Arab Banking Corporation (B.S.C.)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2021 (REVIEWED)

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF ARAB BANKING CORPORATION (B.S.C.)

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Arab Banking Corporation (B.S.C.) [the "Bank"] and its subsidiaries [together the "Group"] as at 31 March 2021, comprising of the interim consolidated statement of financial position as at 31 March 2021 and the related interim consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the three-month period then ended and explanatory notes. The Bank's Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34), as modified by the Central Bank of Bahrain [the "CBB"]. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as modified by the CBB.

Other matters

Due to the outbreak of the novel coronavirus (COVID-19) in early 2020, the CBB vide its circular OG/124/2020 dated 30 March 2020 had exempted all public shareholding companies and locally incorporated banks from preparation and publication of interim condensed financial statements for the three-month period ended 31 March 2020. Accordingly, we have not reviewed the comparative information for the three-month period ended 31 March 2020 presented in these interim condensed consolidated financial information which have been extracted from management accounts and, we do not express any review conclusion on them.

Ernst + Young

12 May 2021
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2021 (Reviewed)

All figures in US$ Million

	Notes	***Reviewed 31 March 2021***	*Audited 31 December 2020*
ASSETS			
Liquid funds		**1,787**	1,752
Trading securities		**538**	171
Placements with banks and other financial institutions		**2,095**	1,803
Securities bought under repurchase agreements		**1,223**	1,823
Non-trading investments	4	**6,940**	6,696
Loans and advances	5	**15,198**	15,656
Other assets		**2,217**	2,305
Premises and equipment		**210**	201
TOTAL ASSETS		**30,208**	30,407
LIABILITIES			
Deposits from customers		**17,271**	17,173
Deposits from banks		**3,828**	3,596
Certificates of deposit		**548**	494
Securities sold under repurchase agreements		**1,025**	1,151
Taxation		**112**	80
Other liabilities		**1,720**	1,974
Borrowings		**1,602**	1,795
Total liabilities		**26,106**	26,263
EQUITY			
Share capital		**3,110**	3,110
Treasury shares		**(6)**	(6)
Statutory reserve		**520**	520
Retained earnings		**997**	965
Other reserves		**(868)**	(822)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,753**	3,767
Non-controlling interests		**349**	377
Total equity		**4,102**	4,144
TOTAL LIABILITIES AND EQUITY		**30,208**	30,407

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 12th May 2021 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.

Saddek El Kaber	Mohammad Abdulredha Saleem	Khaled Kawan
Chairman	Deputy Chairman	Group Chief Executive Officer

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Three-month period ended 31 March 2021 (Reviewed)

All figures in US$ Million

	Notes	*Three months ended 31 March* **2021 Reviewed**	*2020 Unreviewed*
OPERATING INCOME			
Interest and similar income		**269**	394
Interest and similar expense		**(147)**	(257)
Net interest income		**122**	137
Other operating income (expense)	6	**60**	(35)
Total operating income		**182**	102
OPERATING EXPENSES			
Staff		**78**	87
Premises and equipment		**10**	10
Other		**37**	36
Total operating expenses		**125**	133
NET OPERATING PROFIT (LOSS) BEFORE CREDIT LOSS EXPENSE AND TAXATION		**57**	(31)
Credit loss expense	7	**(20)**	(120)
PROFIT (LOSS) BEFORE TAXATION		**37**	(151)
Taxation (charge) reversal on foreign operations		**(1)**	98
PROFIT (LOSS) FOR THE PERIOD		**36**	(53)
Profit attributable to non-controlling interests		**(6)**	(9)
PROFIT (LOSS) ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**30**	(62)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (EXPRESSED IN US$)		**0.01**	(0.02)

Saddek El Kaber Chairman	Mohammad Abdulredha Saleem Deputy Chairman	Khaled Kawan Group Chief Executive Officer

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three-month period ended 31 March 2021 (Reviewed)

All figures in US$ Million

	Three months ended 31 March	
	2021	*2020*
	Reviewed	*Unreviewed*
PROFIT (LOSS) FOR THE PERIOD	**36**	(53)
Other comprehensive (loss) income :		
Other comprehensive (loss) income that will be reclassified (or recycled) to profit or loss in subsequent periods:		
Foreign currency translation:		
Unrealised loss on exchange translation in foreign subsidiaries	**(77)**	(226)
Debt instruments at FVOCI:		
Net change in fair value during the period	**6**	(331)
Other comprehensive loss for the period	**(71)**	(557)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(35)**	(610)
Attributable to:		
Shareholders of the parent	**(16)**	(534)
Non-controlling interests	**(19)**	(76)
	(35)	(610)

