



Annual Ordinary General Meeting Booklet

24 March 2019
Kingdom of Bahrain

Tel: +973 1753 3000
Fax: +973 1753 3163

www.bank-abc.com

Bank ABC

P.O. Box 5698, Manama, Kingdom of Bahrain (CR: 10299)
*Bank ABC (Arab Banking Corporation B.S.C.) is licensed as a
conventional wholesale bank by the Central Bank of Bahrain*

FABR173

CONTENT

AGM Agenda	2
Minutes of the previous meeting (Arabic only)	5
Directors' Report	17
Auditors' Report	21
Consolidated Financial Statements	31
Group Financial Review	111
Market Making Arrangement	117
Corporate Governance	119
Appendices	
1. Board of Directors Biographies	137
2. Management Organisation Chart	141
3. Code of Conduct	143

AGM Agenda

Agenda:

1. To approve the minutes of the past annual ordinary general meeting of the Bank dated 25 March 2018.
2. To discuss and approve the Report of the Board of Directors about the activities of the Bank for the financial year ended 31 December 2018.
3. To consider and acknowledge the Report of the Auditors concerning the Consolidated Financial Statements for the financial year ended 31 December 2018.
4. To discuss and approve the Consolidated Financial Statements for the financial year ended 31 December 2018.
5. To approve the recommendation of the Board of Directors for appropriation of profits for the financial year ended 31 December 2018 as follows:
 - 5.1 The transfer of US\$20,199,200 to the legal reserve.
 - 5.2 Cash payment of 3% dividend or 3 cents for each outstanding share (net of treasury shares) for approximately a total of US\$92.9 million starting from 3 April 2019.
 - 5.3 Transfer of the remaining balance of US\$88,858,800 to the retained earnings.
6. To update the Meeting on the market making arrangement approved by the shareholders to enhance the liquidity of Bank ABC's shares, and, subject to the approval of the Central Bank of Bahrain, authorize the Board to take all necessary steps to renew the market making arrangement and extend its operation for up to a further three years term.
7. To discuss and approve the Corporate Governance Report for the year 2018 as per the requirements of the Central Bank of Bahrain.
8. To absolve the Directors from liability for the financial year ended 31 December 2018.
9. Subject to approval of the Central Bank of Bahrain, to re-appoint Messrs Ernst & Young as auditors of the Bank for the financial year ending 31 December 2019, and to authorise the Board of Directors to fix their remuneration.
10. Subject to the approval of the Central Bank of Bahrain, to elect Members for the Board of Directors on its Thirteenth Term.
11. Update on related party transactions pursuant to Article 189 (c) of the Commercial Companies' Law and as set out in note 27 of the Consolidated Financial Statements for the financial year ended 31 December 2018.
12. Any other business under article 207 of the Commercial Companies Law.

Important notice to shareholders:

- Copies of the Report of the Board of Directors, together with the Consolidated Balance Sheet, the Profit and Loss Account and the Report of the Auditors for 2018 will be made available in English and Arabic languages by the first week of March 2019 at ABC Tower, Diplomatic Area, Manama, Kingdom of Bahrain, and on the Bank's website (www.bank-abc.com).
- Any Shareholder registered in the Bank's share register on the date of the AGM meeting is entitled to attend the meeting or to appoint a proxy to attend and vote on the Shareholder's behalf, taking into consideration that the proxy shall not be the chairman, a director or an employee of the Bank. The form of the proxy is enclosed and that the proxy is to be received 24 hours before the meeting.
- If the shareholder is a company, the proxy that will attend the meeting must submit a letter of authorisation from the shareholder stating that he/she is the designated proxy. The authorisation must be in writing and issued by the authorised representative of the company with the company's seal. It must be submitted before the deadline for submitting proxies.
- The proxy letter must be submitted at least 24 hours before the AGM meeting is convened (at the Bank ABC head office in the Diplomatic Area in Manama, Kingdom of Bahrain). The proxy letter can be submitted by hand or by post (at the Bank ABC head office, Building 152, Road 1703, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain), by fax (number +97317531311) or by email (ShareholderRelations@bank-abc.com), making sure it is submitted before the deadline. It is important to note that proxy letters submitted after the deadline will be considered void and will not be accepted.
- For further details please contact the Public Relations and Shareholders Relations Unit at the Bank (+97317543222).

**Minutes of the
Previous meeting**
(Arabic only)

محضر اجتماع الجمعية العامة العادية
للمؤسسة العربية المصرفية (ش.م.ب)
البحرين ٢٥ مارس ٢٠١٨ م.

عقدت الجمعية العامة لمساهمي المؤسسة العربية المصرفية (ش.م.ب) اجتماعها السنوي العادي في يوم الاحد الموافق ٢٥ مارس ٢٠١٨ م عند تمام الساعة الثانية عشرة ظهرا في المقر الرئيسي للمؤسسة بمملكة البحرين وذلك للنظر في جدول أعمالها التالي :

- أولا :- التصديق على محضر الاجتماع السابق للجمعية العامة العادية الذي عقد بتاريخ ٢٦ مارس ٢٠١٧ م .
- ثانيا :- مناقشة تقرير مجلس الإدارة عن نشاط البنك خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م والتصديق عليه .
- ثالثا :- الاستماع الى تقرير السادة مراقبي الحسابات عن القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٧/١٢/٣١ م .
- رابعا :- مناقشة البيانات المالية للسنة المنتهية في ٢٠١٧/١٢/٣١ م والمصادقة عليها .
- خامسا :- المصادقة على توصية مجلس الادارة بتخصيص صافي أرباح السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م علي النحو التالي :-
- تحويل مبلغ ١٩,٣٣٩,٠٠٠ دولار أمريكي للاحتياطي القانوني .
 - توزيع ارباح نقدية على المساهمين بواقع ٣% عن كل سهم قدرها ٣ سنت أمريكي للسهم الواحد ، البالغة اجماليا ٩٣,٣٠٠,٠٠٠ دولار أمريكي ابتداء من تاريخ ٤ ابريل ٢٠١٨ م .
 - تحويل الرصيد المتبقي وهو ٨٠,٧٥١,٠٠٠ دولار أمريكي إلى حساب الارباح المبقاة .
- سادسا :- الموافقة على قيام البنك بشراء نسبة لا تزيد عن ٣% من أسهمه الصادرة وإعادة بيعها ، عبر تعيين صانع سوق لتعزيز سيولة تداول الاسهم في السوق لمدة ١٢ شهرا ، وذلك خاضع لموافقة مصرف البحرين المركزي ، وتفويض مجلس الإدارة أو من يفوضه باتخاذ كافة الإجراءات بما فيها شروط تعيين صانع السوق والخطوات اللازمة مع الجهات المعنية للحصول على الموافقات اللازمة وإجراء كل ما يلزم لتنفيذ القرار المذكور أعلاه .
- سابعا :- مناقشة تقرير حوكمة الشركات لسنة ٢٠١٧ م والتزام البنك بمتطلبات مصرف البحرين المركزي والمصادقة عليه .



ثامنا :- ابراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م .

تاسعا :- النظر في إعادة تعيين السادة ارنست و يونغ كمدققين لحسابات البنك للسنة المالية المنتهية في ٣١ ديسمبر ٢٠١٨ م ، بعد اخذ موافقة السادة مصرف البحرين المركزي وتحويل مجلس الإدارة بتحديد أتعابهم .

عاشرا :- ما يستجد من أعمال طبقاً لنص المادة ٢٠٧ من قانون الشركات التجارية .

عملا باحكام المادة ٤٢/أ من النظام الأساسي للمؤسسة ، تولى رئاسة الاجتماع السيد الصديق عمر الكبير بصفته رئيسا لمجلس الإدارة ، كما تم تكليف السيد مصطفى محمد جابر بمهام أمانة سر الجمعية بناء على اقتراح من السيد الرئيس وموافقة الجمعية وذلك في حضور كل من :-

نائب رئيس مجلس الإدارة

السيد هلال مشاري المطيري

عضو مجلس الإدارة

السيد د. أنور علي المضيف

" " "

السيد أحمد فرج الفرجاني

" " "

السيد بشير ابوالقاسم عمر

" " "

السيد د. طارق يوسف المقريف

" " "

السيد عبدالله سعود الحميضي

" " "

السيد د. فاروق عبدالباقي العقدة

" " "

السيد د. يوسف عبدالله العوضي

الرئيس التنفيذي للمجموعة

السيد د. خالد سعيد كعوان



عن مصرف البحرين المركزي	السيد عيسى المتوج
" " " "	السيد عبدالله الحمادي
" " " "	السيدة حصة المناعي
" " " "	السيدة علياء عمران
عن وزارة الصناعة والتجارة والسياحة	السيد محمد حسن سلمان
عن بورصة البحرين	السيد محمد جبيل
السادة أرنيست و يونغ (مدققي الحسابات)	السيد نادر رحيمي
" " " "	السيد اشواني كومار
عن مسجلي الأسهم السادة فخر و كارفي كومبيوتر شير	السيد هاني الشيخ
" " " "	السيد صادق المدوب

كما كان في الحضور أيضا :-

السيدة نجلاء الشيراوي الرئيس التنفيذي لشركة SICO وذلك لأغراض المشاركة في عرض البند السادس من جدول الاعمال .

بعد أن رحب السيد رئيس الجمعية بالأصالة عن نفسه ونيابة عن مجلس الإدارة والمؤسسة بالسادة المساهمين و مندوبي الجهات الرسمية وبقية السيدات والسادة الحضور ، شاكرا لهم حسن تلبية الدعوة ... تم التأكد من توافر النصاب القانوني لصحة الاجتماع بحضور عدد من المساهمين الممثلين أصالة أو نيابة بنسبة بلغت ٩٥,٥٥% من رأس المال المدفوع .



شرعت الجمعية العامة على اثر ذلك في مداولة بنود جدول أعمالها ، حيث انتهت منها إلى اتخاذ جملة القرارات والإجراءات التالية :-

أولا :- التصديق على محضر الاجتماع السابق للجمعية العامة العادية الذي عقد بتاريخ ٢٦ مارس ٢٠١٧ م.

أفادت الجمعية العامة العادية باطلاعها على محضر اجتماعها السابق والذي عقد بتاريخ ٢٦ مارس ٢٠١٧ م بحسب الوارد في كتيب الجمعية الموزع على السادة المساهمين ، حيث أخذت علما بمحتوياته وصادقت عليه كما تم تقديمه .

ثانيا :- مناقشة تقرير مجلس الإدارة عن نشاط البنك خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م والتصديق عليه .

أفادت الجمعية العامة بإطلاعها على تقرير مجلس الإدارة عن نشاط مجموعة المؤسسة خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م بحسب الوارد في كتيب الجمعية الموزع على السادة المساهمين ، حيث أخذت علما بمحتوياته وصادقت عليه .

ثالثا :- الاستماع الى تقرير السادة مراقبي الحسابات عن القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٧/١٢/٣١ م .

استمعت الجمعية العامة لتقرير السادة مراقبي الحسابات (السادة ارنست و يونغ) عن نشاط مجموعة المؤسسة خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م حيث أخذت علما بمحتوياته .

رابعا :- مناقشة البيانات المالية للسنة المنتهية في ٢٠١٧/١٢/٣١ م والمصادقة عليها .

طلب السيد رئيس الجمعية من الرئيس التنفيذي للمجموعة عرض البيانات المالية للسنة المنتهية في ٣١ ديسمبر ٢٠١٧ م (أ) ليقترح بعدها باب النقاش أمام المساهمين (ب) .

أ- عرض الرئيس التنفيذي :-

١- قدم الرئيس التنفيذي للمجموعة عرضا على شرائح تناول تحليل للبيانات المالية للمؤسسة لسنة ٢٠١٧ م في ضوء ظروف عمل المؤسسة .



٢- بدأ الرئيس التنفيذي للمجموعة عرضه بالإشارة إلى أهم التحديات التي واجهت المؤسسة خلال العام ٢٠١٧م في الأسواق التي تعمل بها ، ذكرا على سبيل المثال تدني أسعار النفط وتراجع أسعار العملات المحلية في بعض أسواق عمل المؤسسة ، مع استمرار حالة عدم الاستقرار السياسي والجغرافي في عدد منها مما أثر بالسلب على حجم الاعمال وشكل ضغوط إضافية على جودة الاقراض كل ذلك على خلفية بقاء أسعار الفائدة منخفضة معظم السنة والفائض في السيولة والتخارج البريطاني من الاتحاد الاوروبي ... فضلا عن تدهور التصنيف الائتماني لبعض الأسواق الهامة التي تعمل فيها المؤسسة مثل البرازيل ، البحرين ، وعمان .

٣- الا أن الرئيس التنفيذي للمجموعة أكد مع ذلك نجاح المؤسسة في التعامل مع هذه التحديات من خلال تحقيقها ربحا صافيا بلغ ١٩٣ مليون دولار أمريكي ، مقارنة مع أرباح صافية بلغت ١٨٣ مليون دولار أمريكي في العام ٢٠١٦م بارتفاع نسبته ٦% ... مع ارتفاع مواز في الدخل التشغيلي للمجموعة بنسبة ٧% ليبلغ ٨٧٤ مليون دولار أمريكي مقارنة بمبلغ ٨١٥ مليون دولار أمريكي في عام ٢٠١٦م ، مما أدى إلى ارتفاع العائد على حقوق المساهمين ليبلغ ٥% مقارنة بنسبة ٤,٨% في عام ٢٠١٦م .

٤- وإذا كان اجمالي الموجودات انخفض بمبلغ ٠,٦ مليار دولار أمريكي ليصل إلى ٢٩,٥ مليار دولار أمريكي مقارنة بـ ٣٠,١ مليار دولار أمريكي في العام ٢٠١٦م ، فإن الرئيس التنفيذي للمجموعة أوضح أن هذا الانخفاض مرده حسن إدارة مقدرات المؤسسة لتحسين العائد على الاصول حيث سجل بالأخص ارتفاع حجم القروض المنتجة بنسبة ٤% ، كما بلغ معدل كفاية رأس المال للمجموعة في نهاية العام ٢٠١٧م وفق اتفاقية بازل الثالثة من الفئة الأولى لرأس المال ١٧,٧% ، مرتفعا ٠,٢% عن السنة السابقة .

٥- أفاد الرئيس التنفيذي للمجموعة أنه حرصا من المؤسسة على دفع عائد مجزي للمساهمين وبشكل ثابت ، أوصى مجلس الإدارة بتوزيع عائد على المساهمين بنسبة ٣% بمبلغ قدره ٩٣,٣ مليون دولار أمريكي - وهو يمثل حوالي ٤٨% من أرباح البنك عن عام ٢٠١٧م .

٦- أما على الصعيد الاستراتيجي ، فأوضح الرئيس التنفيذي للمجموعة أن البنك بصدد الانتهاء من إعداد إستراتيجيته للثلاث سنوات القادمة والتي سيتم مناقشتها في شهر يونيو القادم من قبل مجلس الإدارة ... مذكرا أنه كجزء من خطة المؤسسة لتعزيز انتشارها الجغرافي ، تم تحويل المكتب التمثيلي للبنك في سنغافورة إلى فرع متكامل ، كما تم افتتاح فرع للبنك في مركز دبي المالي العالمي وذلك في أواخر سنة ٢٠١٧م ...



٧- في مؤشر مهم على ترحيب السوق بقوة المركز المالي للبنك وكفاءة إدارة أعماله ، بالرغم مما واجهه من صعوبات وتحديات في أسواقه الرئيسية خلال سنة ٢٠١٧م ، أشار الرئيس التنفيذي للمجموعة إلى قيام وكالة ستاندرد أند بورز ووكالة فيتش للتصنيف الائتماني خلال العام ٢٠١٧م بتثبيت تصنيف البنك بدرجة -BBB ... بالإضافة إلى حصول بنك ABC على جائزة أفضل بنك في البحرين لعام ٢٠١٧م من مجلة The Banker .

٨- وبالتطلع إلى العام ٢٠١٨م وما بعده ، أفاد الرئيس التنفيذي للمجموعة إن الانتعاش المتوقع في الأسواق العالمية والإقليمية من شأنه تعزيز بيئة العمل أمام المجموعة التي تواصل تنفيذ استراتيجيتها لما فيه خير المساهمين ... مؤكدا تركيز المؤسسة في الأعوام القادمة على تطوير أعمالها المصرفية العالمية ، مع تسريع تحولها الرقمي في جميع الأعمال والأسواق التي تنشط فيها .

ب- نقاش المساهمين :-

١- فتح باب النقاش أمام المساهمين ، حيث طرحت مجموعة من الاسئلة تناولت حقيقة تدني أسعار بعض العملات المحلية لبعض البنوك التابعة للمؤسسة وعلى رأسها الجنيه المصري ... حيث أوضح الرئيس التنفيذي للمجموعة أن سعر ١٤ جنيها مصريا مقابل الدولار الأمريكي كان متوقعا أثناء اعداد الموازنة التقديرية في شهر نوفمبر ٢٠١٦م ، في حين أن السعر الفعلي في عام ٢٠١٧م ارتفع إلى ما فوق ١٨ جنيه ليعود ويستقر خلال السنة عند معدل ١٧ جنيها مصريا لكل دولار أمريكي ، الا أن هذا الفارق تم تعويضه من خلال النتائج الايجابية لبنك المؤسسة التابع في مصر والتي استطاعت استيعاب هذه الخسارة وتسجيل ربح بالدولار الأمريكي عن نشاط سنة ٢٠١٧م .

٢- في تعليق لمساهم آخر عن تدني سعر سهم المؤسسة في السوق ، مشيرا إلى أن ذلك يعود إلى انخفاض نسبة الارباح الموزعة إلى مستوى ٣% ... عقب الرئيس التنفيذي للمجموعة أن البنك إستضاف شركة متخصصة هي SICO لتقديم ايضاح للسادة المساهمين عن رؤيتها في كيفية معالجة هذا الأمر من خلال مناقشة البند السادس من جدول الاعمال .

وفي النهاية ، شكر المساهمون الإدارة التنفيذية للمؤسسة على شفافتها مع كل المساهمين والنتائج الطيبة التي حققتها المؤسسة ... كما تمت الاشادة بالطريقة الجديدة التي تم من خلالها العرض باستخدام الشرائح والتي تضمنت مزيدا من الايضاح عن البيانات المالية واستراتيجية المؤسسة في المرحلة المقبلة .

ويعد هذه النقاشات والمدولات صادقت الجمعية العامة على البيانات المالية عن السنة المالية المنتهية في ٣١ ديسمبر ٢٠١٧م كما تم تقديمها .



خامسا :- المصادقة على توصية مجلس الادارة بتخصيص صافي ارباح السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م على النحو التالي :-

اطلعت الجمعية العامة على الارباح الصافية للسنة المالية المنتهية في ٢٠١٧/١٢/٣١ م وكذلك التوصية المرفوعة اليها من مجلس الإدارة بتوزيع ارباح نقدية على المساهمين عن السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م بواقع ٣% عن كل سهم ، حيث أوضح السيد رئيس مجلس الإدارة الإدارة أنه رغم الظروف الاقتصادية الصعبة ، واستمرار التحديات العديدة في مناطق الشرق الأوسط وشمال افريقيا والبرازيل ، الا أن المؤسسة ارتأت توزيع أرباح على المساهمين وذلك ضمن حدود ٣% عن كل سهم بحيث لا تمس بمتانة كفاية رأسمال المؤسسة العالية ... وفي ذلك مراعاة توازن دقيق بين مصلحة المساهمين وأداء المؤسسة وسلامة موازاناتها ومركزها المالي . وبعد المداولة :-

"قررت الجمعية العامة :-

- ١- المصادقة على تحويل مبلغ وقدره ١٩,٣٣٩,٠٠٠ دولار أمريكي للاحتياطي القانوني .
- ٢- توزيع ارباح نقدية على المساهمين بواقع ٣% عن كل سهم بمبلغ إجمالي قدره ٩٣,٣٠٠,٠٠٠ دولار أمريكي ابتداء من تاريخ ٤ إبريل ٢٠١٨ م .
- ٣- تحويل الرصيد المتبقي وقدره ٨٠,٧٥١,٠٠٠ دولار أمريكي إلى حساب الأرباح المستتبة" .

