

4.4 Fraud

Fraud is an unlawful act – either an act or the omission of an act – that is performed by using intentionally and personally, unfair means, and sometimes even lawful means, in order to obtain, directly or indirectly, an undue tangible or intangible advantage, or a consent, or in order to escape an obligation of any nature, for its own benefit or for the benefit of a third party.

Fraud, whether attempted or realised, is unacceptable to the Bank and its employees because it is unlawful, dishonest and threatens the Bank's reputation.

You are required to immediately report any fraud event (suspected, attempted or realised) to your Unit Head of Fraud Risk or through the available whistleblowing channels (cf. 'Raising Concerns' section of this document).

4.5 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.

4.6 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

4. FINANCIAL CRIME (CONTINUED)

4.6 Charities and Non-Profit Organisations (continued)

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 Personal Data Protection

You must comply with (Personal) Data Protection laws and regulations where applicable. The following key principles are provided as guidance.

Personal Data relating to individuals (e.g. our customers, employees, third parties, etc.) must be:

- Collected for specified, explicit and legitimate purposes and not further processed in a manner that is incompatible with those purposes;
- Processed lawfully, fairly and in a transparent manner;
- Adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed;
- Accurate and, where necessary, kept up to date; every reasonable step must be taken to ensure that Personal Data that are inaccurate, having regard to the purposes for which they are processed, are erased or rectified without delay;
- Kept for no longer than is necessary for the purposes for which the Personal Data are processed;
- Processed in a secure way so that it is protected against unauthorised or unlawful processing and against accidental loss, destruction or damage, using appropriate technical or organisational measures.

We respect individual's rights and must ensure to:

- Inform individuals' transparently how we process their Personal Data;
- Provide a copy of their Personal Data processed by us on request;
- Correct or complete their Personal Data on request;
- Respect the right to object to the processing of their Personal Data;
- Restrict the processing of their Personal Data on request;
- Respect the right to have their Personal Data erased (the "right to be forgotten");
- Transfer, copy or move their Personal Data on request (right of "data portability");
- Respect the right that an individual can exercise to not be subject to a decision based solely on automated Processing, including Profiling;
- Respect the right that an individual can exercise to withdraw their Consent at any time (including no longer be included in our marketing campaigns).

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 unauthorised 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 judgment 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. SOCIAL MEDIA GUIDELINES FOR STAFF

All employees are required to familiarise themselves with the Group Media Policy, and display utmost caution while interacting with the media and external parties regarding all matters related to the Bank and its business.

You are required to follow the below guidelines:

- Do not share confidential information: Do not post anything confidential about the Bank or any information that is not shared by the Bank in the public domain on your personal accounts or any social media platform. You may re-share the Bank's official news and posts on your personal accounts.
- Do not speak on behalf of Bank ABC: Only official spokespeople may speak on behalf of the Bank.

7. SOCIAL MEDIA GUIDELINES FOR STAFF (CONTINUED)

- Do not open any new social media accounts on behalf of the Bank or any of its units, for internal or external audiences, without obtaining prior written consent from Group Corporate Communications.
- Treat your audiences with respect: Do not post hate, violent, threat or racist comments that you wouldn't make at the workplace.
- Think about the repercussions of what you say: Using your public voice to tarnish or malign the reputation of the Bank and that of its stakeholders may negatively impact the business of the organisation you work for.
- Personal views: When posting personal views about a subject relevant to the Bank or that of its competitors, make it clear that these views are your own.
- Association: Bear in mind that as an employee of Bank ABC you are associated with the Bank. Please ensure that your social media image is consistent with how you wish to present yourself with clients and colleagues.

8. 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]

9. 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 victimisation.

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

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.

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) 17 543 210

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
Karim Labadi
T. (973) 17 543 776

Network Corporates
Sami Bengharsa
T. (973) 17 543 359

Local Corporates
David D'Costa
T. (973) 17 543 253

Group 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) 17 543 592

Corporate Treasury
Mazen Ladki
T. (973) 17 543 839

Syndications
Tariq Amin
T. (973) 17 543 173

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

Group Finance
Suresh Padmanabhan
T. (973) 17 543 321

Group Strategy
Nicolas Hurtrez
T. (973) 17 543 723

Investor Relations
T. (973) 17 543 161

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
Sedjwick Joseph
T. (973) 17 543 696

Group Head of Risk Management
Rohit Kumar
T. (973) 17 543 477

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
Nicholas Church
T. (973) 17 543 560

Group Compliance
Maadian Botha
T. (973) 17 543 710

Group Corporate Communications
Fatema Yusuf
T. (973) 17 543 413

Group Corporate Services
Stephen Kowalski
T. (973) 17 543 306

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) 17 543 000

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 St, (North) Fifth
Settlement, New Cairo,
P.O. Box 38, Katameya,
Egypt. Postal Code: 11835
T. (202) 28111555
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
ABCLondon@bank-abc.com

France
8 rue Halevy, 75009 Paris
France
T. (33) (1) 4952 5400
ABCParis@bank-abc.com

Germany
Neue Mainzer Strasse 75
60311 Frankfurt am Main
Germany
T. (49) (69) 7140 30
ABCFrankfurt@bank-abc.com

Italy
Via Amedei, 8, 20123
Milan, Italy
T. (39) (02) 863 331
ABCMilan@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
ABCIstanbul@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

Bank ABC

+973 1754 3000 bank-abc.com @BankABC