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The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Three-month period ended 31 March 2021 (Reviewed)

All figures in US$ million

	Three months ended 31 March	
	2021	*2020*
	Reviewed	*Unreviewed*
OPERATING ACTIVITIES		
Profit (loss) for the period	**36**	(53)
Adjustments for:		
Credit loss expense	**20**	120
Depreciation and amortisation	**12**	10
Gain on disposal of non-trading debt investments - net	**(14)**	(11)
Changes in operating assets and liabilities:		
Treasury bills and other eligible bills	**-**	10
Trading securities	**(423)**	(335)
Placements with banks and other financial institutions	**(515)**	247
Securities bought under repurchase agreements	**227**	(174)
Loans and advances	**(1,701)**	(902)
Other assets	**(208)**	(1,444)
Deposits from customers	**1,983**	671
Deposits from banks	**903**	495
Securities sold under repurchase agreements	**(113)**	509
Other liabilities	**54**	1,185
Other non-cash movements	**54**	(128)
Net cash from operating activities	**315**	200
INVESTING ACTIVITIES		
Purchase of non-trading investments	**(1,455)**	(1,971)
Sale and redemption of non-trading investments	**1,196**	2,154
Purchase of premises and equipment	**(19)**	(12)
Sale of premises and equipment	**(1)**	(1)
Investment in subsidiaries - net	**17**	15
Net cash (used in) from investing activities	**(262)**	185
FINANCING ACTIVITIES		
Issue (repayment) of certificates of deposit - net	**55**	(108)
Issue of borrowings	**-**	5
Repayment of borrowings	**(92)**	(26)
Repurchase of borrowings	**-**	(25)
Dividend paid to non-controlling interests	**(3)**	(4)
Sale of treasury shares - net	**-**	1
Net cash used in financing activities	**(40)**	(157)
Net change in cash and cash equivalents	**13**	228
Effect of exchange rate changes on cash and cash equivalents	**22**	(43)
Cash and cash equivalents at beginning of the period	**1,752**	1,657
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD*	**1,787**	1,842

*Cash and cash equivalents comprises of liquid funds excluding treasury and other eligible bills with original maturities of more than three months amounting to US$ nil (31 March 2020: US$ 207 million).

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three-month period ended 31 March 2021 (Reviewed)

All figures in US$ Million

	Equity attributable to the shareholders of the parent									*Non-controlling interests*	*Total equity*
					Other reserves						
	Share capital	*Treasury shares*	*Statutory reserve*	*Retained earnings**	*General reserve*	*Foreign exchange translation adjustments*	*Cumulative changes in fair value*	*Pension fund reserve*	*Total*		
At 31 December 2020	3,110	(6)	520	965	100	(902)	20	(40)	3,767	377	4,144
Profit for the period	-	-	-	30	-	-	-	-	30	6	36
Other comprehensive (loss) income for the period	-	-	-	-	-	(52)	6	-	(46)	(25)	(71)
Total comprehensive income (loss) for the period	-	-	-	30	-	(52)	6	-	(16)	(19)	(35)
Other equity movements in subsidiaries	-	-	-	2	-	-	-	-	2	(9)	(7)
At 31 March 2021 (reviewed)	**3,110**	**(6)**	**520**	**997**	**100**	**(954)**	**26**	**(40)**	**3,753**	**349**	**4,102**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 483 million (31 December 2020: US$ 482 million).

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Three-month period ended 31 March 2021 (Reviewed)

All figures in US$ Million

	Equity attributable to the shareholders of the parent									*Non-controlling interests*	*Total equity*
					Other reserves						
	Share capital	*Treasury shares*	*Statutory reserve*	*Retained earnings*	*General reserve*	*Foreign exchange translation adjustments*	*Cumulative changes in fair value*	*Pension fund reserve*	*Total*		
At 31 December 2019	3,110	(6)	520	1,051	100	(754)	42	(32)	4,031	458	4,489
(Loss) profit for the period	-	-	-	(62)	-	-	-	-	(62)	9	(53)
Other comprehensive loss for the period	-	-	-	-	-	(141)	(331)	-	(472)	(85)	(557)
Total comprehensive loss for the period	-	-	-	(62)	-	(141)	(331)	-	(534)	(76)	(610)
Purchase of treasury shares - net	-	1	-	-	-	-	-	-	1	-	1
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	-	(12)	(12)
At 31 March 2020 (unreviewed)	3,110	(5)	520	989	100	(895)	(289)	(32)	3,498	370	3,868

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

All figures in US$ million

1 INCORPORATION AND ACTIVITIES

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

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

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

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (“CBB”) including the CBB circular on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, require the adoption of all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (IFRS), except for:

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

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

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

The interim condensed financial statements of the Group has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – ‘Interim Financial Reporting’, using the IFRS as modified by CBB framework. Hence, the framework used in the preparation of the interim condensed consolidated financial statements of the Group is hereinafter referred to as ‘IAS 34 as modified by CBB’.