سادسا :- الموافقة على قيام البنك بشراء نسبة لا تزيد عن ٣% من أسهمه الصادرة وإعادة بيعها ، عبر تعيين صانع سوق لتعزيز سيولة تداول الاسهم في السوق لمدة ١٢ شهرا ، وذلك خاضع لموافقة مصرف البحرين المركزي ، وتفويض مجلس الإدارة أو من يفوضه باتخاذ كافة الإجراءات بما فيها شروط تعيين صانع السوق والخطوات اللازمة مع الجهات المعنية للحصول على الموافقات اللازمة وإجراء كل ما يلزم لتنفيذ القرار المذكور أعلاه .

بعد أن ذكر السيد رئيس مجلس الإدارة أن هذا المقترح يأتي استجابة لطلب السادة المساهمين في اجتماع الجمعية للعام السابق ، طلب من الرئيس التنفيذي للمجموعة تقديم عرض موجز عن رؤية البنك في كيفية تعزيز سعر السهم في السوق (أ) قبل فتح المناقشات حول هذا البند (ب) .



أ- عرض الرئيس التنفيذي للمجموعة :-

١- استهل الرئيس التنفيذي للمجموعة عرضه بالايضاح بأن مجموعة بنك ABC قد عانت لفترة طويلة من كون سعر السهم في بورصة البحرين لا يعكس القيمة الحقيقية لبنك ABC... حيث أن ذلك يرجع إلى عوامل عدة، منها تواضع السيولة عموماً في بورصة البحرين مع تدني حجم تداول أسهم البنك العادية في بورصة البحرين... لافتاً إلى أنه إلزاماً بما وعدت به المؤسسة مساهميتها في اجتماع الجمعية العامة في العام الماضي، بادر مجلس الإدارة منذ ذلك الحين بتدارس الخيارات المتاحة لمعالجة هذا الموضوع، أخذين بعين الاعتبار أن إدارة مراقبة الأسواق المالية في مصرف البحرين المركزي أكدت الحاجة إلى موافقة المساهمين خلال اجتماع الجمعية العامة هذا العام على الاقتراح المقدم بهذا الشأن.

٢- وفي معرض تمهيده لهذا الاقتراح، عرض الرئيس التنفيذي للمجموعة جملة من الشرائح أظهرت انخفاض حجم السيولة في بورصة البحرين وكذلك ضعف تداول أسهم المؤسسة مقارنة بالبنوك المنافسة... مما دفع المؤسسة إلى الاستعانة بصانع سوق لمساعدتها في تعزيز سيولة تداول الأسهم في السوق من خلال تعيين شركة الأوراق المالية والاستثمار ش.م.ب. ("SICO") كصانع سوق رسمي لضخ المزيد من السيولة السوقية بما يساعد المساهمين الراغبين في بيع أسهم بنك ABC التي يحملونها على القيام بذلك كلما رغبوا في ذلك لتواجد فرص شراء يومية بالسوق... أملاً أن تعمل هذه السيولة المتزايدة بمرور الوقت على الرفع من تقييم أسهم بنك ABC بما يعكس قيمة البنك الحقيقية بصورة أفضل، كما كان الحال مع برامج مماثلة لصناعة السوق مع شركات أخرى مدرجة على قوائم بورصة البحرين.

٣- وفي هذا السياق، دعا الرئيس التنفيذي للمجموعة السيدة نجلاء الشيراوي، الرئيس التنفيذي لشركة SICO لاضفاء شروح إضافية على ما ستقوم به الشركة من أجل المساعدة في رفع القيمة السوقية لسهم المؤسسة... حيث أشارت إلى الانخفاض الواضح في معدل تداول أسهم المؤسسة إلى الدرجة التي قد لا يتم فيها أي تداول لاسهم المؤسسة بالسوق لعدم أيام، وهنا تظهر أهمية الدور الذي يقوم به صانع السوق وذلك عن طريق قيام شركة SICO بشراء أسهم بنك ABC وبيعها بالنيابة عنه وفقاً لما تراه SICO مناسباً. ونتيجة لذلك، ستعامل أسهم بنك ABC التي تشتريها SICO بموجب الآلية المقترحة باعتبارها أسهم خزينة إلى حين بيعها أو إلغائها، وذلك بعد أخذ موافقة مصرف البحرين المركزي.



ب- مناقشات الجمعية :-

فتح باب النقاش مرة أخرى للسادة المساهمين في هذا الشأن ، حيث دار حوار شارك السادة المساهمون مع الرئيس التنفيذي لشركة SICO والرئيس التنفيذي للمؤسسة العربية المصرفية على النحو التالي :-

١- تساءل أحد المساهمين عن الدافع لشراء الاسهم من شركة SICO في حين أنه يمكن الشراء مباشرة من السوق ... بينما علق مساهم آخر بأن سبب تدني سعر السهم يعود الى عزوف المساهمين عن الشراء لانخفاض العائد ، حيث اقترح زيادة الارباح الموزعة قليلا الى ٤% من خلال تخفيض الارباح المرحلة ، متوقعا أن يؤدي ذلك إلى زيادة حجم التداول وبالتالي زيادة سعر السهم في السوق ... فضلا عن أن البنوك الأخرى يتم تداول أسهمها في أسواق الخليج والتي تتمتع بقدر أعلى من السيولة ... ناهيك عن أن المساهمين الرئيسيين يتحكمون في اتخاذ القرارات وبالتالي فإن صغار المساهمين يعتقدون أن صوتهم غير مؤثر .

٢- أكدت السيدة نجلاء الشيراوي الرئيس التنفيذي لشركة SICO أن شراء بعض المؤسسات لجزء من أسهمها والاحتفاظ بها من أجل رفع القيمة السوقية لهذه الاسهم طريقة جربت من المؤسسة نفسها ومؤسسات أخرى دون جدوى وذلك لعدم وجود عرض وطلب يومي على السهم يسمح بتداوله وهو الأمر الذي من شأن صناعة السوق أن تحققه كما تتطلب ذلك السلطات الرقابية ذاتها ... كما أن اللجوء إلى طرح ثانوي في الأسواق التي تتمتع بقدر أكبر من السيولة يجب النظر إليه في مرحلة لاحقة بعد نجاح المؤسسة في صناعة السوق حول سهمها في سوقها الأساسي ببورصة البحرين ... خاتمة بأن العائد على المساهمة في المؤسسة يعد ثاني أعلى عائد في بورصة البحرين وذلك بسبب تدني السعر السوقي للسهم .

٣- عقب الرئيس التنفيذي للمجموعة أن كل وجهات النظر التي طرحت من خلال المناقشة هي صحيحة ولها احترامها ، مذكرا أن المؤسسة قامت في الماضي بكل ما يمكن عمله من أجل رفع سعر السهم في السوق ومنها تجزئة الاسهم وتبني برنامج أسهم خزينة ، الا أنه نتيجة لصغر حجم السوق وضعف التداول فيه لم تكن هذه الحلول ناجعة تماما ، والان في هذه المرحلة نسعى عن طريق صانع السوق إلى التوصل لحل عملي لرفع قيمة السهم ونعد المساهمين بمواصلة الجهود لحل هذه المشكلة ... آملا أن تشهد الجمعية العامة القادمة تقييما لهذه المحاولة وأفاقها المستقبلية .

وبعد هذه المداولات ، وافقت الجمعية العامة على ما يلي :-

"قيام البنك بشراء نسبة لا تزيد عن ٣% من أسهمه الصادرة وإعادة بيعها ، عبر تعيين صانع سوق لتعزيز سيولة تداول الاسهم في السوق لمدة ١٢ شهرا ، وذلك خاضع



لموافقة مصرف البحرين المركزي ، وتفويض مجلس الإدارة أو من يفوضه باتخاذ كافة الإجراءات بما فيها شروط تعيين صانع السوق والخطوات اللازمة مع الجهات المعنية للحصول على الموافقات اللازمة وإجراء كل ما يلزم لتنفيذ القرار المذكور أعلاه" .

سابعا :- مناقشة تقرير حوكمة الشركات لسنة ٢٠١٧م والتزام البنك بمتطلبات مصرف البحرين المركزي والمصادقة عليه .

طلب السيد رئيس مجلس الإدارة من أمين سر الجمعية إطلاع الجمعية العامة على ملخص بنظام الحكم المؤسسي بالمؤسسة العربية المصرفية ومدى التزام المؤسسة بأحكامه ، حيث قام أمين سر الجمعية بإطلاع السادة أعضاء الجمعية العامة بالجهود المبذولة من المؤسسة للامتثال لأفضل مبادئ الحكم المؤسسي المعتمدة عالميا ، بما في ذلك القواعد النافذة بمملكة البحرين في هذا الخصوص ، مؤكدا أن المؤسسة العربية المصرفية تتبع أفضل إرشادات الحكم المؤسسي ومبادئ الممارسات المعتمدة عالميا ولديها نظام للحكم المؤسسي يوفر إطارا يتسم بالفعالية والشفافية في ممارسة الرقابة الداخلية على نحو منصف .

أضاف أمين سر الجمعية بأن المؤسسة تحرص على الإفصاح عن المعلومات الهامة بدقة ووضوح إلى المساهمين وأصحاب المصالح المعنيين عن طريق عدة قنوات تشمل الموقع الإلكتروني الذي يتم تحديثه بصورة منتظمة مع إصدارها لتقارير سنوية ونصف سنوية وفصلية بشأن الأرباح والأداء المالي .

أما على صعيد أهم التغييرات الأخيرة التي تمت خلال العام ٢٠١٧م في هذا الشأن أفاد أمين سر الجمعية بما يلي :-

- تم في شهر مارس ٢٠١٧م تعديل ميثاق لجنة التدقيق لمزيد من مواءمة الصلاحيات وفقا لأنشطة اللجنة حيث تتحمل لجنة التدقيق أمام مجلس الإدارة ضمان نزاهة وفعالية أنظمة وممارسات الرقابة المالية والمحاسبية .
- تم أيضا في شهر مايو ٢٠١٧م إعادة تشكيل لجان مجلس الإدارة وتوزيع المهام على السادة أعضاء مجلس الإدارة على نحو أصبح فيه أغلبية الأعضاء في كافة اللجان من الأعضاء المستقلين ... فضلا عن أن رؤساء لجان كل من لجنة المخاطر ولجنة التدقيق ولجنة التعيينات والمزايا هم من الأعضاء المستقلين ... أخيرا قرر مجلس الإدارة أن يكون الحد الأقصى لعضوية لجان مجلس الإدارة هو ٣ لجان لكل عضو من أعضاء مجلس الإدارة .

حيث أخذت الجمعية علما بهذه التطورات الايجابية .



ثامنا :- إبراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م.

قررت الجمعية العامة إبراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠١٧/١٢/٣١ م .

تاسعا :- النظر في إعادة تعيين السادة ارنست و يونغ كمدققين لحسابات البنك للسنة المالية المنتهية في ٣١ ديسمبر ٢٠١٨ م ، بعد اخذ موافقة السادة مصرف البحرين المركزي وتخويل مجلس الإدارة بتحديد أتعابهم .

قررت الجمعية العامة إعادة تعيين السادة (ارنست و يونغ) كمدققين لحسابات المؤسسة للسنة المالية المنتهية في ٢٠١٨/١٢/٣١ م مع تخويل مجلس الإدارة الحق في تحديد أتعابهم ، وذلك بعد ملاحظتها عدم ممانعة مصرف البحرين المركزي في هذا التعيين .

عاشرا :- ما يستجد من أعمال طبقا لنص المادة ٢٠٧ من قانون الشركات التجارية .

سجلت الجمعية العامة عدم وجود أي بنود مستجدة طبقا لنص المادة ٢٠٧ من قانون الشركات التجارية .

وفي ختام أعمال الجمعية العامة العادية ، أعرب السادة المساهمون عن شكرهم لمجلس الإدارة وكبار المساهمين ، مجددين ثقتهم في مسيرة المؤسسة ، كما سجل السيد رئيس الجمعية شكره الجزيل لصاحب الجلالة الملك حمد بن عيسى آل خليفة ملك مملكة البحرين وصاحب السمو الملكي الأمير خليفة بن سلمان آل خليفة رئيس الوزراء وصاحب السمو الملكي الأمير سلمان بن حمد بن عيسى آل خليفة ولي العهد نائب القائد الاعلى النائب الأول لرئيس مجلس الوزراء على دعمهم الدائم للمؤسسة . كما يخص بشكره أيضا سعادة الشيخ أحمد بن محمد آل خليفة وزير المالية وسعادة السيد زايد بن راشد الزياني وزير الصناعة والتجارة والسياحة في مملكة البحرين وسعادة السيد رشيد المعراج محافظ مصرف البحرين المركزي وسعادة الشيخ خليفة بن ابراهيم آل خليفة الرئيس التنفيذي لبورصة البحرين والذين كان لتعاونهم المتميز مع المؤسسة الأثر الأكبر في النتائج الطيبة التي اظهرتها المؤسسة خلال سنة ٢٠١٧ م .

وبانتهاء النظر في بنود جدول الأعمال، رفعت الجلسة والساعة تشير إلى الواحدة ظهرا .



مصطفى محمد جابر
أمين سر الجمعية العامة

Directors' Report

Directors' Report

On behalf of the Board of Directors of the Bank ABC Group, I am pleased to report the Group's progress and key achievements in 2018.

Operating performance continued its positive trend during the year, and the first phase of our transformation strategy has met its goals. This was achieved despite slowing global economic growth and persisting geopolitical tensions. In our core markets, recovery in the GCC remains muted and the outlook in North Africa continues to be challenging. But conditions in Brazil, another key market for us, are improving.

Against this background, Bank ABC's net profit for 2018 was US\$202 million, 5% higher than in 2017, thus continuing the past few years' improving operating performance. Strategically, the Bank is prioritising a more efficient use of capital and growing fee income, which caused return on equity to uptick, increasing to 5.2% in the year.

Turning to the Bank's other main reporting metrics, total operating income was US\$817 million against US\$869 million reported for last year but normalises also to US\$866 vs US\$868 million respectively, after adjusting for effects of foreign currency hedging transactions in Banco ABC Brasil ("BAB") (which have an offsetting tax charge impact) and also being somewhat reduced by FX depreciation of the Brazilian Real ("BRL") against USD in particular. After our investments in building our presence in Dubai and Singapore, as well as the Bank's other strategic initiatives, operating costs were US\$474 million, US\$12 million higher than in 2017. Impairment charges for the year were US\$79 million, down from US\$96 million in 2017, reflecting prudent lending criteria and proactive management of remedial, which helped us contain our credit cost.

The next phase of Bank ABC's strategy, which was approved in late 2018, rests on four main pillars: to

unlock the potential of our global wholesale bank, globalise and digitise our transaction banking business, enhance the Group's operating model to increase resilience and strengthen culture, and continue to seek inorganic opportunities to address model constraints and enhance the Group's returns.

In regard to our Wholesale Bank strategy, the business at a global level shall be focusing on improving corporate and financial institutional client relationships by leveraging our network and capabilities to become a more effective partner, using multiple products across several countries on an ongoing basis.

An important related initiative is reinforcing our global transaction banking business, leveraging our trade proposition alongside building a cash management business, which will meet a significant client need, as well as providing a source of diversification to the funding of the Bank.

On the digital strategy, a major strategic initiative is the development of a mobile-first retail bank, which is planned to go live in Bahrain before the end of 2019. The Central Bank of Bahrain has approved the new bank and granted it a license. After launch in Bahrain, the intention is to expand into other MENA markets, such as Egypt and Jordan.

Looking into organisational health in greater detail, we will capitalise on our focused approach to balance sheet management enhancing ICAAP, RRP and other regulatory requirements, and positioning for the new liquidity risk management regime being introduced by the Central Bank of Bahrain in 2018. We continue to prioritise a client focused and de-risked approach to our Treasury sales and trading. Our risk management function has been improved through a significant enhancement of our risk management systems. Moreover, we streamlined during 2018 our risk governance and risk appetite

framework and significantly enhanced credit risk models during our IFRS9 implementation.

Turning to compliance, we have consolidated improvements made over several years, and Bank ABC maintains a strong and effective position meeting the high expectations of its leading global regulators, such as the PRA, OCC, MAS, Central Bank of Brazil and of course our home regulator the Central Bank of Bahrain, whom I would like to acknowledge their support and contribution to the Group's strong reputation and well-being.

The Bank's balance sheet remains strong, resilient and increasingly well-diversified. The Basel III capital adequacy ratio and Tier 1 ratio at the year-end stood at 18.2% and 17.2% respectively, which is higher than those of many of our peers. The underlying investment portfolio is stable and liquid, continuing to become more geographically diverse. Customer deposits were US\$16.4 billion at the year-end, compared with US\$16.8 billion in 2017, and loans and advances were US\$14.9 billion, against US\$15.3 billion in 2017.

Reflecting the quality of our strategy and management, and the strength and resilience of the Bank's balance sheet and asset quality, Standard & Poor's and Fitch Ratings both reaffirmed Bank ABC's credit rating at BBB-, notwithstanding ratings pressure in a number of our key geographies such as Bahrain, Brazil, Turkey and Oman. Specifically, Fitch noted that the investment grade rating reflects the Bank's geographical diversification, competent management, appropriate responses to risks, capitalisation above peers, sound liquidity and stable funding.

Looking forward to 2019 and beyond, the external environment continues to present some challenges, especially as global growth remains uncertain and oil prices volatile. The Board of Directors will

continue to oversee the implementation of the second phase of the Group's strategy, enhancing the utilisation of capital and improving returns while strengthening our organisational health and operating efficiency. We are optimistic that the investments made have positioned the Bank to capture more business opportunities and expand its franchise in its core markets.

2018 was a year demonstrating the potential of our transformation strategy, and I express my gratitude to the entire Bank ABC staff and management for their hard work, loyalty, commitment and flexibility at a time when the Bank is going through far-reaching change.

Finally, my fellow directors and I are very grateful for the enduring support and contributions of our two major shareholders, the Central Bank of Libya and the Kuwait Investment Authority. Bank ABC is privileged to have shareholders so committed to supporting its strategy and plans to become MENA's leading international bank.



Saddek Omar El Kaber
Chairman

Auditors' Report

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

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 2018 and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. 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 matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

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

Key audit matters (continued)

1. Adoption of IFRS 9 Financial instruments (IFRS 9)

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>Effective from 1 January 2018, the Group has adopted IFRS 9 which replaces IAS 39 Financial instruments: recognition and measurement (IAS 39) and introduces new requirements in following elements with respect to financial instruments:</p> <ul style="list-style-type: none"> ● Classification and measurement: The new approach takes into account the contractual cash flow characteristics and business model in which financial assets are managed. IFRS 9 contains following three principal classification categories: <ul style="list-style-type: none"> - Amortised cost (AC) - Fair value through other comprehensive income (FVOCI) - Fair value through profit or loss (FVTPL) <p>Refer note 5 to the consolidated financial statements for detailed changes in classification and measurement of financial assets under IFRS 9.</p>	<p>We have obtained an understanding of the Group's implementation process of IFRS 9, including understanding of the changes to the Group's IT systems and processes. Our procedures for each of the elements of IFRS 9 are detailed below:</p> <p>Classification and measurement:</p> <p>Our procedures focused on initial adoption of IFRS 9 on the following key areas:</p> <p>We read the Group's policy for classification and measurement of financial instruments and compared it with the requirements of IFRS 9;</p> <ul style="list-style-type: none"> ● We obtained an understanding and checked the Group's business model assessment and contractual cash flows characteristics assessment performed by the Group i.e. to test if the cash flows arising relate solely to payments of principal and interest ('SPPI test'); ● We checked the classification analysis performed by the Group regarding the classification of financial instruments into amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL); and ● We checked the appropriateness of the opening balance adjustments.

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

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

Key audit matters (continued)

1. Adoption of IFRS 9 Financial instruments (IFRS 9) (continued)

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>• Impairment: The impairment requirements of IFRS 9 apply to all debt instruments that are measured at AC or FVOCI, and to off-balance sheet lending commitments such as loan commitments and financial guarantees. Under IFRS 9, expected credit loss (ECL) are recognized on initial recognition based on expectations of potential credit losses at the time of initial recognition which is then continuously remeasured to reflect the changes to the credit risk characteristics.</p> <p>• Hedge accounting: IFRS 9 incorporated new hedge accounting rules that intend to better align hedge accounting with risk management practices. This has resulted in removal of certain restrictions under IAS 39.</p> <p>On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating comparatives.</p> <p>Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounting to US\$ 36 million has been recognised in the opening total equity. Refer note 5 in the consolidated financial statements for further details.</p>	<p>Impairment: Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates for all financial assets subject to impairment testing under IFRS 9. Additionally, we also checked the appropriateness of the opening balance adjustments. For details of procedures performed refer to the key audit matter 'Impairment provision for loans and advances and other financial assets subject to credit risk' section.</p> <p>Hedge accounting: With respect to hedge accounting, we read the Group's policy and compared it with the requirements of IFRS 9, further, we have checked the appropriateness of the policy implementation.</p> <p>Additionally, we also checked the appropriateness of the opening balance adjustments. We compared the consolidated financial statement disclosures to the those required under IFRS 9 upon adoption of the standard. Refer to the accounting policies, critical accounting estimates and judgements and credit risk management disclosures in notes 4 and 24 to the consolidated financial statements.</p>

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

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

Key audit matters (continued)

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

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>The process for estimating impairment provision on loans and advances and other financial assets associated with credit risk in accordance with IFRS 9 is significant and complex area. IFRS 9 is a new and complex accounting standard which requires use of ECL model for the purposes of calculating impairment loss. ECL model requires the Group to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances and other financial assets subject to credit risk. Because of the complexity of requirements under IFRS 9, significance of judgements applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.</p>	<p>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:</p> <ul style="list-style-type: none"> ● We assessed: <ul style="list-style-type: none"> - the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9; - Group's ECL modeling techniques and methodology against the requirements of IFRS 9; - the theoretical soundness and tested the mathematical integrity of the models. ● We obtained an understanding of the design and tested the operating effectiveness of relevant controls over ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness and accuracy of the data used and the reasonableness of the management assumptions.

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

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

Key audit matters (continued)

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

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>As at 31 December 2018, the Group's gross loans and advances amounted to US\$ 15,448 million and the related ECL amounted to US\$ 564 million, comprising US\$ 135 million of ECL against Stage 1 and 2 exposures and US\$ 429 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.</p>	<ul style="list-style-type: none"> ● We understood and assessed the significant modeling assumptions for exposures as well as overlays with a focus on: <ul style="list-style-type: none"> - Key modeling assumptions adopted by the Group; and - Basis for and data used to determine overlays. ● For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and - ECL calculation. ● For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for economic outlook used for purposes of calculating ECL; ● We considered the adequacy of the disclosures in the consolidated financial statements in relation to impairment of loans and other financial assets subject to credit risk as required under IFRS 9. <p>We involved our credit risk and IT specialists where their specific expertise was required.</p> <p>Refer to the critical accounting estimates and judgements, disclosures of loans and advances and credit risk management in notes 4, 9 and 24 to the consolidated financial statements.</p>

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

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

Other information included in the Group's 2018 annual report

Other information consists of the information included in the Group's 2018 annual report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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.

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

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

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

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 Report of the Board of Directors 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 2018 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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



Partner's registration no: 117
10 February 2019
Manama, Kingdom of Bahrain



**Consolidated
Financial Statements**
31 December 2018

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

All figures in US\$ Million

	Note	2018	2017
ASSETS			
Liquid funds	7	1,607	1,388
Trading securities		977	1,051
Placements with banks and other financial institutions		2,991	3,170
Securities bought under repurchase agreements	26	1,668	1,521
Non-trading investments	8	5,661	5,599
Loans and advances	9	14,884	15,329
Other assets	11	1,601	1,318
Premises and equipment		160	123
TOTAL ASSETS		29,549	29,499
LIABILITIES			
Deposits from customers		16,425	16,755
Deposits from banks		4,207	3,408
Certificates of deposit		39	27
Securities sold under repurchase agreements	26	1,271	1,628
Taxation	12	43	58
Other liabilities	13	1,236	1,063
Borrowings	14	2,012	2,148
Total liabilities		25,233	25,087
EQUITY			
	15		
Share capital		3,110	3,110
Treasury shares		(4)	-
Statutory reserve		501	481
Retained earnings		966	939
Other reserves		(711)	(600)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		3,862	3,930
Non-controlling interests		454	482
Total equity		4,316	4,412
TOTAL LIABILITIES AND EQUITY		29,549	29,499

The consolidated financial statements were authorised for issue by the Board of Directors on 10 February 2019 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.



Saddek El Kaber
Chairman



Hilal Mishari Al Mutairi
Deputy Chairman



Khaled Kawan
Group Chief Executive Officer

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

Arab Banking Corporation (B.S.C.)


CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

All figures in US\$ Million

	Note	2018	2017
OPERATING INCOME			
Interest and similar income	16	1,472	1,511
Interest and similar expense	17	(913)	(955)
Net interest income		559	556
Other operating income	18	258	313
Total operating income		817	869
Credit loss expense on financial assets	10	(79)	(96)
NET OPERATING INCOME AFTER CREDIT LOSS EXPENSE		738	773
OPERATING EXPENSES			
Staff		316	311
Premises and equipment		38	37
Other		120	114
Total operating expenses		474	462
PROFIT BEFORE TAXATION		264	311
Taxation on foreign operations	12	(16)	(58)
PROFIT FOR THE YEAR		248	253
Profit attributable to non-controlling interests		(46)	(60)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		202	193
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US\$)			
	31	0.07	0.06


Saddek El Kaber
Chairman


Hilal Mishari Al Mutairi
Deputy Chairman


Khaled Kawan
Group Chief Executive Officer

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

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

All figures in US\$ Million

	Note	2018	2017
PROFIT FOR THE YEAR		248	253
Other comprehensive income:			
<i>Other comprehensive income that will be reclassified (or recycled) to profit or loss in subsequent periods:</i>			
<u>Foreign currency translation:</u>			
Unrealised loss on exchange translation in foreign subsidiaries		(169)	(23)
<u>Debt instruments at FVOCI:</u>			
Net change in fair value during the year	15	(42)	-
<u>Available-for-sale financial assets</u>			
Net change in fair value during the year	15	-	16
		(211)	(7)
<i>Other comprehensive income that will not be reclassified (or recycled) to profit or loss in subsequent periods:</i>			
Net change in pension fund reserve		3	2
		3	2
Other comprehensive loss for the year		(208)	(5)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		40	248
Attributable to:			
Shareholders of the parent		57	198
Non-controlling interests		(17)	50
		40	248

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

All figures in US\$ Million

	<i>Note</i>	2018	2017
OPERATING ACTIVITIES			
Profit for the year		248	253
Adjustments for:			
Credit loss expense on financial assets	10	79	96
Depreciation and amortisation		23	20
Gain on sale of premises and equipment - net		-	(5)
Gain on disposal of non-trading debt investments - net	18	(8)	(12)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		(38)	73
Trading securities		(94)	(356)
Placements with banks and other financial institutions		47	1,059
Securities bought under repurchase agreements		(375)	15
Loans and advances		(463)	(579)
Other assets		(387)	158
Deposits from customers		581	1,601
Deposits from banks		1,029	(2,552)
Securities sold under repurchase agreements		(288)	1,467
Other liabilities		198	(81)
Other non-cash movements		38	(84)
Net cash from operating activities		590	1,073
INVESTING ACTIVITIES			
Purchase of non-trading investments		(1,977)	(2,185)
Sale and redemption of non-trading investments		1,875	2,321
Purchase of premises and equipment		(60)	(28)
Sale of premises and equipment		4	13
Investment in subsidiaries - net		22	26
Net cash (used in) from investing activities		(136)	147
FINANCING ACTIVITIES			
Issue of certificates of deposit - net		12	(8)
Issue of borrowings		262	175
Repayment of borrowings		(384)	(1,438)
Repurchase of borrowings	14	(6)	(199)
Dividend paid to the Group shareholders		(93)	(93)
Dividend paid to non-controlling interests		(26)	(29)
Purchase of treasury shares	15	(4)	-
Net cash used in financing activities		(239)	(1,592)
Net change in cash and cash equivalents		215	(372)
Effect of exchange rate changes on cash and cash equivalents		(34)	2
Cash and cash equivalents at beginning of the year		1,160	1,530
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	1,341	1,160

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

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

All figures in US\$ Million

	<i>Equity attributable to the shareholders of the parent</i>							<i>Non-controlling interests</i>	<i>Total equity</i>		
	<i>Other reserves</i>										
	<i>Share capital</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Retained earnings*</i>	<i>General reserve</i>	<i>Foreign exchange translation adjustments</i>	<i>Cumulative changes in fair value</i>			<i>Pension fund reserve</i>	<i>Total</i>
At 1 January 2017	3,110	-	462	859	100	(625)	(45)	(35)	3,826	434	4,260
Profit for the year	-	-	-	193	-	-	-	-	193	60	253
Other comprehensive (loss) income for the year	-	-	-	-	-	(13)	16	2	5	(10)	(5)
Total comprehensive income (loss) for the year	-	-	-	193	-	(13)	16	2	198	50	248
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Transfers during the year	-	-	19	(19)	-	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	(1)	-	-	-	-	(1)	(2)	(3)
At 31 December 2017	3,110	-	481	939	100	(638)	(29)	(33)	3,930	482	4,412
Impact of adopting IFRS 9 (note 5)	-	-	-	(62)	-	-	34	-	(28)	(8)	(36)
Restated balance as at 1 January 2018	3,110	-	481	877	100	(638)	5	(33)	3,902	474	4,376
Profit for the year	-	-	-	202	-	-	-	-	202	46	248
Other comprehensive (loss) income for the year	-	-	-	-	-	(106)	(42)	3	(145)	(63)	(208)
Total comprehensive income (loss) for the year	-	-	-	202	-	(106)	(42)	3	57	(17)	40
Dividend	-	-	-	(93)	-	-	-	-	(93)	-	(93)
Purchase of treasury shares	-	(4)	-	-	-	-	-	-	(4)	-	(4)
Transfers during the year	-	-	20	(20)	-	-	-	-	-	-	-
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	-	(3)	(3)
At 31 December 2018	3,110	(4)	501	966	100	(744)	(37)	(30)	3,862	454	4,316

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US\$ 429 million (2017: US\$ 424 million).

The attached notes 1 to 33 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 and Islamic Banking. Retail banking services are only provided in the MENA region.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Accounting convention

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

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

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 a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 Standards effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new standards or amendments to existing standards, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2018:

IFRS 9 Financial Instruments

Introduction

In July 2014, the IASB issued IFRS 9 Financial Instruments (IFRS 9), the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) for annual periods beginning on or after 1 January 2018. The Bank set up a multidisciplinary working group ('the Working Group') with members from its Risk, Finance and IT teams to prepare for IFRS 9 implementation ('the Project'). The Project was sponsored by the Chief Risk Officer and Chief Financial Officer, who regularly reported to the Bank's Board Risk Committee. The Bank has implemented IFRS 9 effective from 1 January 2018.

Classification and measurement

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

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

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.1 Standards effective for the year (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement (continued)

Having implemented IFRS 9, the Group has concluded that:

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

For an explanation of how the Group classifies financial assets and liabilities under IFRS 9, refer respective sections in note 4.

Hedge accounting

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

Impairment of financial assets

Overview

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

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

IFRS 7(revised) Financial instruments: Disclosures (IFRS 7R)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 5.

Reconciliations from opening to closing ECL allowances for significant movements are presented in notes 8 and 9.

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

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.1 Standards effective for the year (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

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

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

IFRIC Interpretation 22 Foreign currency transactions and advance considerations

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

3.2 Standards issued but not yet effective

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

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to apply IFRS 16 on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition which means that it will apply IFRS 16 to all contracts entered into before 1 January 2019.

The adoption of the standard will not have a significant impact on the financial position of the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.2 Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

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

Amendments to IFRS 9 Prepayment features with negative compensation

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

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

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

These improvements include:

IFRS 3 Business combinations

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

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

IAS 12 Income taxes

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

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

IAS 23 Borrowing costs

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4A Policies applicable from 1 January 2018

4A.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.

4A.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 banks and financial institutions and treasury bills with original maturities of three months or less.

4A.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.

4A.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.

4A.6 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.

4A.7 Premises and equipment

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

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

4A.8 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.

4A.9 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.

4A.10 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.11 Recognition of income and expenses

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as FVOCI, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Other fee income and expense are recognised when earned or incurred.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

The Group provides various services to its customers. These services are either rendered separately or bundled together with rendering of other services. The Group has concluded that revenue from rendering of various services should be recognised at the point when services are rendered, i.e. when performance obligation is satisfied. Fees earned for the provision of these services include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding performance obligation.

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

4A.12 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 in the share premium.

4A.13 Financial instruments

4A.13.1 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.13 Financial instruments (continued)

4A.13.2 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 4A.13 and 4A.14.

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

4A.13.3 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.

4A.14 Financial assets

4A.14.1 Debt type instruments - Classification and subsequent measurement

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

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

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

- (i) the 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.14 Financial assets (continued)

4A.14.1 Debt type instruments - Classification and subsequent measurement (continued)

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

4A.14.2 Business model

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.14 Financial assets (continued)

4A.14.3 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.

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 other than the reclassifications made on the initial adoption of IFRS 9 at the date of transition.

4A.14.4 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 'Gain on disposal of non-trading investments' line in the consolidated statement of profit or loss.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.14 Financial assets (continued)

4A.14.5 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.14 Financial assets (continued)

4A.14.6 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.

4A.15 Financial liabilities

4A.15.1 Classification and subsequent measurement

In both the current and prior period, 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 (e.g. short positions in the trading booking). Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.15 Financial liabilities (continued)

4A.15.2 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.

4A.16 Impairment

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: estimates the expected portion of the loan commitment that are drawn down over the expected life of the loan commitment; and calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.16 Impairment (continued)

Measurement of ECL (continued)

- 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 loans are first recognised, the Group recognises an allowance based upto 12-month ECL.
- Stage 2 – Significant increase in credit risk: when a loan 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 loans.

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

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

No impairment is recorded on equity investments.

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 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 CBB
- All exposures with external rating A- or above

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.16 Impairment (continued)

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 that takes into account a number of economic scenarios, 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 amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.16 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 probation period of 12 months.

Forward looking information

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Limitation of estimation techniques

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

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.

4A.17 Provisions

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.18 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 – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision.

The premium received is recognised in the 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. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

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

4A.19 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.19 Derivatives and hedging activities (continued)

(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 method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

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

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

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

(c) Net investment hedge

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

The Group did not have any impact on its retained earnings or profit or loss due to change in hedge accounting under IFRS 9.

4A.20 Interest income

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial instruments measured at amortised cost, financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

4A.21 Fair value measurement

The Group measures financial instruments at fair value at each balance sheet 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.21 Fair value measurement (continued)

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 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 (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

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.

4A.22 Taxation on foreign operations

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

4A.23 Foreign currencies

Transactions and balances

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

Monetary assets and liabilities in foreign currencies are translated into the Group's functional currency at the rates of exchange ruling at the date of the statement of financial position. 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.

Group companies

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's functional currency at rates of exchange ruling at the date of the statement of financial position. Income and expense items are translated at average exchange rates for the year. Exchange differences arising on translation are recorded in the consolidated statement of comprehensive income under unrealised gain (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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.24 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.

4A.25 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.

4A.26 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.

4A.27 Borrowings

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

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

4A.28 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 credit loss expense.

4A.29 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. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. 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.

4A.30 Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.31 Significant accounting judgments, 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 measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

Classification of financial assets

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4A Policies applicable from 1 January 2018 (continued)

4A.31 Significant accounting judgments, estimates and assumptions (continued)

Fair value of financial instruments

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

4B Policies applicable before adoption of IFRS 9

All the below mentioned policies of the Group were applicable specifically for the year ended 31 December 2017 and has been replaced with new set of policies with effect from 1 January 2018 upon adoption of IFRS 9. Refer section "Policies applicable from 1 January 2018" for more details.

4B.1 Non-trading securities

These are classified as follows:

- Held to maturity;
- Available-for-sale; and
- Other non-trading securities.

All non-trading securities are initially recognised at cost, being the fair value of the consideration given including incremental acquisition charges associated with the security.

Held to maturity

Securities which have fixed or determinable payments, fixed maturities and are intended to be held to maturity. After initial measurement, these are remeasured at amortised cost, less provision for impairment in value, if any.

Available-for-sale

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at FVTPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, these are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of profit or loss. Fair value changes which are not part of an effective hedging relationship, are reported under fair value movements during the year in the consolidated statement of comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in consolidated statement of profit or loss for the year.

Other non-trading securities

Other non-trading securities are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These instruments are not being held with the intent of sale in the near term. These investments are valued at fair value as at 1 July 2008, in accordance with the amendments to IAS 39 'Reclassification of Financial Assets'. Through the effective interest method, the new cost is amortised to the security's expected recoverable amount over the expected remaining life.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4B.2 Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and advances are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges less any amounts written off and provision for impairment. The losses arising from impairment of such loans and advances are recognised in the consolidated statement of profit or loss in 'impairment provisions - net' and in an impairment allowance account in the consolidated statement of financial position. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is recognised as 'interest and similar income' in the consolidated statement of profit or loss.

In relation to loans and advances which are part of an effective hedging relationship, any gain or loss arising from a change in fair value is recognised directly in the consolidated statement of profit or loss. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

4B.3 Impairment and uncollectability of financial assets

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

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

Financial assets carried at amortised cost and loans and receivables

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances and held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4B.3 Impairment and uncollectability of financial assets (continued)

Financial assets carried at amortised cost and loans and receivables (continued)

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

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

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

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss. Increases in the fair value after impairment are recognised directly in equity.

4B.4 Derivatives and hedge accounting

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Changes in the fair values of derivatives held for trading activities or to offset other trading positions or which do not qualify for hedge accounting are included in other operating income in the consolidated statement of profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4B.4 Derivatives and hedge accounting (continued)

For the purposes of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction; and (c) net investment hedges which hedge the exposure to a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objectives and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Changes in the fair value of derivatives that are designated, and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in the consolidated statement of comprehensive income and the ineffective portion recognised in the consolidated statement of profit or loss. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability the associated gain or loss that had been initially recognised in equity is included in the initial measurement of the cost of the related asset or liability.

Changes in fair value of derivatives or non-derivatives that are designated and qualify as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated statement of profit or loss over the remaining term to maturity.
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transaction occurs the gain or loss retained in equity is recognised in the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4B.5 Significant accounting judgments, estimates and assumptions

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The Group's internal grading process takes into consideration factors such as collateral held, deterioration in country risk, industry, technological obsolescence as well as identified structural weakness or deterioration in cash flows.

The impairment loss on loans and advances is disclosed in more detail in note 9.

Impairment losses on available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

5 TRANSITION DISCLOSURES

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

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- Following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - i. Determination of the business model within which a financial asset is held.
 - ii. Designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
 - iii. Assessment of cash flow contractual terms i.e. SPPI test.

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

(a) The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

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

	31 December 2017				1 January 2018		
	Note	IAS 39 category	IAS 39 Carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount	IFRS 9 category
Liquid funds		Loans and receivables	1,388	-	(1)	1,387	Amortised cost
Loans and advances		Loans and receivables	15,329	(36)	(18)	15,275	Amortised cost
Transfers to FVTPL (IFRS 9)	(C)			(36)			
Placements with banks and other financial institutions		Loans and receivables	3,170	-	(3)	3,167	Amortised cost
Securities bought under repurchase agreements		Loans and receivables	1,521	-	-	1,521	Amortised cost
Non-trading investments – debt instruments at amortised cost		Loans and receivables	-	1,177	16*	1,193	* Amortised cost
Transfers from available-for-sale (IAS 39)	(B)			960			
Transfers from held to maturity (IAS 39)	(F)			217			
Non-trading investments – Held to maturity		HTM	217	(217)	-	-	
Transfers to debt instruments at amortised cost	(F)			(217)			
Total financial assets measured at amortised cost			21,625	924	(6)	22,543	

* This includes positive fair value of US\$ 17 million relating to fair value impact arising due to reclassification and recorded in cumulative changes in fair value reserve net of ECL of US\$ 1 million at the transition date.

5 TRANSITION DISCLOSURES (continued)

	31 December 2017			1 January 2018			
	Note	IAS 39 category	IAS 39 Carrying amount	Reclassifica- tion	Remeasure- ment	IFRS 9 carrying amount	IFRS 9 category
Financial assets at FVTPL							
Trading securities		FVTPL	1,051	289	3	1,343	FVTPL
<i>Transfers from loans and receivables</i>							
				36			
<i>Transfers from AFS - debt securities</i>							
				238			
<i>Transfers from AFS - equity securities</i>							
				15			
Total financial assets at FVTPL			1,051	289	3	1,343	
Financial assets at FVOCI							
Non-trading investments – FVOCI (debt securities)			-	4,158	-	4,158	FVOCI
<i>Transfers from available-for-sale financial assets (IAS 39)</i>							
				4,158			
Non-trading investments – FVOCI (equity securities)			-	11	-	11	FVOCI
<i>Transfers from available-for-sale financial assets (IAS 39)</i>							
				11			
Non-trading investments – equity and debt instruments under AFS category		AFS	5,382	(5,382)	-	-	
<i>Transfers to trading securities - debt instruments</i>							
	(A)			(238)			
<i>Transfers to trading securities - equity instruments</i>							
	(E)			(15)			
<i>Transfers to amortised cost (IFRS 9)</i>							
	(B)			(960)			
<i>Transfers to FVOCI – equity instruments</i>							
	(D)			(11)			
<i>Transfers to FVOCI – debt instruments</i>							
	(F)			(4,158)			
Total financial assets at FVOCI			5,382	(1,213)	-	4,169	
Total financial assets			28,058	-	(3)	28,055	
Non-financial assets							
Other assets - deferred tax assets			873	-	14**	887	*
Total assets			28,931	-	11	28,942	
Financial liabilities							
Other liabilities - Off balance sheet exposures			(636)	-	(47)	(683)	
Net impact of remeasurements			28,295	-	(36)	28,259	

** This represents deferred tax impacts arising due to remeasurements of financial assets.

5 TRANSITION DISCLOSURES (continued)

The total remeasurement loss of US\$ 36 million was recognised in opening retained earnings, cumulative changes in fair value and non controlling interests at 1 January 2018.

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

(A) Debt instruments previously classified as available for sale but which fail the SPPI test

The Group holds a portfolio of debt instruments that failed to meet the SPPI requirement for amortised cost classification under IFRS 9. As a result, these instruments, which amounted to US\$ 253 million were classified as FVTPL on the date of initial application.

(B) Securities within the liquidity portfolio (HQLA assets)

After assessing its business model for securities within the Group's liquidity portfolio (high quality liquid assets (HQLA)), which are mostly held to collect the contractual cash flows and sell, the Group has identified certain securities which are managed separately and for which the past practice has been (and the Group's intention remains) to hold to collect the contractual cash flows. Consequently, the Group assessed that the appropriate business model for this group of securities is hold to collect. These securities, with fair value amounting to US\$ 960 million and which were previously classified as available-for-sale, were classified as amortised cost from the date of initial application. The remainder of the Group's liquidity portfolio is held to collect contractual cash flows and sell.

(C) Loans and advances at amortised cost but which fail SPPI test

These represented loans and advances that failed to meet the SPPI requirement for amortised cost classification under IFRS 9. Accordingly, these loans and advances amounting to US\$ 36 million were classified as FVTPL from the initial date of application.

(D) Designation of equity instruments at FVOCI

The Group has elected to irrevocably designate certain of its strategic investments at carrying value of US\$ 11 million in a portfolio of non-trading equity investments at FVOCI as permitted under IFRS 9 from the initial date of application. These investments were previously classified as available-for-sale. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

(E) Designation of equity instruments at FVTPL

The Group has elected to designate certain of its investments at a carrying value of US\$ 15 million as FVTPL as permitted under IFRS 9 from the initial date of application. These investments were previously classified as available-for-sale. Any changes in fair value of these securities will be recognised in the profit or loss.

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

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

- (i) Those previously classified as available-for-sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

For financial assets and liabilities that have been reclassified to the amortised cost category, the following table shows their fair value as at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets and liabilities had not been reclassified as part of the transition to IFRS 9:

Reclassifications to amortised cost**31 December 2018***From available-for-sale (IAS 39 classification) – Item (B) above*

Fair value as at 31 December 2018	868
Fair value gain/(loss) that would have been recognised in cumulative changes in fair value in equity during the year if the financial asset had not been reclassified	(19)

5 TRANSITION DISCLOSURES (continued)

(b) Impact on retained earnings and other reserves

	<i>Retained earnings</i>	<i>Cumulative changes in fair value</i>	<i>Non-controlling interests</i>
Closing balance under IAS 39 (31 December 2017)	939	(29)	482
Fair value changes recognised on reclassification of financial assets	3	17	-
Recognition of expected credit losses under IFRS 9:			
- Liquid funds	(1)	-	-
- Non-trading investments	(17)	17*	(1)
- Loans and advances	(7)	-	(11)
- Placements with banks and other financial institutions	(3)	-	-
- Other liabilities - Off balance sheet exposures	(45)	-	(2)
	(73)	17	(14)
Deferred tax impact on adoption on IFRS 9	8	-	6
Opening balance under IFRS 9 (1 January 2018)	877	5	474

* This represents corresponding remeasurement increase in fair value of debt securities classified at FVOCI due to recording of ECL on transition date of IFRS 9.

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

<i>Measurement category</i>	<i>Loan loss allowance under IAS 39</i>	<i>Reclassification</i>	<i>Remeasurement</i>	<i>ECL under IFRS 9</i>
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Liquid funds	-	-	1	1
Placements with banks and other financial institutions	-	-	3	3
Loans and advances	572	-	18	590
	572	-	22	594
Non-trading investments				
FVOCI (debt securities)	103	-	17	120
Debt instruments at amortised cost	-	-	1	1
	103	-	18	121
Credit commitments, contingent items and others	6	-	47	53
Total	681	-	87	768

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified under IFRS 9 *Financial Instruments* as follows:

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

All figures in US\$ Million

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2017	<i>Held for trading</i>	<i>Available-for-sale</i>	<i>Amortised cost/ Loans and receivables</i>	<i>Total</i>
ASSETS				
Liquid funds	-	-	1,388	1,388
Trading securities	1,051	-	-	1,051
Placements with banks and other financial institutions	-	-	3,170	3,170
Securities bought under repurchase agreements	-	-	1,521	1,521
Non-trading investments	-	5,368	231	5,599
Loans and advances	-	-	15,329	15,329
Other assets	196	-	1,105	1,301
	<u>1,247</u>	<u>5,368</u>	<u>22,744</u>	<u>29,359</u>
	<i>Held for trading</i>	<i>Available-for-sale</i>	<i>Amortised cost</i>	<i>Total</i>
LIABILITIES				
Deposits from customers	-	-	16,755	16,755
Deposits from banks	-	-	3,408	3,408
Certificates of deposit	-	-	27	27
Securities sold under repurchase agreements	-	-	1,628	1,628
Taxation and other liabilities	180	-	941	1,121
Borrowings	-	-	2,148	2,148
	<u>180</u>	<u>-</u>	<u>24,907</u>	<u>25,087</u>

7 LIQUID FUNDS

	2018	2017
Cash on hand	32	33
Balances due from banks	272	263
Deposits with central banks	987	779
Treasury bills and other eligible bills with original maturities of three months or less	50	85
Cash and cash equivalents	1,341	1,160
Treasury bills and other eligible bills with original maturities of more than three months	266	228
	1,607	1,388
ECL allowances	-	-
	1,607	1,388

8 NON-TRADING INVESTMENTS

	<i>2018</i>	<i>2017</i>
Debt securities		
Available-for-sale	-	5,459
Held to maturity	-	217
At amortised cost	1,124	-
At FVOCI	4,649	-
	5,773	5,676
Provisions	-	(103)
ECL allowances	(121)	-
Debt securities - net	5,652	5,573
Equity securities		
Available-for-sale, net of provision	-	26
At FVOCI	9	-
Equity securities - net	9	26
	5,661	5,599

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

	<i>2018</i>	<i>2017</i>
AAA rated debt securities	1,274	1,118
AA to A rated debt securities	1,931	1,874
Other investment grade debt securities	1,356	1,089
Other non-investment grade debt securities	927	1,368
Unrated debt securities	285	227
Equity securities	9	26
	5,782	5,702
Provisions	-	(103)
ECL allowances	(121)	-
	5,661	5,599

Following is the stage wise break-up of debt securities:

	<i>2018</i>				<i>2017</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Total</i>
Debt securities, gross	5,534	137	102	5,773	5,676
ECL allowances	(13)	(6)	(102)	(121)	(103)
	5,521	131	-	5,652	5,573

8 NON-TRADING INVESTMENTS (continued)

Following is the stage wise break-up of debt securities as of the date of transition to IFRS 9:

	<i>1 January 2018</i>			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
Debt securities, gross	5,192	128	103	5,423
ECL allowances	(14)	(4)	(103)	(121)
	<u>5,178</u>	<u>124</u>	<u>-</u>	<u>5,302</u>

An analysis of changes in the ECL allowance is as follows:

	<i>2018</i>				<i>2017</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Total</i>
As at 1 January	14	4	103	121	116
Transfers to stage 1	1	(1)	-	-	-
Transfers to stage 2	-	-	-	-	-
Transfers to stage 3	-	-	-	-	-
Net transfers between stages	1	(1)	-	-	-
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	(14)
Charge for the period - net	-	1	-	1	1
Exchange adjustments and other movements	(2)	2	(1)	(1)	-
As at 31 December	<u>13</u>	<u>6</u>	<u>102</u>	<u>121</u>	<u>103</u>

The gross amount of non-trading investments individually determined to be impaired and classified under Stage 3, before deducting any individually assessed impairment losses, amounts to US\$ 102 million (2017: US\$ 119 million). Interest income received during the year on impaired investments classified under Stage 3 amounted to US\$ Nil. (2017: US\$ 1 million).

9 LOANS AND ADVANCES

Below is the classification of loans and advances:

	<i>2018</i>				<i>2017</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Total</i>
<i>i) By measurement classification</i>					
At FVTPL					
- Wholesale	19	-	-	19	-
At FVOCI					
- Wholesale	216	-	-	216	-
At Amortised cost					
- Wholesale	13,068	905	586	14,559	15,312
- Retail	590	33	31	654	589
	<u>13,893</u>	<u>938</u>	<u>617</u>	<u>15,448</u>	<u>15,901</u>
ECL allowances/provisions	(47)	(88)	(429)	(564)	(572)
	<u>13,846</u>	<u>850</u>	<u>188</u>	<u>14,884</u>	<u>15,329</u>

9 LOANS AND ADVANCES (continued)

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

	<i>Gross loans</i>		<i>ECL allowances</i>		<i>Net loans</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Financial services	3,299	3,921	20	8	3,279	3,913
Other services	3,210	2,448	87	47	3,123	2,401
Manufacturing	2,464	2,127	67	33	2,397	2,094
Construction	1,096	1,265	112	59	984	1,206
Mining and quarrying	337	301	2	-	335	301
Transport	888	1,083	18	3	870	1,080
Personal/consumer finance	549	489	26	22	523	467
Credit cards	11	12	-	1	11	11
Commercial real estate financing	507	369	1	-	506	369
Residential mortgage	188	197	1	-	187	197
Trade	1,241	1,362	165	172	1,076	1,190
Agriculture, fishing and forestry	1,207	1,398	29	7	1,178	1,391
Technology, media and telecommunications	267	381	33	22	234	359
Government	184	548	3	2	181	546
	15,448	15,901	564	376	14,884	15,525
Collective impairment	-	-	-	196	-	(196)
	15,448	15,901	564	572	14,884	15,329

Following is the stage wise break-up as of the date of transition to IFRS 9:

	<i>1 January 2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans and advances, gross	14,090	1,224	551	15,865
ECL allowances	(42)	(172)	(376)	(590)
	14,048	1,052	175	15,275

9 LOANS AND ADVANCES (continued)

An analysis of changes in the ECL allowance is as follows:

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
As at 1 January	42	172	376	590	571
Transfers to stage 1	13	(9)	(4)	-	-
Transfers to stage 2	(2)	2	-	-	-
Transfers to stage 3	-	(51)	51	-	-
Net transfers between stages	11	(58)	47	-	-
Additions	-	-	133	133	95
Recoveries / write back	(2)	(26)	(20)	(48)	-
Charge (write back) for the period - net	(2)	(26)	113	85	95
Amounts written-off	-	-	(82)	(82)	(88)
Exchange adjustments and other movements	(4)	-	(25)	(29)	(6)
As at 31 December	47	88	429	564	572

The gross amount of loans, individually determined to be impaired and classified under Stage 3 before deducting any individually assessed impairment allowance amounts to US\$ 617 million (2017: US\$ 554 million).

The fair value of collateral that the Group holds relating to loans individually determined to be impaired and classified under Stage 3 at 31 December 2018 amounts to US\$ 232 million (2017: US\$ 222 million).

At 31 December 2018, interest in suspense on past due loans under Stage 3 amounts to US\$ 86 million (2017: US\$ 82 million).

10 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

	2018	2017
Non-trading investments (note 8)	1	1
Loans and advances (note 9)	85	95
Credit commitments and contingent items (note 21)	(6)	-
Other financial assets	(1)	-
	79	96

11 OTHER ASSETS

	2018	2017
Interest receivable	410	445
Trade receivables	243	242
Positive fair value of derivatives (note 20)	468	197
Assets acquired on debt settlement	82	112
Deferred tax assets	98	86
Bank owned life insurance	38	37
Margin dealing accounts	40	29
Staff loans	27	25
Advances and prepayments	30	20
Investments in an associate	17	17
Others	148	108
	1,601	1,318

The negative fair value of derivatives amounting to US\$ 444 million (2017: US\$ 185 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

12 TAXATION ON FOREIGN OPERATIONS

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

	2018	2017
Consolidated statement of financial position		
Current tax liability	25	27
Deferred tax liability	18	31
	<u>43</u>	<u>58</u>
Consolidated statement of profit or loss		
Current tax on foreign operations	33	73
Deferred tax on foreign operations	(17)	(15)
	<u>16</u>	<u>58</u>
Analysis of tax charge		
At Bahrain (income tax rate of nil)	-	-
On profits of subsidiaries operating in other jurisdictions	67	62
Credit arising from tax treatment of hedging currency movements	(51)	(4)
	<u>16</u>	<u>58</u>
Income tax expense reported in the consolidated statement of profit or loss	<u>16</u>	<u>58</u>

The effective tax rates on the profit of subsidiaries in MENA and United Kingdom were 29% (2017: 31%) and 19% (2017: 17%) as against the actual tax rates of 19% to 35% (2017: 11% to 36%) and 19% (2017: 19%) respectively. In the Bank's Brazilian subsidiary, the effective tax rate was nil (2017: 16%) as against the actual tax rate of 38% (2017: 40%).

As reflected above, the tax credit for the year includes US\$ 51 million arising from the tax treatment of hedging currency movements (2017: tax credit of US\$ 4 million) on a certain transaction. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments at the group level, the average effective tax rate is 6% (2017: 19%).

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

	2018	2017
Interest payable	359	427
Negative fair value of derivatives (note 20)	444	185
Employee related payables	127	130
Margin deposits including cash collateral	62	46
Cheques for collection	5	75
Deferred income	29	32
Provisions for credit commitments and contingent items	52	3
Accrued charges and other payables	158	165
	<u>1,236</u>	<u>1,063</u>

The positive fair value of derivatives amounting to US\$ 468 million (2017: US\$ 197 million) is included in other assets (note 11). Details of derivatives are given in note 20.

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 2018

	Currency	Rate of Interest %	Parent bank	Subsidiaries	Total
Aggregate maturities					
2019	EUR	<i>Euribor+1.10%</i>	-	57	57
2020*	US\$	<i>7.875</i>	-	132	132
2020	US\$	<i>Libor + 1.20%</i>	-	175	175
2020	US\$	<i>Libor + 1.25%</i>	-	75	75
2020	US\$	<i>3.008</i>	-	5	5
2021	US\$	<i>Libor + 1.80%</i>	231	-	231
2022	US\$	<i>Libor + 2.25%</i>	1,330	-	1,330
2023	TND	<i>9.40</i>	-	7	7
			<u>1,561</u>	<u>451</u>	<u>2,012</u>
Total obligations outstanding at 31 December 2017			1,720	428	2,148

* Subordinated

During the year ended 31 December 2018, the Bank repurchased a portion of its term loan borrowings with a nominal value of US\$ 6 million (2017: US\$ 199 million). The resultant net gain on the repurchase amounting to US\$ nil (2017 : US\$ 1 million) is included in "Other operating income". Refer note 18.

15 EQUITY

a) Share capital

	2018	2017
Authorised – 3,500 million shares of US\$ 1 each (2017: 3,500 million shares of US\$ 1 each)	<u>3,500</u>	3,500
Issued, subscribed and fully paid – 3,110 million shares of US\$ 1 each (2017: 3,110 million shares of US\$ 1 each)	<u>3,110</u>	3,110

b) Treasury shares

During the year, the Group acquired 12,200,000 shares (2017: Nil) for a cash consideration of US\$ 4.4 million (2017: Nil).

15 EQUITY (continued)

c) Statutory reserve

As required by the Articles of Association of the Bank and the Bahrain Commercial Companies Law, 10% of the profit for the year is transferred to the statutory reserve. Such annual transfers will cease when the reserve totals 50% of the paid up share capital. The reserve is not available except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

d) General reserve

The general reserve underlines the shareholders' commitment to enhance the strong equity base of the Bank. There are no restrictions on the distribution of this reserve after obtaining approval of the Central Bank of Bahrain.

e) Cumulative changes in fair value

	2018	2017
At 1 January	5	(45)
Net movement in fair value during the year	(42)	16
At 31 December	(37)	(29)
Impact of adopting IFRS 9 (note 5)	-	34
At 31 December (restated)	(37)	5

16 INTEREST AND SIMILAR INCOME

	2018	2017
Loans and advances	908	864
Securities	384	407
Placements with banks and other financial institutions	175	232
Others	5	8
	1,472	1,511

17 INTEREST AND SIMILAR EXPENSE

	2018	2017
Deposits from banks	549	572
Deposits from customers	264	282
Borrowings	94	96
Certificates of deposit and others	6	5
	913	955

18 OTHER OPERATING INCOME

	2018	2017
Fee and commission income - net	205	194
Bureau processing income	32	37
Gain (loss) on dealing in derivatives - net	28	(14)
Gain on dealing in foreign currencies - net	39	54
Loss on hedging foreign currency movements	(51)	(4)
Gain on disposal of non-trading investments - net	8	12
(Loss) gain on trading securities - net	(18)	15
Gain on repurchase of subordinated debt (note 14)	-	1
Gain on sale of premises and equipment - net	-	5
Other - net	15	13
	258	313

Included in the fee and commission income is US\$ 13 million (2017: US\$ 13 million) of fee income relating to funds under management.

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.)	
			2018	2017
			%	%
ABC International Bank Plc	Banking	United Kingdom	100.0	100.0
ABC Islamic Bank (E.C.)	Banking	Bahrain	100.0	100.0
Arab Banking Corporation (ABC) - Jordan	Banking	Jordan	87.0	87.0
Banco ABC Brasil S.A.	Banking	Brazil	60.6	60.7
ABC Algeria	Banking	Algeria	87.7	87.7
Arab Banking Corporation - Egypt [S.A.E.]	Banking	Egypt	99.8	99.8
ABC Tunisie	Banking	Tunisia	100.0	100.0
Arab Financial Services Company B.S.C. (c)	Credit card services	Bahrain	56.6	55.9

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.

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.

	2018	2017
Proportion of equity interest held by non-controlling interests (%)	39.4%	39.3%
Dividends paid to non-controlling interests	22	24

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

	2018	2017
Summarised statement of profit or loss:		
Interest and similar income	648	820
Interest and similar expense	(471)	(594)
Other operating income	85	142
Credit loss expense on financial assets	(39)	(78)
Operating expenses	(126)	(132)
Profit before tax	97	158
Income tax	17	(25)
Profit for the year	114	133
Profit attributable to non-controlling interests	45	52
Total comprehensive (loss) income	(38)	112
Total comprehensive (loss) income attributable to non-controlling interests	(15)	44

19 GROUP INFORMATION (continued)

19.3 Material partly-owned subsidiaries (continued)

Banco ABC Brasil S.A. (continued)

	2018	2017
Summarised statement of financial position:		
Total assets	7,757	8,161
Total liabilities	6,792	7,132
Total equity	965	1,029
Equity attributable to non-controlling interests	380	404
Summarised cash flow information for the year ended:		
Operating activities	(92)	(55)
Investing activities	108	265
Financing activities	(13)	(207)
Net increase in cash and cash equivalents	3	3

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.

	2018			2017		
	<i>Positive fair value</i>	<i>Negative fair</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair</i>	<i>Notional amount</i>
<i>Derivatives held for trading</i>						
Interest rate swaps	88	82	7,416	60	45	4,956
Currency swaps	27	14	507	4	13	583
Forward foreign exchange contracts	19	11	3,101	11	7	4,127
Options	314	298	6,661	118	113	3,576
Futures	2	8	3,208	3	2	4,086
	450	413	20,893	196	180	17,328
<i>Derivatives held as hedges</i>						
Interest rate swaps	15	26	2,303	-	-	2,120
Currency swaps	-	1	25	-	-	-
Forward foreign exchange contracts	3	4	560	1	5	612
	18	31	2,888	1	5	2,732
	468	444	23,781	197	185	20,060
Risk weighted equivalents (credit and market risk)			2,102			1,738

Derivatives are carried at fair value using valuation techniques based on observable market inputs.

20 DERIVATIVES AND HEDGING (continued)

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 and subordinated loan of a subsidiary.
For the year ended 31 December 2018, the Group recognised a net gain of US\$ 26 million (2017: net gain of US\$ 18 million) on hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to US\$ 26 million (2017: loss of US\$ 18 million).
- b) The Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2018, the Group had deposits amounting to US\$ 610 million (2017: US\$ 649 million) which were designated as net investment hedges.

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency amounts based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivative related credit risk

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

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IFRS 9 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

20 DERIVATIVES AND HEDGING (continued)***Derivatives held or issued for hedging purposes (continued)***

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 three 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 and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed / receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in LIBOR (the benchmark rate of interest). Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a fair value hedge and its effectiveness is assessed by 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.

20 DERIVATIVES AND HEDGING (continued)

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:

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>10- 20 years</i>	<i>Total</i>
Notional								
2018	2,509	2,473	1,505	4,413	8,757	3,015	1,109	23,781
2017	3,215	2,038	1,812	4,708	4,977	2,962	348	20,060

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 the hypothetical derivative 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.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. In cases, where the Group does not hedge 100% of its loans, the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and
- differences in critical terms between the interest rate swaps and loans

The ineffectiveness during 2018 or 2017 in relation to the interest rate swaps is however not significant to the Group.

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:

	<i>2018</i>	<i>2017</i>
Short-term self-liquidating trade and transaction-related contingent items	3,662	3,437
Direct credit substitutes and guarantees	4,043	3,979
Undrawn loans and other commitments	2,272	2,179
	9,977	9,595
Credit exposure after applying credit conversion factor	4,173	4,100
Risk weighted equivalents	3,274	3,282

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

	<i>2018</i>	<i>2017</i>
On demand	2,430	1,635
1 - 6 months	3,095	2,818
6 - 12 months	1,946	1,784
1 - 5 years	2,453	3,285
Over 5 years	53	73
	9,977	9,595

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

	<i>2018</i>			<i>2017</i>	
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Total</i>
Credit commitments and contingencies	3,996	160	17	4,173	4,100
ECL allowances	(14)	(22)	(16)	(52)	(3)

Following is the stage wise break-up as of the date of transition to IFRS 9:

	<i>1 January 2018</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Credit commitments and contingencies	3,757	327	16	4,100
ECL allowances	(13)	(37)	(3)	(53)

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

An analysis of changes in the ECL allowance is as follows:

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
As at 1 January	13	37	3	53	2
Transfers to stage 1	2	(2)	-	-	-
Transfers to stage 2	-	-	-	-	-
Transfers to stage 3	-	(1)	1	-	-
Net transfers between stages	2	(3)	1	-	-
Additions	-	-	5	5	-
Recoveries / write back	(1)	(8)	(2)	(11)	-
(Write back) charge for the period - net	(1)	(8)	3	(6)	-
Exchange adjustments and other movements	-	(4)	9	5	1
As at 31 December	14	22	16	52	3

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.

22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

Significant net foreign currency exposures, arising mainly from investments in subsidiaries, are as follows:

Long (short)	2018		2017	
	Currency	US\$ equivalent	Currency	US\$ equivalent
Brazilian Real	2,269	585	2,039	616
Pound Sterling	4	6	(5)	(7)
Egyptian Pound	1,735	97	1,763	99
Jordanian Dinar	136	191	185	261
Algerian Dinar	15,422	130	14,810	129
Tunisian Dinar	74	25	6	2
Euro	1	2	5	6
Bahrain Dinar	8	20	7	18

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 2018**Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2018:****Financial assets measured at fair value:**

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	977	-	977
Non-trading investments	4,448	93	4,541
Derivatives held for trading	272	178	450
Derivatives held as hedges	-	18	18

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2018:**Financial liabilities measured at fair value:**

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading	263	150	413
Derivatives held as hedges	-	31	31

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	<i>Carrying value</i>	<i>Fair value</i>
Financial assets		
Non-trading investments at amortised cost - gross	1,124	1,070
Financial liabilities		
Borrowings	2,012	2,017

23.2 31 December 2017**Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2017:****Financial assets measured at fair value:**

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Trading securities	1,051	-	1,051
Non-trading investments	4,925	436	5,361
Derivatives held for trading	57	139	196
Derivatives held as hedges	-	1	1

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**23.2 31 December 2017 (continued)****Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2017:****Financial liabilities measured at fair value:**

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading	49	131	180
Derivatives held as hedges	-	5	5

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.

	<i>Carrying value</i>	<i>Fair value</i>
Financial assets		
Non-trading investments at amortised cost - gross	223	249
Financial liabilities		
Borrowings	2,148	2,159

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet 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 2018 (31 December 2017: 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 and market risk, legal risk and strategic risk as well as other forms of risk inherent in its financial operations.

Over the last few years the Group has invested heavily into developing a 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 significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the following board committees, senior management committees and the Credit & Risk Group in Head Office.

Within the broader governance infrastructure, the board committees carry the main responsibility of best practice management and risk oversight. At this level, the BRC oversees the definition of risk appetite, risk tolerance standards, and risk process standards to be kept in place. The BRC is also responsible to coordinate with other board committees for monitoring compliance with the requirements of the regulatory authorities in the 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 Group 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 the various countries in which the Group operates.

The GRC defines, develops and monitors the Group's overarching risk management framework taking into account the Group's strategy and business plans. The GRC is responsible for highlighting, discussing and monitoring key regulations, both local and international, as applicable to the businesses and geographies where the Group operates. The GRC is assisted by specialised sub-committees to manage credit risk (Group Credit Committee), operational risk (Group Operational Risk Committee) and operational resilience (Group Operational Resilience Committee).

The Group Asset and Liability Committee ("GALCO") is responsible for defining long-term strategic plans and policy, as well as short-term tactical initiatives for prudently directing asset and liability allocation. GALCO monitors the Group's liquidity and market risks, and the Group's risk profile in the context of economic developments and market fluctuations. GALCO is assisted by tactical sub-committees for Capital & Liquidity Management.

The GCOC is responsible for strengthening the focus on compliance within the Group's risk management framework.

The above management structure, supported by teams of risk and credit analysts and compliance officers, as well as the IT systems provide a coherent infrastructure to carry credit, risk 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 RISK MANAGEMENT (continued)

24.3 Risk measurement and reporting system

24.3.1 Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is monitored monthly by the Group. In situations of ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk.

The Group actively uses collateral to reduce its credit risk (see below for details).

24.3.2 Excessive risk concentration

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

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

24.4 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients and counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The first level of protection against undue credit risk is through country, industry and other risk threshold limits, together with customer credit limits, set by the BRC and the Group Credit Committee and allocated between the Bank and its banking subsidiaries. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Group policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees. The Group also employs Risk Adjusted Return on Capital (RAROC) as a measure to evaluate the risk/reward relationship at the transaction approval stage.

24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) 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 within 12 months for the calculation of the 12 months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the date of the consolidated statement of financial position and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

24 RISK MANAGEMENT (continued)**24.4 Credit risk (continued)****24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) and mitigation (continued)*****Loss given default (LGD)***

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. The Group uses models to calculate the LGD values taking into account the collateral type and value (with haircut), economic scenarios, industry of the borrower, etc.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Group;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection; and
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 12 consecutive months. The asset is then transferred to Stage 2 and after a cure period of further 6 months to Stage 1.

Credit risk grading and PD estimation process

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group use internal rating models tailored to the various categories of counterparty. The quantitative and qualitative information is fed into the rating models to generate ratings. This is supplemented with external data such as external credit rating assessment on individual borrowers. In addition, the models enable expert judgement from the business originating and underwriting units to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 01 and 02+ rating grade is lower than the difference in the PD between a 05- and 06+ rating grade.

24 RISK MANAGEMENT (continued)**24.4 Credit risk (continued)****24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) and mitigation (continued)***Credit risk grading and PD estimation process (continued)*

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

Wholesale portfolio

Wholesale portfolio includes both corporate and small and medium enterprises (SME) loans. For corporate banking loans, the borrowers are assessed by specialised credit risk units of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical (for calibration) and current information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

Retail portfolio

ECL for retail portfolio is assessed using roll rate methodology. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions at the reporting date.

Treasury portfolio

For debt securities in the non-trading portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The external ratings are mapped to the Group's internal ratings scale and the PD's associated with each grade are used for the ECL computation.

The Group's rating method comprises 20 rating levels for instruments not in default (1 to 8) and three default classes (9 to 11). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to a periodic validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Group's internal credit rating grades alongwith the respective TTC PDs are as below:

Internal rating grades	Internal rating grade description	PD range (%)
1+ to 4-	Superior	>= 0.00% to <0.49%
5+ to 5-	Satisfactory	>= 0.49% to <1.52%
6+ to 6-	Satisfactory	>= 1.52% to <5.02%
7	Marginal	>= 5.02% to <17.32%
8	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 scenarios as appropriate.

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) and mitigation (continued)

Significant increase in credit risk (SICR)

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk on various factors including number of notches change in internal risk rating, transition to accounts requiring close monitoring, restructured / forbearance, historical delinquency, etc.

Further, the Group has used the low credit risk (LCR) expedient which includes all exposures meeting following criteria:

- All local currency sovereign exposures funded in local currency
- All local currency exposures to the government of the Kingdom of Bahrain or Central Bank of Bahrain
- All exposures with external rating A- or above

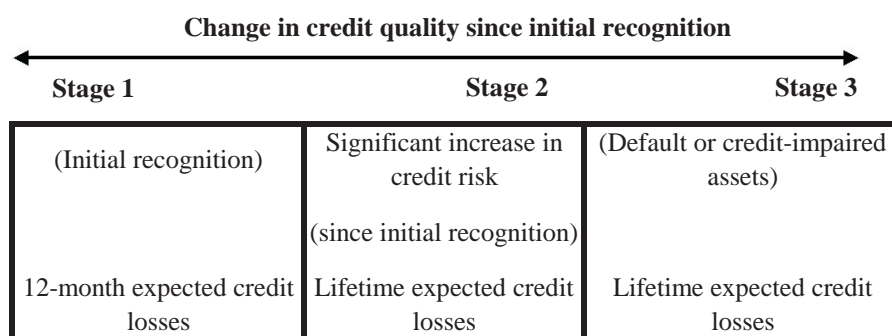
A backstop is applied and the financial instrument considered to have experienced SICR if the borrower is more than 30 days past due on its contractual payments.

ECL measurement

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition or where the credit risk has not significantly increased since initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Group.
- If a SICR since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. Please refer above for a description of how the Group determines when a significant increase in credit risk 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):



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.

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) and mitigation (continued)

Definition of default and credit-impaired assets (continued)

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
- 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 and 6 months for transition from Stage 2 to 1. This period of 12 and 6 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default" above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, geography and industry. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD and LGD for each future month and for each individual exposure. The three components (PD, LGD and EAD) are multiplied together and the projected PD is adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

24 RISK MANAGEMENT (continued)**24.4 Credit risk (continued)****24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) and mitigation (continued)*****Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)***

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. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

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.

The 12-month and lifetime LGDs are determined for secured and unsecured portions of instruments based on the factors which impact the recoveries made post default. These 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 secured 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 impact 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.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Economic variable assumptions

An overview of the approach to estimating ECLs is set out above and in note 4. To ensure completeness and accuracy, the Group obtains the data used from third party sources (e.g. Moody's) and a team of economists within its Credit Risk Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios. The following table sets out the key macroeconomic variables of ECL calculation and weightages used for scenarios.

24 RISK MANAGEMENT (continued)**24.4 Credit risk (continued)****24.4.1 Credit risk impairment assessment (policy applicable from 1 January 2018) and mitigation (continued)***Economic variable assumptions (continued)*

Key macroeconomic variables used	ECL scenario and assigned weightage
GDP	Base (40%)
Oil price	Upside (30%)
Equity index	Downside (30%)

The above macroeconomic variables are selected based on the regression analysis between the macroeconomic variables and the PD. These economic variables and their associated impact on the PD and LGD vary by country and industry. Forecasts of these economic variables (for all 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.

In addition to above, the Group also considers the impact of any regulatory, legislative or political changes, however, these are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

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 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.

	<i>Gross maximum exposure</i>	
	2018	2017
Liquid funds	1,575	1,355
Trading debt securities	961	1,051
Placements with banks and other financial institutions	2,991	3,170
Securities bought under repurchase agreements	1,668	1,521
Non-trading debt investments	5,652	5,574
Loans and advances	14,884	15,329
Other credit exposures	1,584	1,301
	29,315	29,301
Credit commitments and contingent items (note 21)	9,977	9,595
Total	39,292	38,896

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.2 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

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.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

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:

	<i>Assets</i>				<i>2017</i> <i>Total</i>
	<i>2018</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	
Western Europe	3,095	136	1	3,232	3,163
Arab World	11,755	507	28	12,290	11,614
Asia	1,733	9	-	1,742	2,189
North America	3,257	-	20	3,277	3,058
Latin America	7,249	140	131	7,520	8,125
Other	1,028	218	8	1,254	1,152
Total	28,117	1,010	188	29,315	29,301

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

	<i>Liabilities and equity</i>	
	<i>2018</i>	<i>2017</i>
Western Europe	2,489	2,157
Arab World	18,879	18,778
Asia	468	359
North America	706	977
Latin America	6,046	6,601
Other	727	429
Total	29,315	29,301

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

	<i>Credit commitments and contingent items</i>				<i>2017</i> <i>Total</i>
	<i>2018</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	
Western Europe	1,723	59	30	1,812	1,550
Arab World	3,809	111	-	3,920	3,803
Asia	253	84	-	337	281
North America	631	64	-	695	540
Latin America	3,076	-	-	3,076	3,380
Other	120	16	1	137	41
Total	9,612	334	31	9,977	9,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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, before and after taking into account cash collateral held or other credit enhancements, is as follows:

	<i>Gross maximum exposure</i>				<i>Net maximum exposure</i>		
	<i>2018</i>				<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Total</i>		
Financial services	9,251	340	-	9,591	9,580	7,638	8,048
Other services	4,757	76	21	4,854	4,811	4,827	4,783
Manufacturing	2,955	154	72	3,181	2,203	3,136	2,162
Construction	837	41	34	912	1,256	823	1,166
Mining and quarrying	362	12	-	374	307	374	307
Transport	971	82	9	1,062	1,136	1,062	1,136
Personal /							
Consumer finance	585	32	7	624	573	624	572
Credit cards	10	-	-	10	11	10	11
Commercial							
real estate financing	431	76	-	507	368	507	368
Residential mortgage	186	-	1	187	197	187	197
Trade	1,420	121	1	1,542	1,242	1,534	1,236
Agriculture, fishing and forestry	1,129	42	35	1,206	1,426	1,206	1,426
Technology, media and telecommunications	381	-	8	389	539	389	539
Government	4,842	34	-	4,876	5,652	4,287	5,482
Total	28,117	1,010	188	29,315	29,301	26,604	27,433

An industry sector analysis of the Group's credit commitments and contingent items, before and after taking into account cash collateral held or other credit enhancements, is as follows:

	<i>Gross maximum exposure</i>				<i>Net maximum exposure</i>		
	<i>2018</i>				<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Total</i>		
Financial services	3,928	61	1	3,990	3,214	3,652	3,049
Other services	534	134	-	668	2,114	668	2,109
Manufacturing	1,323	61	-	1,384	1,065	1,374	1,056
Construction	602	62	30	694	663	693	660
Mining and quarrying	957	-	-	957	203	957	203
Transport	325	-	-	325	332	325	332
Personal /							
Consumer finance	36	-	-	36	63	36	63
Commercial							
real estate financing	189	-	-	189	21	189	21
Trade	379	16	-	395	567	391	564
Agriculture, fishing and forestry	190	-	-	190	181	190	181
Technology, media and telecommunications	272	-	-	272	128	271	127
Government	877	-	-	877	1,044	841	1,037
Total	9,612	334	31	9,977	9,595	9,587	9,402

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

31 December 2018	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
Liquid funds	1,575	-	-	-	1,575
Trading debt securities	54	907	-	-	961
Placements with banks and other financial institutions	1,835	1,156	-	-	2,991
Securities bought under repurchase agreements	171	1,497	-	-	1,668
Non-trading debt investments	4,387	1,265	-	-	5,652
Loans and advances	4,478	10,163	55	188	14,884
Other credit exposures	1,392	192	-	-	1,584
	13,892	15,180	55	188	29,315

31 December 2017	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
Liquid funds	1,355	-	-	-	1,355
Trading debt securities	229	822	-	-	1,051
Placements with banks and other financial institutions	1,872	1,298	-	-	3,170
Securities bought under repurchase agreements	100	1,421	-	-	1,521
Non-trading debt investments	4,052	1,520	-	2	5,574
Loans and advances	4,423	10,656	72	178	15,329
Other credit exposures	1,036	265	-	-	1,301
	13,067	15,982	72	180	29,301

Arab Banking Corporation (B.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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 2018

	<i>Liquid funds</i>	<i>Trading debt securities</i>	<i>Placements with banks and other financial institutions</i>	<i>Securities bought under repurchase agreements</i>	<i>Non-trading debt securities</i>	<i>Loans and advances</i>
<i>Stage 1 (12-month ECL)</i>						
Rating grades 1 to 4-	1,352	436	1,903	103	4,258	5,786
Rating grades 5+ to 5-	149	525	389	925	505	4,583
Rating grades 6+ to 6-	65	-	679	627	758	3,263
Rating grade 7	-	-	-	13	-	214
Carrying amount (net)	1,566	961	2,971	1,668	5,521	13,846
<i>Stage 2 (Lifetime ECL but not credit-impaired)</i>						
Rating grades 1 to 4-	-	-	-	-	-	40
Rating grades 5+ to 5-	2	-	-	-	-	82
Rating grades 6+ to 6-	7	-	20	-	131	442
Rating grade 7	-	-	-	-	-	131
Rating grade 8	-	-	-	-	-	155
Carrying amount (net)	9	-	20	-	131	850
<i>Stage 3 (Lifetime ECL and credit-impaired)</i>						
Rating grades 9 to 11	-	-	-	-	-	188
Carrying amount (net)	-	-	-	-	-	188
Total	1,575	961	2,991	1,668	5,652	14,884

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

	2018	2017
Loans and advances	330	239

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 following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

	2018	
	Gross carrying amount	Corresponding ECL
Gross carrying amount for which loss allowance measured using 12m ECL during the year	9	-

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\$ 834 million. Predominantly, the loan to value ratios for these exposures are in the range of 30% to 60%.

24.4.8 Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	Maximum exposure to credit risk
Trading securities	
- Debt Securities	961
Trading derivatives	450
Hedging derivatives	18
Financial assets designated at FVTPL	
- Loans and advances to customers	19

24 RISK MANAGEMENT (continued)

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.

24.7 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 minimized as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. 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.

2018

	<i>Increase in basis points</i>	<i>Sensitivity statement of profit or loss</i>	<i>Decrease in basis points</i>	<i>Sensitivity statement of profit or loss</i>
US Dollar	25	(3)	25	3
Euro	25	-	25	-
Pound Sterling	25	1	25	(1)
Brazilian Real	25	1	25	(1)
Others	25	1	25	(1)

2017

	<i>Increase in basis points</i>	<i>Sensitivity statement of profit or loss</i>	<i>Decrease in basis points</i>	<i>Sensitivity statement of profit or loss</i>
US Dollar	25	-	25	-
Euro	25	2	25	(2)
Pound Sterling	25	-	25	-
Brazilian Real	25	-	25	-
Others	25	1	25	(1)

24 RISK MANAGEMENT (continued)

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 2018 and 31 December 2017 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.

	2018			2017		
	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%	-	+/-29	+/- 5%	-	+/-31
Egyptian Pound	+/- 5%	-	+/-5	+/- 5%	-	+/-4
Jordanian Dinar	+/- 5%	-	+/-10	+/- 5%	+/-4	+/-9
Algerian Dinar	+/- 5%	-	+/-6	+/- 5%	-	+/-6
Bahrain Dinar	+/- 5%	+/-1	-	+/- 5%	+/-1	-

24.9 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's securities portfolio.

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held as available for sale) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	2018		2017	
	% Change in equity price	Effect on statement of profit or loss/ equity	% Change in equity price	Effect on statement of profit or loss/ equity
Trading equities	+/- 5%	+/-1	+/- 5%	-
Equity securities at FVOCI	+/- 5%	-	+/- 5%	+/-1

24.10 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk in Bank ABC includes legal risk and Information Technology (IT) 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 Officer or local Head 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") assists the Group Risk Committee with the management of operational risks across ABC Group and ensures that the affairs of the Group are conducted in a manner which is consistent with the Operational Risk Policy approved by the Board Risk Committee.

24 RISK MANAGEMENT (continued)

24.10 Operational risk (continued)

The GORCO:

- Defines the policy for the management of operational risks and recommends this Policy for ultimate approval by the Board Risk Committee.
- Advises the Group Risk Committee and the Board Risk Committee with establishing, approving and periodically reviewing the tolerance for operational risks in ABC group.
- Monitors and reviews the operational risk exposures in the various business lines and subsidiaries.
- Defines the various components of the framework for the management of operational risks in ABC group and oversees the implementation of the framework across ABC group.
- Oversees the actions taken to maintain exposures in line with the operational risk profile.

The implementation of the framework for the management of operational risk is governed by the GORCO.

Local Operational Risk Committees oversee the implementation of the framework and the management of operational risk in all subsidiaries and branches of ABC Group.

The Group Operational Risk Management Department in Head Office is responsible for the development of the group-wide methodology, system support and overall quality control. The Group has implemented the following tools for the management of operational risks.

The Group has implemented the following tools for the management of operational risks:

- Internal loss data and incidents, near miss events
- Risk & Control Self-Assessments (bottom-up and top-down)
- Group-wide control standards
- Key Risk and Performance Indicators (group-wide and local)
- New product approval processes

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 had implemented a group-wide Governance, Risk and Compliance solution. This group-wide solution is being used by Audit, Risk and Compliance.

A wide range of reports, tailored to the needs of the different stakeholders, is available to provide information on the operational risk profile of Bank ABC 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 caused by operational risk events. In addition, the Group uses a quantitative and qualitative risk rating scale to classify actual and potential non-financial risks as 'critical', 'significant', 'moderate' or 'minor'. Timeframes have been defined within which action plans must be prepared for the treatment of control weaknesses, rated 'critical', 'significant' or 'moderate'. In line with the Board-led Group risk appetite statement, operational risk tolerance is set and monitored by the Board Risk Committee.

Arab Banking Corporation (B.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

All figures in US\$ Million

24 RISK MANAGEMENT (continued)

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 circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors 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 liquid assets 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 excess liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and inter-bank borrowings. The Liquidity Survival Horizon (LSH) is used to manage and monitor daily liquidity. The LSH represents the minimum number of days the Group can survive the combined outflow of all deposits and contractual drawdowns, under market value driven encashability scenarios.

In addition, the internal liquidity/maturity profile is generated to summarize the actual liquidity gaps versus the revised gaps based on internal assumptions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 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.

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	10- 20 years	Total
At 31 December 2018								
Financial liabilities								
Deposits from customers	5,582	2,444	2,182	2,946	3,562	291	13	17,020
Deposits from banks	2,015	988	490	592	185	-	-	4,270
Securities sold under repurchase agreements	767	459	-	-	56	-	-	1,282
Certificates of deposits	4	7	3	5	23	-	-	42
Interest payable and other liabilities	1,014	40	34	46	87	15	-	1,236
Borrowings	-	61	-	44	2,111	1	-	2,217
Total non-derivative undiscounted financial liabilities on statement of financial position	9,382	3,999	2,709	3,633	6,024	307	13	26,067
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	1,918	1,203	377	3,649	2,669	-	-	9,816
Guarantees	3,565	-	-	-	-	-	-	3,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

*All figures in US\$ Million***24 RISK MANAGEMENT (continued)****24.11 Liquidity risk (continued)**

At 31 December 2017

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	10-20 years	Total
Financial liabilities								
Deposits from customers	5,154	2,447	1,306	3,624	4,552	295	20	17,398
Deposits from banks	1,692	426	503	595	288	-	-	3,504
Securities sold under repurchase agreements	1,469	121	-	3	27	17	-	1,637
Certificates of deposits	1	3	6	6	12	-	-	28
Interest payable and other liabilities	778	31	61	91	92	9	-	1,062
Borrowings	-	-	-	173	2,136	-	-	2,309
Total non-derivative undiscounted financial liabilities on statement of financial position	9,094	3,028	1,876	4,492	7,107	321	20	25,938

ITEMS OFF STATEMENT OF FINANCIAL POSITION

Gross settled foreign currency derivatives	1,900	1,036	850	1,325	202	25	-	5,338
Guarantees	3,707	-	-	-	-	-	-	3,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

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 2018	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months
ASSETS											
Liquid funds	1,354	50	-	30	1,434	173	-	-	-	-	173
Trading securities	69	110	5	391	575	324	58	3	-	17	402
Placements with banks and other financial institutions	2,313	581	92	5	2,991	-	-	-	-	-	-
Securities bought under repurchase agreements	511	1,063	91	-	1,665	1	2	-	-	-	3
Non-trading securities	111	141	527	689	1,468	2,905	1,071	162	46	9	4,193
Loans and advances	2,598	2,004	1,941	2,351	8,894	4,920	873	190	7	-	5,990
Others	61	35	9	38	143	116	19	1	-	1,482	1,618
Total assets	7,017	3,984	2,665	3,504	17,170	8,439	2,023	356	53	1,508	12,379
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS											
Deposits from customers	3,822	1,696	2,066	2,784	10,368	5,785	265	7	-	-	6,057
Deposits from banks	1,930	894	478	578	3,880	327	-	-	-	-	327
Certificates of deposit	4	6	3	5	18	21	-	-	-	-	21
Securities sold under repurchase agreements	766	457	-	-	1,223	48	-	-	-	-	48
Borrowings	-	57	-	5	62	1,950	-	-	-	-	1,950
Others	17	40	34	46	137	87	15	-	-	1,040	1,142
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,316	4,316
Total liabilities, shareholders' equity and non-controlling interests	6,539	3,150	2,581	3,418	15,688	8,218	280	7	-	5,356	13,861
Net liquidity gap	478	834	84	86	1,482	221	1,743	349	53	(3,848)	(1,482)
Cumulative net liquidity gap	478	1,312	1,396	1,482		1,703	3,446	3,795	3,848	-	

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

All figures in US\$ Million

24 RISK MANAGEMENT (continued)**24.11 Liquidity risk (continued)**

At 31 December 2017	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
ASSETS											
Liquid funds	1,100	60	68	30	1,258	130	-	-	-	-	130
Trading securities	-	24	-	693	717	334	-	-	-	-	334
Placements with banks and other financial institutions	2,360	541	176	93	3,170	-	-	-	-	-	3,170
Securities bought under repurchase agreements	1,421	100	-	-	1,521	-	-	-	-	-	1,521
Non-trading investments	41	287	227	675	1,230	3,042	1,076	170	56	25	4,369
Loans and advances	2,243	2,141	2,081	2,686	9,151	5,010	888	228	51	1	15,329
Others	11	25	10	127	173	149	15	2	-	1,102	1,441
Total assets	7,176	3,178	2,562	4,304	17,220	8,665	1,979	400	107	1,128	12,279
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS											
Deposits from customers	3,551	1,635	1,112	3,650	9,948	6,557	240	10	-	-	6,807
Deposits from banks	1,610	418	441	629	3,098	310	-	-	-	-	310
Certificates of deposit	1	3	6	6	16	11	-	-	-	-	11
Securities sold under repurchase agreements	1,466	117	-	3	1,586	25	17	-	-	-	42
Borrowings	-	-	-	150	150	1,998	-	-	-	-	1,998
Others	30	31	61	91	213	92	9	-	-	807	908
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,412	4,412
Total liabilities, shareholders' equity and non-controlling interests	6,658	2,204	1,620	4,529	15,011	8,993	266	10	-	5,219	14,488
Net liquidity gap	518	974	942	(225)	2,209	(328)	1,713	390	107	(4,091)	(2,209)
Cumulative net liquidity gap	518	1,492	2,434	2,209		1,881	3,594	3,984	4,091	-	

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).

	2018					<i>Total</i>
	<i>MENA subsidiaries</i>	<i>International wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
Net interest income	117	168	45	177	52	559
Other operating income	43	72	39	83	21	258
Total operating income	160	240	84	260	73	817
Profit before credit losses	69	138	61	135	45	448
Credit loss expense on financial assets	(5)	(35)	-	(39)	-	(79)
Profit before taxation and unallocated operating expenses	64	103	61	96	45	369
Taxation (expense) credit on foreign operations	(19)	(8)	(1)	12	-	(16)
Unallocated operating expenses						(105)
Profit for the year						248
Operating assets as at 31 December 2018	3,283	9,540	8,877	7,778	71	29,549
Operating liabilities as at 31 December 2018	2,918	-	15,613	6,689	13	25,233

25 OPERATING SEGMENTS (continued)

	2017					Total
	MENA subsidiaries	International wholesale banking	Group treasury	ABC Brasil	Other	
Net interest income	124	160	20	226	26	556
Other operating income	41	65	31	143	33	313
Total operating income	165	225	51	369	59	869
Profit before impairment provisions	75	137	27	237	33	509
Impairment provisions - net	(1)	(17)	-	(78)	-	(96)
Profit before taxation and unallocated operating expenses	74	120	27	159	33	413
Taxation expense on foreign operations	(23)	(3)	-	(32)	-	(58)
Unallocated operating expenses						(102)
Profit for the year						253
Operating assets as at 31 December 2017	3,397	9,912	7,928	8,184	78	29,499
Operating liabilities as at 31 December 2017	2,899	-	15,194	6,983	11	25,087

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 2018 and 2017:

	Bahrain	Europe	Brasil	Other	Total
2018					
Total operating income	232	120	262	203	817
2017					
Total operating income	218	100	369	182	869

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2017: none).

26 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year-end amounted to US\$ 1,271 million (2017: US\$ 1,628 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US\$ 1,359 million (2017: US\$ 1,628 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US\$ 1,668 million (2017: US\$ 1,521 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\$ 1,747 million (2017: US\$ 1,523 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:

	<i>Ultimate parent</i>	<i>Major shareholder</i>	<i>Directors</i>	2018	2017
Deposits from customers	3,126	670	7	3,803	3,782
Borrowings	1,505	-	-	1,505	1,505
Short-term self-liquidating trade and transaction-related contingent items	515	-	-	515	331

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

	2018	2017
Commission income	8	7
Interest expense	122	107

Compensation of the key management personnel is as follows:

	2018	2017
Short term employee benefits	18	19
Post employment benefits	3	5
	21	24

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US\$ 14,927 million (2017: US\$ 15,917 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\$ 784 million (2017: US\$ 772 million). Loans and advances, non-trading investments and placements include Islamic assets of US\$ 1,167 million (2017: US\$ 1,657 million), US\$ 639 million (2017: US\$ 599 million) and US\$ 289 million (2017: US\$ 286 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 (2017: US\$ 499 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

All figures in US\$ Million

31 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS (continued)

31.1 Basic and diluted earnings per share

The Group's earnings for the year (before proposed dividends) are as follows:

	2018	2017
Profit attributable to the shareholders of the parent	202	193
Weighted average number of shares outstanding during the year (millions)	3,096	3,110
Basic and diluted earnings per share (US\$)	0.07	0.06

31.2 Proposed dividends and transfers

	2018	2017
Proposed cash dividend for 2018 of US\$ 0.03 per share (2017: US\$ 0.03 per share)	93	93

The proposed cash dividend is subject to regulatory approvals and approval at the Annual General Meeting.

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 2018 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

CAPITAL BASE		2018	2017
CET 1		4,085	4,196
AT 1		49	55
Total Tier 1 capital		<u>4,134</u>	<u>4,251</u>
Tier 2		218	253
Total capital base	[a]	<u><u>4,352</u></u>	<u><u>4,504</u></u>
RISK WEIGHTED EXPOSURES			
		2018	2017
Credit risk weighted assets and off balance sheet items		20,719	20,849
Market risk weighted assets and off balance sheet items		1,680	1,624
Operational risk weighted assets		1,578	1,572
Total risk weighted assets	[b]	<u><u>23,977</u></u>	<u><u>24,045</u></u>
Risk asset ratio	[a/b*100]	<u><u>18.2%</u></u>	<u><u>18.7%</u></u>
Minimum requirement		<u><u>12.5%</u></u>	<u><u>12.5%</u></u>

32 CAPITAL ADEQUACY (continued)

The Group's capital base primarily comprises:

(a) Tier 1 capital: share capital, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value

(b) 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.

The impact on retained earnings due to adoption of IFRS 9 has been included in full in 2018 for the purposes of calculation of CET 1.

33 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	<i>1 January 2018</i>	<i>Cash flow, net</i>	<i>Foreign exchange movement</i>	<i>Other</i>	<i>31 December 2018</i>
Certificates of deposit	27	12	-	-	39
Borrowings	2,148	(128)	(8)	-	2,012
Total liabilities from financing activities	2,175	(116)	(8)	-	2,051
	<i>1 January 2017</i>	<i>Cash flow, net</i>	<i>Foreign exchange movement</i>	<i>Other*</i>	<i>31 December 2017</i>
Certificates of deposit	37	(8)	(2)	-	27
Borrowings	4,269	(1,462)	11	(670)	2,148
Total liabilities from financing activities	4,306	(1,470)	9	(670)	2,175

* Other relates to a loan from a major shareholder that was renewed at the time of maturity, as a deposit for two years maturing in June 2019.



**Group
Financial Review**

Group Financial Review

Statement of Profit or loss

The Group reported a net profit of US\$202 million in 2018, compared with a net profit of US\$193 million for 2017.

Net interest income was 1% higher than 2017 at US\$559 million (2017: US\$556 million), while non-interest income declined by 18% to US\$258 million (2017: US\$313 million) mostly due to the effect of foreign currency hedging transactions in Banco ABC Brasil (“BAB”), which have an offsetting tax charge impact. The Group benefited from continued improvement in operating performance, despite slowing global economic growth amid geopolitical strains.

Credit loss expense on financial assets for the year were US\$79 million, compared with the previous year’s US\$96 million. Banco ABC Brasil’s credit loss expense fell substantially as Brazil emerged from recession and its overall profitability remained strong. The Group’s net operating income was US\$738 million, against US\$773 million in 2017.

Operating expenses amounted to US\$474 million (2017: US\$462 million). Profit before taxation and income attributable to non-controlling interests was, therefore, US\$264 million, compared to US\$311 million in 2017. Taxation on operations outside Bahrain was US\$16 million (2017: US\$58 million), decrease arising from the tax treatment of currency hedges in a subsidiary. After income attributable to non-controlling interests of US\$46 million (2017: US\$60 million), the net profit for the year was US\$202 million (2017: US\$193 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\$14,884 million (2017: US\$15,329 million). Non-trading investments increased by US\$62 million to US\$5,661 million and money market placements declined by US\$179 million to US\$2,991 million. Liquid funds increased by US\$219 million to US\$1,607 million.

Deposits from customers decreased by US\$330 million to US\$16,425 million. Deposits from banks and repos totalled US\$5,478 million (2017: US\$5,036 million) while borrowings totalled US\$2,012 million (2017: US\$2,148 million).

Total assets of the Group at the end of the year stood at US\$29,549 million (2017: US\$29,499 million). Average assets for the year were US\$28,546 million (2017: US\$29,670 million) and average liabilities including non-controlling interests US\$24,711 million (2017: US\$25,785 million).

Credit commitments, contingent items and derivatives

The notional value of the Group’s consolidated off-balance sheet items stood at US\$33,758 million (2017: US\$29,655 million) comprising credit commitments and contingencies of US\$9,977 million (2017: US\$9,595 million) and derivatives of US\$23,781 million (2017: US\$20,060 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US\$3,856 million (2017: US\$3,484 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 2018 was US\$1,520 million (2017: US\$1,536 million).

No significant credit derivative trading activities were undertaken during the year.

Geographical and maturity distribution of the balance sheet

The Group's assets are well diversified across mainly the Arab world, the Americas and Western Europe. The Group's liabilities and equity are predominantly in the Arab world 64% (2017: 64%), followed by Latin America 21% (2017: 23%), mainly at the Brazilian subsidiary.

[%]	Financial assets		Liabilities & equity		Loans & advances	
	2018	2017	2018	2017	2018	2017
Arab world	42	40	64	64	49	46
Western Europe	11	11	8	7	10	11
Asia	6	7	2	1	3	3
North America	11	10	2	3	3	2
Latin America	26	28	21	23	28	29
Others	4	4	3	2	7	9
	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 end 2018, 59% (2017: 59%) had a maturity of one year or less. Loans and advances maturing within one year amounted to 60% (2017: 60%). The proportion of liabilities maturing within one year was 53% (2017: 51%).

[%]	Financial assets		Liabilities & equity	
	2018	2017	2018	2017
Within 1 month	24	24	22	23
1-3 months	14	11	10	7
3-6 months	9	9	9	6
6-12 months	12	15	12	15
Over 1 year	37	38	29	32
Undated	4	3	18	17
	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 2018 is given below:

(US\$ millions)	Funded exposure		Credit commitments & contingent items		Derivatives*	
	2018	2017	2018	2017	2018	2017
Customer type						
Banks	6,396	6,905	3,698	3,242	188	126
Non-banks	14,470	14,779	5,615	5,711	168	154
Sovereign	6,922	6,569	664	642	2	6
	27,788	28,253	9,977	9,595	358	286
Risk rating						
1 = Exceptional	2,994	1,606	932	573	-	-
2 = Excellent	2,916	2,858	355	101	52	40
3 = Superior	2,335	4,059	361	680	232	131
4 = Good	4,036	3,232	1,438	1,697	62	63
5 = Satisfactory	8,841	12,100	4,482	4,723	7	47
6 = Adequate	6,165	2,744	2,118	1,165	5	4
7 = Marginal	270	1,385	177	533	-	1
8 = Special Mention	41	87	86	90	-	-
9 = Substandard	181	155	26	32	-	-
10 = Doubtful	8	26	2	1	-	-
11 = Loss	1	1	-	-	-	-
	27,788	28,253	9,977	9,595	358	286

* 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 all past due interest 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 2018 was US\$617 million (2017: US\$554 million). ECL allowances including stage 3 provisions at the end of 2018 stood at US\$564 million (2017: US\$572 million).

The total of all impaired securities as at the end of 2018 was US\$102 million (2017: US\$119 million). ECL allowances including stage 3 provisions at the end of 2018 stood at US\$121 million (2017: US\$117 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	64	12	52
3 months to 1 year	138	62	76
1 to 3 years	186	138	48
Over 3 years	229	217	12
	617	429	188

Impaired securities

(US\$ millions)	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	102	102	-
	102	102	-

Group capital structure and capital adequacy ratios

The Group's capital base of US\$4,352 million comprises Tier 1 capital of US\$4,134 million (2017: US\$4,251 million) and Tier 2 capital of US\$218 million (2017: US\$253 million). The consolidated capital adequacy ratio as at 31 December 2018, calculated in accordance with the prevailing Basel III rules, was 18.2% (2017: 18.7%), well above the 12.5% minimum set by the Central Bank of Bahrain. The capital adequacy ratio comprised predominantly Tier 1 ratio of 17.2% (2017: 17.7%), 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 or future performance

The Group's primary financial goal is the delivery of consistently rising profitability for its shareholders through sustainable earnings and assets growth. Management is optimistic that the Group will be able to achieve this goal, despite continuing challenging economic conditions in MENA, based on its evaluation of the following factors, which may have an impact on performance.

Regional geopolitical conditions – Geopolitical uncertainty continues in some parts of the MENA region although the situation appears to be becoming more predictable. The Group's activities and assets are increasingly diversified across a range of developing and developed countries, which mitigates this political risk. To date, this uncertainty has had a relatively small impact on the overall Group. Further, the Group has in place rigorous, regularly tested, disaster recovery procedures to guard against challenges arising from political or other disruptions. The Group has no significant risk exposures outside the Arab world, the United States, Brazil and Europe.

Energy prices – Global hydrocarbon prices directly affect the economies of many countries in the Arab world, as well as those of OECD countries. As the Group's main activities are focused on trade flows between MENA and the rest of the world, lower hydrocarbon prices are a risk to profitability. In recent years, lower hydrocarbon prices have reduced the flow of revenues to producing countries, leading to cuts in government expenditure. This trend has tended to reduce demand for capital equipment, construction services and consumer goods. While remaining above the lows touched in 2016, hydrocarbon prices were volatile in 2018.

Stability of financial markets – Volatility returned to financial markets in 2018. A variety of factors spooked equity and bond markets, including: the escalating US/China trade war, antagonistic Brexit negotiations, quantitative tightening, rising interest rates and early signs of a synchronised global slowdown. Bank ABC remains conservatively positioned. It has a comfortable liquidity position and makes adequate provisions against securities considered to be impaired.

Foreign currency values – Where its subsidiaries are capitalised in currencies other than the US dollar, Bank ABC is exposed to fluctuations in the value of those currencies. The Group takes appropriate steps to hedge against those fluctuations when deemed practicable and desirable.

Volatility of currency markets – Foreign exchange volatility can affect the Group's foreign exchange trading revenues and the Group manages such risks within a robust and conservative framework of limits, monitoring and controls.

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

The background features several overlapping geometric shapes. A large, light gray triangle with fine diagonal lines points downwards from the top left. Below it, a darker gray triangle with similar diagonal lines points upwards from the bottom left. A solid dark gray triangle points downwards from the bottom right. The overall composition is modern and minimalist.

Market Making Arrangement

Market Making Arrangement

Agenda item 6. Bank ABC's proposed renewal of a designated Market Making Arrangement ("MMA") for a further term of up to three years, subject to the approval of the Capital Markets Supervisory Division ("CMSD") of the Central Bank of Bahrain.

Context

In 2018, a resolution was approved at the AGM to introduce a new MMA with Securities and Investment Company B.S.C. ("SICO"), a leading brokerage firm. After the approval of CMSD was secured, the MMA commenced operation on 20 June 2018.

The purpose of the MMA was to address longstanding issues of low volume and liquidity in ABC's share trading on the Bahrain Bourse, which meant that the intrinsic value of ABC was not reflected in its share price.

Shareholders are now requested to review the operation of the MMA and approve its renewal, subject to continuing approval by CMSD, for a further term of up to three years.

Review of implementation and performance of the MMA

Following last year's AGM, our application was more to CMSD for approval of the MMA and a period of discussion and review of the agreement followed. The CMSD finally approved the arrangement subject to a cap of 1% of ABC share ownership under the MMA and a requirement for further CMSD review after six months.

After the MMA commenced on 20 June 2018, these conditions have been met and the CMSD extended their approval in November 2018 for a further six months period.

In terms of performance of the MMA, it is considered that the original objectives have been broadly met as follows:

- The MMA has provided a two-way market allowing minority shareholders to freely trade and enter or exit ABC shares with certainty that there will be market depth and liquidity.
- Since announcement of the intention for a MMA in February 2018, ABC's share price has risen from \$0.28 to \$0.44 (as at 31 January 2019), a rise of 50% with over 30% of that gain following announcement of the MMA on 20 June 2018.
- The volume of ABC's share traded in the 12 months period to 31 December 2018 has increased to 54.2m (+53%) from 35.5m in similar period 2017.

Recommendation

The Board is therefore requested to propose to the upcoming AGM, the approval of the following resolutions:

- To extend approval of the resolution allowing Bank ABC's to repurchase of its own-shares not exceeding 3% of the total and reselling them, via a designated market maker for a further term of up to three years, subject to the continuing approval of the CMSD of Central Bank of Bahrain.
- That Bank ABC's Board of Directors, or its delegate, be authorized to take all necessary steps to implement the resolution.



Corporate Governance

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 2018 (31 December 2017: 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 2018:

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 2018 and 31 December 2017.

% of shares held	2018			2017		
	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	1,312	4.1	128,344,432	1,332	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	1,317	100.0	3,110,000,000	1,337	100.0

Bank ABC's Corporate Governance Charter

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

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

Recent Corporate Governance Changes

In March 2018, the Board Strategy Committee, an ad-hoc committee, was reconstituted with an updated charter. The Board Strategy Committee is responsible for reviewing and overseeing the implementation of the strategy for Bank ABC and the Bank ABC Group.

The Group Audit Committee Charter was amended in December 2018 to clarify the reporting responsibilities of the Group Audit Committee and the role of the Group Audit Committee in overseeing the function of the

Group Asset Quality Review department. The Group Audit Committee is responsible to the Board for the integrity and effectiveness of the Group's system of financial and accounting controls and practices.

Compliance with CBB Corporate Governance Requirements and the Code

Bank ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2018, 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.

The CBB Corporate Governance Requirements and the Code provide guidance that a corporate secretary should, where practical, hold a legal or equivalent qualification. The Board Secretary does not possess a legal or equivalent qualification.

Board of Directors

Responsibilities of the Board

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

- a) those responsibilities assigned to the Board by the Articles of Association of Bank ABC
- b) establishing Bank ABC's objectives
- c) Bank ABC's overall business performance
- d) monitoring management performance
- e) the adoption and annual review of strategy
- f) monitoring the implementation of strategy by management
- g) causing financial statements to be prepared which accurately disclose Bank ABC's financial position
- h) convening and preparing the agenda for shareholder meetings
- i) monitoring conflicts of interest and preventing abusive related-party transactions
- j) assuring equitable treatment of shareholders, including minority shareholders
- k) the adoption and review of management structure and responsibilities
- l) the adoption and review of the systems and controls framework
- m) overseeing the design and operation of the remuneration systems of the Bank ABC Group and ensuring that such systems are not primarily controlled by the executive management of the Bank ABC Group.

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

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

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

Appointment of Directors

The shareholders appoint the Board for a term of three years, with the current term of the Board commencing on 20th March 2016 and terminating in March 2019. At the 2018 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 Nominations and Compensation Committee (see the description of role of the Nominations and Compensation 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 appendix 1.

Assessment of the Board

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

- a) assessing how the Board operates
- b) evaluating the performance of each Board committee in light of its specific purposes and responsibilities, which shall include reviews of the self-evaluations undertaken by each Board committee
- c) reviewing each Director's work, his attendance at Board and Board committee meetings, and his constructive involvement in discussions and decision making
- d) reviewing the Board's current composition against its desired composition in order to maintain an appropriate balance of skills and experience, and to ensure planned and progressive refreshing of the Board
- e) recommendations for new Directors to replace long-standing Directors, or those Directors whose contribution to Bank ABC or its Board committees (such as the Group Audit Committee) is not adequate.

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ended on 31 December 2018.

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 2018. The CBB Corporate Governance Requirements require that at least a third of Bank ABC's Board of Directors is independent and also require that certain Board committees (including the Group Audit Committee and the Nominations and Compensation 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 2018.

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

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

Compensation & interests of Directors

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

- a) attendance fees payable to members attending different Board and Board committee meetings
- b) monthly retainer
- c) allowance to cover travelling, accommodation and subsistence while attending Board and Board committee meetings.

The remuneration structure for the Board of Directors is designed to reinforce its independence. In line with good corporate practice, this means that the Directors are paid a fee which is based on their role and time commitment only. Directors do not receive variable pay (annual or longer-term) or significant benefits. The remuneration of Directors is neither determined nor based on the performance of Bank ABC or the Bank ABC Group. The aggregate remuneration paid to Board members in 2018 amounted to US\$1,846,138 (2017: US\$1,960,668), which was divided between the three elements as follows:

Board remuneration 2018 (US\$)

Monthly Retainer Fee	1,173,750
Attendance Allowance	114,000
Travel Allowance (Per Diem & Airfare)	558,388
Total	1,846,138

The aggregate remuneration paid to the members of the Nominations and Compensation Committee with respect to their membership of such committee for the year 2018 was US\$20,000, which sum is included in the monthly retainer fee (2017: US\$24,167).

No Director owned or traded Bank ABC shares in 2018.

Board Committees

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

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

- The **Board Risk Committee**, which is responsible for the review and approval of the Group's Credit and Risk Policies. The Committee reviews and makes recommendations to the Board regarding the annual risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, while ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy. The Board Risk Committee meets not less than three times a year.
- The **Corporate Governance Committee**, which assists the Board in shaping and monitoring the Group's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluating the Group's compliance with them. The Corporate Governance Committee meets not less than once a year.
- The **Group Audit Committee**, which is responsible to the Board for the integrity and effectiveness of the Group's system of financial and internal controls. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the appointment of the Group Chief Internal Auditor. The Group Audit Committee meets not less than four times a year.
- The **Nominations and Compensation 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 Nominations and Compensation Committee meets not less than twice per year.

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

As at 31 December 2018, 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. Ahmed Ferjani	Member	Non-Independent
	Dr. Anwar Al Mudhaf	Member	Independent
	Dr. Yousef Al Awadi	Member	Independent
The Corporate Governance Committee	Mr. Abdallah Al Humaidhi	Chairman	Non-Independent
	Dr. Farouk El Okdah	Member	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
The Nomination and Compensation Committee	Dr. Anwar Al Mudhaf	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Non-Independent
	Mr. Bashir Omer	Member	Independent

Attendance of Directors

The details of Directors' 2018 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 Nominations & Compensation Committee
Mr. Saddek Omar El Kaber Chairman	6(6)	N/A	N/A	N/A	N/A
Mr. Hilal Al Mutairi Deputy Chairman	5(6)	N/A	N/A	N/A	N/A
Mr. Abdullah Al Humaidhi Director	6(6)	N/A	4(4)	N/A	1(2)
Mr. Ahmed Ferjani Director	5(6)	4(5)	N/A	N/A	N/A
Dr. Anwar Al Mudhaf Director	6(6)	4(5)	N/A	4(5)	2(2)
Mr. Bashir Omer Director	6(6)	5(5)	N/A	5(5)	2(2)
Dr. Farouk El Okdah Director	6(6)	N/A	4(4)	N/A	N/A
Dr. Tarik Yousef Director	6(6)	N/A	N/A	5(5)	N/A
Dr. Yousef Al Awadi Director	6(6)	5(5)	4(4)	5(5)	N/A

Figures in brackets indicate the maximum number of meetings during the period of membership. "N/A" indicates that a Director was not a member of the relevant Board committee during 2018.

Meeting dates during 2018:

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 Nominations and Compensation Committee meets no less than twice a year, the Board Risk Committee meets no less than three times a year, and the Corporate Governance Committee meet no less than once a year.

The Board Strategy Committee meets as required to be effective. In 2018, a meeting of the Board Strategy Committee was held on 23 June 2018 and attended by all members of the Board Strategy Committee.

The details of the dates of the Board and Board committee meetings in 2018 are set out below:

	Dates of Meetings
Board	11 February 2018 25 March 2018 14 May 2018 16 July 2018 3 & 4 November 2018 20 December 2018
The Board Risk Committee	24 March 2018 12 May 2018 15 July 2018 24 October 2018 19 December 2018
The Corporate Governance Committee	11 February 2018 25 March 2018 16 July 2018 20 December 2018
The Group Audit Committee	25 January 2018 26 April 2018 4 July 2018 24 October 2018 5 December 2018
The Nominations and Compensation Committee	11 February 2018 19 December 2018

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 Nominations and Compensation 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 2018.

The management organisation chart is included in appendix 2.

Compliance

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

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

The Bank's automated payment screening tool provides for effective real-time sanctions screening on all inbound and outbound payments executed across the Bank's network. A review of the screening tool was undertaken by an independent consulting firm at the end of 2017 and the findings implemented in 2018.

All Group Units also use the Bank's automated systems for anti-money laundering transactions monitoring and client static data screening. Alerts generated by these systems are analysed and, where appropriate, suspicious activity reports are filed with relevant authorities.

A new centralised compliance model is in the process of being launched. The model takes advantage of the specialized skillsets and resources available at Head Office. As part of the model a Group transaction monitoring unit (TMU) has been established for the management of the Bank's payment screening alerts.

The TMU is responsible for the investigation and disposition of payment screening alerts and, where needed, will escalate alerts to unit MLROs for review and resolution.

Additionally the model has successfully introduced delivery of centralized testing services related to upgrades of both payment screening and client screening systems. Delivery of intra-group services under the centralised compliance model already benefit the UK, France, Germany, Italy, Bahrain, Egypt, Tunisia and Singapore. Deployment of the centralised model to other units will continue during next year.

The Bank also continues to invest in its group-wide training program by collaborating with external vendors to offer e-learning training to new joiners and refresher courses to all staff in areas critical for risk management such as financial crime and sanctions compliance. The Bank also invests in roles-based training, delivered through classroom based sessions and via WebEx, to compliance officers, MLRO teams, TMU personnel and relevant first line staff.

The Group Compliance Oversight Committee (GCOC) which reports to the Group Audit Committee continues to oversee the compliance function across the Group. The GCOC is supported by Compliance and Financial Crime Committees (CFCCs) established at the unit level. Standard Compliance and Financial Crime management information and issue tracking are part of the CFCCs and GCOC's periodic agendas.

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

External Auditors

1. In 2018, the Bank ABC Group paid its external auditors US\$1,770,000 in audit fees on a global basis.
2. Non-audit services were specifically pre-approved by the Audit Committee and provided by the external auditors including, but not limited to, anti money laundering reviews, prudential information reports reviews, quarterly reviews and tax related services amount to US\$1,550,000 on a global basis.
3. Ernst & Young have expressed their willingness to continue as the auditors of the Group for the year ending 31 December 2019. Bank ABC's management, based on evaluation of services provided by its external auditors, has recommended the appointment of Ernst & Young and a resolution proposing their reappointment will be presented at the annual general meeting to be held in March 2019.

Policy on the Employment of Relatives and Approved Persons

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

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

Remuneration Policies of Bank ABC in Compliance with the Requirements of the CBB

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

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

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

- i. Ensuring the risk framework is extensive and captured in decisions around variable pay, including confirming risk-adjustments to any bonus pool.
- ii. Separating control functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee.
- iii. Introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons.
- iv. Introducing deferral arrangements that defer the appropriate amount of variable remuneration for the Group Chief Executive Officer (GCEO), deputies, top five most highly-paid business line employees, material risk takers and approved persons.
- v. Introducing clawback and malus policies that apply to variable remuneration.

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

The Nominations & Compensation Committee (NCC) 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 NCC, 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 NCC, 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 NCC.

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.

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 NCC.
- The NCC oversees remuneration practices across the Bank.

Delivery

- The NCC oversees the design and delivery of variable pay across the Bank.
- The NCC 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 NCC 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 NCC before it determines the bonus pool and Group performance.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track global compliance with Group remuneration policy.

Principle 5 | Clear and simple*Approach*

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

Delivery

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

Principle 6 | Competitive, sustainable and affordable*Approach*

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

Delivery

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

Application of pay principles

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

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

- **Approved persons in business lines:** For the GCEO and the five most highly-paid business line employees, variable pay in 2018 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Approved persons in control functions:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other material risk takers:** The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- **Other staff of Bahrain operations:** The variable pay was paid fully in cash up front.

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

Appendix 1:

Board of Directors

Biographies

Board of Directors Biographies

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. Hilal Mishari Al Mutairi

Deputy Chairman

‡ >|<

BSc in Economics, Alexandria University, Egypt.

Former Member of the Board of Directors and Executive Committee of Kuwait Investment Authority (1997-2017) and former Director of ABC International Bank plc, U.K. Past key positions include First Vice Chairman, Kuwait Chamber of Commerce & Industry; Minister of Trade and Industry of Kuwait; Chairman of Kuwait Investment Company and Chairman of Kuwait Clearing Company. He has been a Director of Arab Banking Corporation (B.S.C.) since 2001 and has more than 35 years of commercial and financial industry experience.

Mr. Abdallah Saud Al Humaidhi

Director

GC NC ‡ >|<

MS, American University of Beirut.

Vice Chairman and Chief Executive Officer, Commercial Facilities Company, Kuwait; Vice Chairman of the Public Institution For Social Security and Chairman of the Investment Committee; a Director of the Board of First National Bank S.A.L., Lebanon. Mr. Al Humaidhi is also a Member of the Board and honorary Treasurer of the Kuwait Chamber of Commerce & Industry and the Deputy Chairman of ABC International Bank plc, UK and a Member of the Board of Directors of Investcorp. Previously he served as Member of the Board and the Executive Committee of Kuwait Investment Authority. He has been a Director of Arab Banking Corporation B.S.C. since 2001 and has more than 30 years of experience in the banking and investment sectors.

Dr. Anwar Ali Al Mudhaf

Director

AC NC RC ‡ §

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

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

Company; and a Director of Al Ahli Bank in Kuwait; and Member of the Board of Directors of the Public Authority for Applied Education. Dr. Al Mudhaf joined Arab Banking Corporation in 1999 and has more than 21 years of experience in banking and finance.

Dr. Yousef Abdullah Al Awadi KBE

Director

AC GC RC ‡ §

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

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

Dr. Tarik Yousef

Director

AC ‡ >|<

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 NC ‡ §

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. Ahmed Ferjani

Director

RC ‡ >|<

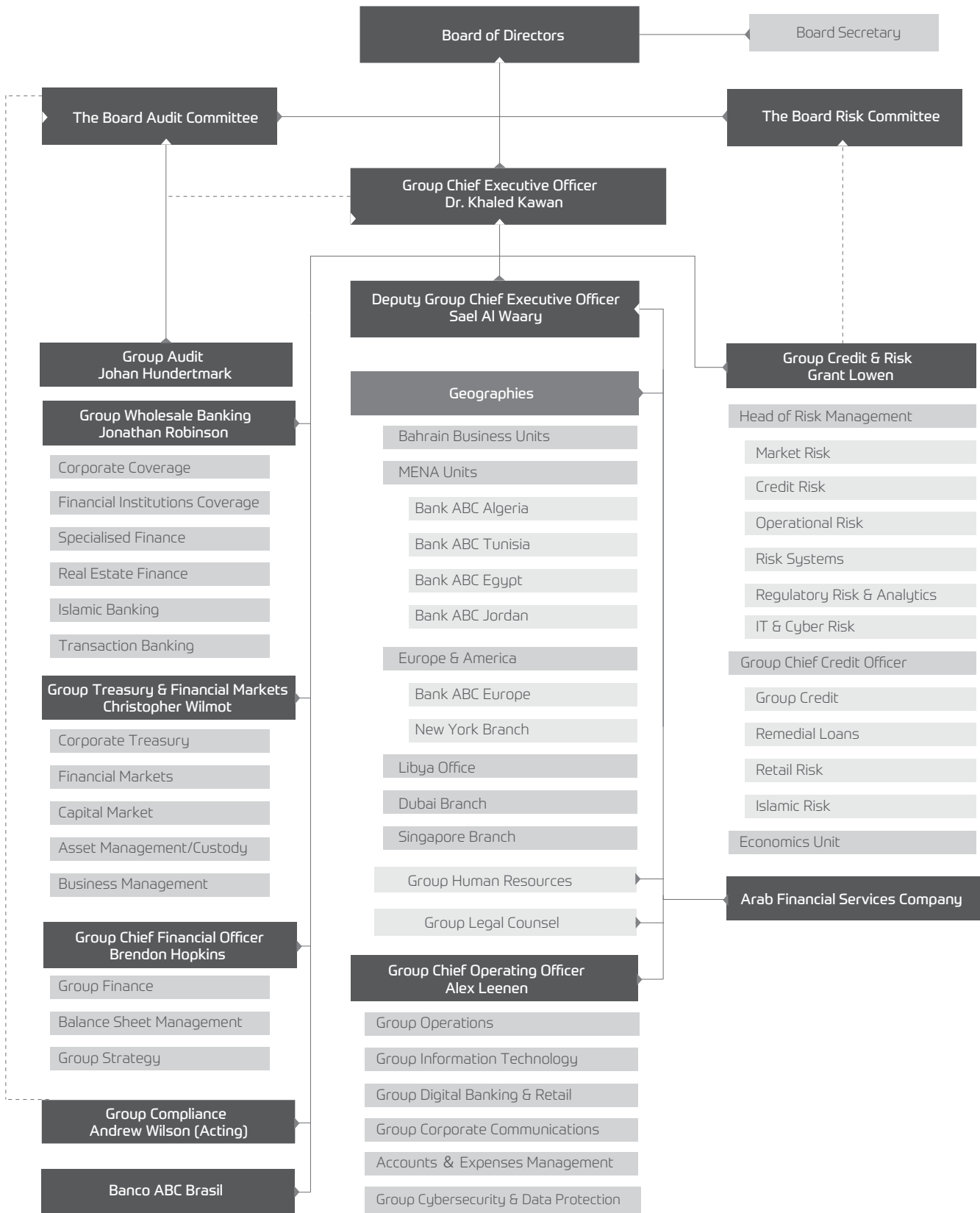
BSc in Accounting, Faculty of Accounting, Western Mountain University, Libya, 1988.

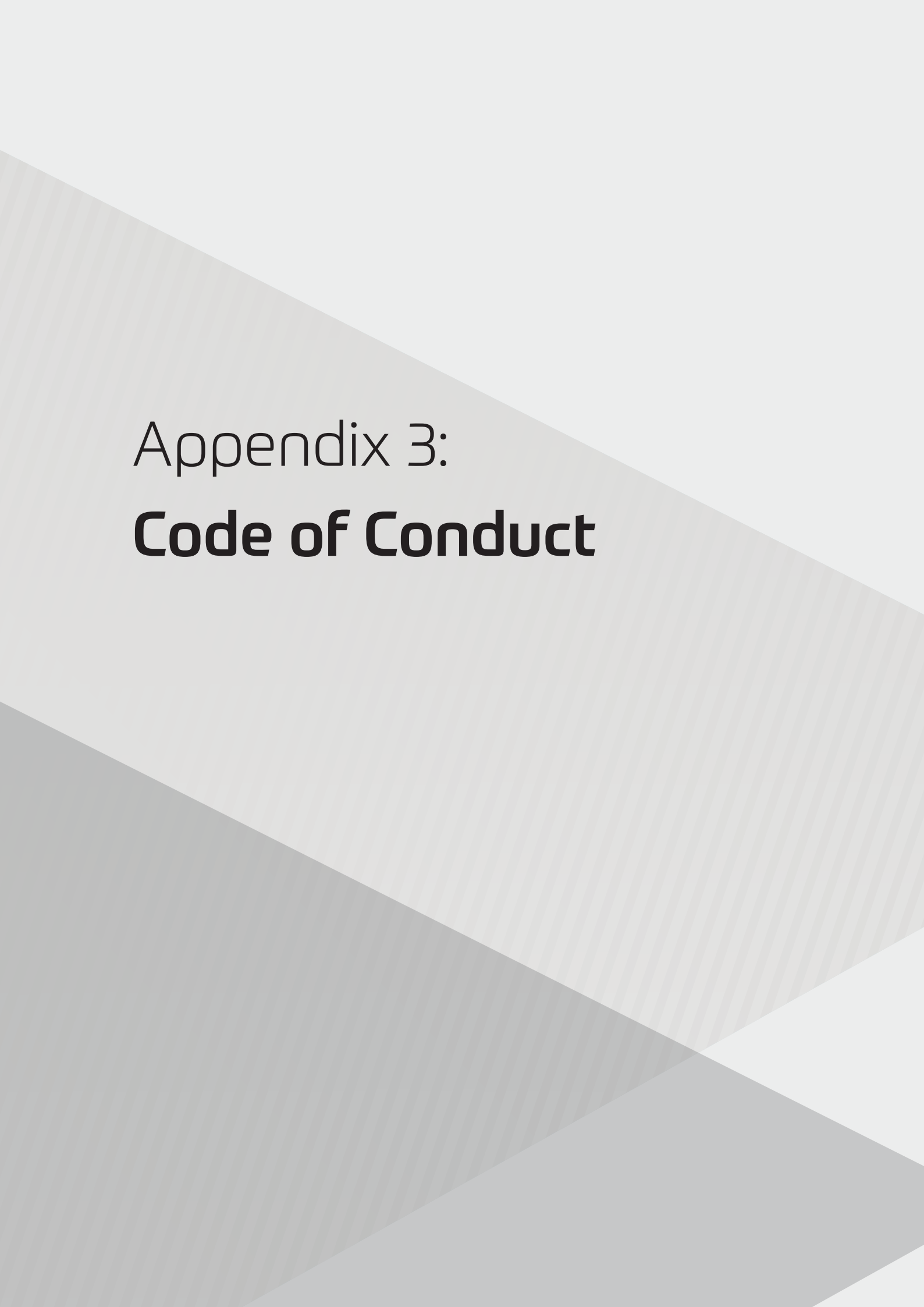
Director of the Risk Department at the Central Bank of Libya (CBL) since 2015. He has held a number of positions at the CBL, including Deputy Director of Financial Markets between 2013-2015, Assistant Director for Risk Management Affairs at the Reserves Department from 2009-2013, Assistant Director for Treasury Affairs, Reserves Department, from 2006-2009, and Chief Dealer in the Accounting and Investment Department from 2002-2006. Mr. Ferjani started his career in the Accounting and Investment Department at the CBL in 1994, working as an accountant and then as a dealer. He joined the Board of Arab Banking Corporation (B.S.C.) in 2016 and has more than 20 years of banking experience.

- AC** Member of the Audit Committee
- GC** Member of the Corporate Governance Committee
- NC** Member of the Nominations & Compensation Committee
- RC** Member of the Risk Committee
- ‡** Non-Executive
- §** Independent
- >|<** Non-independent

Appendix 2:
**Management
Organisation Chart**

Bank ABC Group Organisational Chart





Appendix 3:
Code of Conduct

Bank ABC 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 behavior that are expected across the Group from all our staff, directors, senior management and contract and temporary workers.

This Code is supported by relevant policies and procedures that you are also expected to read and understand. It should also be read in conjunction with the Human Resources Policies and your employment contract.

Where local laws or regulations set stricter requirements than those detailed in this Code, they must be followed.

If you have any questions about the Code, seek advice from your line manager or local Head of Compliance.

1.2. Our Values

You should display behaviors that reflect our Values in your day to day activities performed on behalf of the Bank. Our Values are:

Client Centric

We are committed to knowing our clients and developing long-term relationships with them, making sure we provide them with superb services.

- Focused on building client relationships at every level
- Responding quickly to our clients, recognizing the importance of speed in today's world
- Maintaining continuous and open dialogue to identify client needs
- Identifying and delivering insights and tailored solutions

Collaborative

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

- Harnessing our international network footprint
- Focused on a cohesive team working across boundaries
- Putting our client's needs for cross-border service before our individual targets
- Finding new ways to conduct our business and streamline operations

Consistent

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

- Services are delivered to a high operational standard
- Reputation placed before short-term revenues
- Relentless focus on compliance with regulations and ensuring a sustainable business
- We consistently deliver on our promises to clients and to colleagues

1.3. Your Responsibilities

We rely on your personal integrity to protect our reputation..

Your responsibility under this Code is 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 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 related to the Code 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:

- Lead by example
- Promote equal opportunity and not favor or victimize any colleagues
- Help staff with ethical queries or direct them to someone who can help
- Encourage staff to report misconduct
- Protect staff 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 Policy.

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 procedures, 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, you should immediately consult your line manager and 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 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 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

We recognize that our staff 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.

2.1. 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.

2.2. 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 behavior that violates this policy. We take all reports seriously.

2.3. 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 normal working hours is prohibited.

Showing signs of intoxication or consumption of illegal drugs may result in disciplinary action including termination of employment.

2.4. 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 our Fire, Health and Safety Policy
- Ensure you understand the risks present in the daily work environment and take all reasonable precautions to prevent workplace accidents and injuries
- Immediately report any unsafe work conditions, serious accidents or 'near misses' to your line manager
- Know what to do in the event of an emergency
- Complete Health and Safety training as assigned by the Bank
- Participate in building evacuation exercises

3. OUR CLIENTS AND THE MARKETPLACE

3.1. 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 the 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

3.2. 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

3.3. 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 only use the information obtained through employment with us to perform your duties of the Bank. You should not use confidential information obtained while employed with previous employers.

3.4. 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 Outsourcing or Procurement Standard and Procedures when dealing with suppliers and contractors.

3.5. 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.

3.6. Public Communication

Only designated spokespersons are permitted to issue statements on behalf of the Bank. Refer to the Media Policy for more guidance.

3.7. Political Neutrality

We are politically neutral. If you wish to participate in political activity 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 all applicable laws, regulations and international standards. This includes the financial crime regulations issued by the Central Bank of Bahrain and local regulators of jurisdictions in which we operate. We also adhere to the recommendations of the Financial Action Task Force (FATF).

Financial crime includes:

- Money laundering
- Terrorist financing
- Breach of Sanctions
- Fraud
- Bribery and Corruption

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 Banks Policies and Standards
- 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 MLRO

4.3. Bribery and Corruption

We take a zero-tolerance approach to bribery and corruption. This includes giving or receiving inappropriate gifts, entertainment, facilitation payments or anything else of value to obtain 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. Expenses

You are responsible for the accurate and timely reporting of expenses. All expenditures must be business related and approved in accordance with the Bank's expense policies. Further, you must not use your business credit card for any purpose other than appropriate business expenses.

4.5. Charities and Non-Profit Organisations

When getting involved with a charity or non-profit organisation, remember to:

- Make sure it does not interfere with your responsibilities at the Bank
- Not solicit clients, suppliers or other employees for contributions or other participation

At times we may be asked by clients or suppliers to make a contribution to a charity or non-profit organisation. All contributions must be pre-approved by the Head of Compliance to ensure they do not contravene any local laws or policies governing these activities. For example, a contribution that would benefit a government official could breach our Anti-Bribery and Corruption Standard.

5. PROTECTING OUR ASSETS

5.1. Introduction

You are responsible for safeguarding our 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
- Records and data (including backup media) whether stored electronically or in paper form
- Cash and securities
- Loans and other claims on clients and third parties
- Intellectual property
- Client relationships

5.2. Data Protection

You must comply with Data Protection laws where applicable. The following key principles are provided as guidance.

Personal information that we hold must be:

- Collected and used fairly and lawfully
- Accurate, relevant and up to date
- Held secure and stored as required in relevant legislations, regulations and, if applicable, contractual clauses
- Only disclosed to those authorised to receive it
- Not kept longer than is necessary

Respect individual's rights in respect to their personal information:

- Provide a copy of their information on request, within a reasonable time frame and in accordance with any local applicable laws and regulations
- Provide details of where the information is sourced and how we use it
- Ensure inaccurate data is corrected or deleted

5.3. Information Security

Information and information systems are vital to our business and operations. Incidents involving the loss of confidentiality, integrity or availability of information can be costly and damaging to our reputation.

We may monitor, review and disclose data that you create, store, send or receive on our systems. 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:

- Send confidential information outside our network without using an approved encryption or security program
- Send confidential information to your personal email account
- 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 password with anyone or have possession of anyone else's 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 mobile devices
- Disclose or discuss sensitive matters or proprietary or confidential information in public places, including the Internet (e.g. public email, social media, etc.).

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 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 or someone with whom you have an intimate relationship
- 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, 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 such as for lunch)

7. RELATIONS WITH REGULATORS AND AUDITORS

It is our aim to achieve excellence in compliance when meeting all relevant regulatory obligations. Maintaining a strong and positive relationship with the regulators and other government organisations is essential for ensuring the continued success of our business.

You must be completely open, candid, co-operative and prompt with regulators and external and internal auditors, keeping them fully informed about matters which should reasonably be disclosed to them.

You must:

- Refer all enquiries received from regulators to your Head of Compliance
- Do not contact the regulators unless authorised to do so by your Head of Compliance

8. RAISING CONCERNS

We are committed to integrity, honesty and transparency in everything we do.

You are often the first person to realise that your co-workers are participating in activities that are inappropriate or contrary to our standards and policies.

We strongly encourage you to report all suspected criminal or unethical conduct. We treat all reports confidentially, consistently, fairly and in a timely manner. As long as you make the report in good faith you will be protected from suffering any detriment, loss of employment or victimization.

You can raise your concerns through the Bank's hotline, email address or mailing address as mentioned in the Employee Whistleblowing Policy:

Hotline: +973 1754 3277

Email: gco-wb@bank-abc.com

Mail: Group Compliance Officer, 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