These interim condensed consolidated financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020. In addition, results for the three-month period ended 31 March 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

2.2 Comparative information

During 2020 as a result of COVID-19, the CBB issued various circulars on regulatory concessionary measures including circular OG/124/2020 dated 30 March 2020, in which the CBB exempted all public shareholding companies and locally incorporated banks from preparation and publication of interim condensed financial statements for the three-month period ended 31 March 2020. Accordingly, the Group did not publish reviewed interim condensed consolidated financial statements for the period ended 31 March 2020 and therefore the comparative information for the three month period ended 31 March 2020 included in these interim condensed consolidated financial statements have been extracted from management accounts for the period ended 31 March 2020 on which neither an audit opinion nor a review conclusion was issued.

All figures in US$ million

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

These interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries after elimination of inter-company transactions and balances.

2.4 Directives issued by the CBB and Government assistance

The Group had provided payment holidays to certain customers on the basis of regulatory directives issued by the CBB as concessionary measures to mitigate the impact of COVID-19 and requests received. As of 31 March 2021, the outstanding balance of customers to whom such payment holidays have been provided amounted to US$ 555 million (year ended 31 December 2020: US$ 894 million). However, this did not result in any modification loss.

Further, the Group did not receive any financial assistance and had no modification loss from the Government during current and prior period.

2.5 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for adoption of new standards or certain amendments to existing standards that have become applicable to the Group effective from 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Group except for those disclosed below.

2.5.1 ***Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

On August 27, 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the amendments). The amendments introduce various practical expedients with respect to changes arising due to interest rate benchmark reform (IBOR reform) as explained below:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the IBOR reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. In such a case, the Group does not derecognise or adjust the carrying amount of financial instruments for modifications required by IBOR reform but instead updates the effective interest rate to reflect the change in the interest rate benchmark. After that, the Group applies the policies on accounting for modifications set out in Note 4 of the Group’s consolidated financial statements for the year 2020 to the remaining modifications.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. This is applied in cases where the basis for determining the contractual cash flows of existing hedge relationship changes as a result of IBOR reform, the Group may amend the hedge documentation without discontinuing the hedging relationship.
- Provide temporary relief when determining the hedged risk, the Group may designate an alternative benchmark rate risk component that is not currently separately identifiable, as long as it is reasonable to expect that the alternative benchmark rate will become separately identifiable within a 24-month period.

These amendments had no impact on the hedging activities or interim condensed consolidated financial statements of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2020 except for adoption of new standards and amendments effective from 1 January 2021 as explained in Note 2.5 to the interim condensed consolidated financial statements.

All figures in US$ million

4 NON-TRADING INVESTMENTS	***Reviewed 31 March 2021***	*Audited 31 December 2020*
Debt securities		
At amortised cost	**1,378**	1,213
At FVOCI	**5,651**	5,574
	7,029	6,787
ECL allowances	**(98)**	(100)
Debt securities - net	**6,931**	6,687
Equity securities		
At FVOCI	**9**	9
Equity securities	**9**	9
	6,940	6,696

Following are the stage wise break-up of debt securities as of 31 March 2021 and 31 December 2020:

	31 March 2021 (Reviewed)			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debt securities, gross	**6,940**	**-**	**89**	**7,029**
ECL allowances	**(12)**	**-**	**(86)**	**(98)**
	6,928	**-**	**3**	**6,931**

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

All figures in US$ million

5 LOANS AND ADVANCES

	31 March 2021 (Reviewed)			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Loans and advances, gross	**14,190**	**998**	**861**	**16,049**
ECL allowances	**(72)**	**(90)**	**(689)**	**(851)**
	14,118	**908**	**172**	**15,198**

	31 December 2020 (Audited)			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Loans and advances, gross	14,782	880	864	16,526
ECL allowances	(67)	(95)	(708)	(870)
	14,715	785	156	15,656

An analysis of movement in the ECL allowances during the periods ended 31 March 2021 and 31 March 2020 are as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 1 January 2021	**67**	**95**	**708**	**870**
Net transfers between stages	**-**	**(2)**	**2**	**-**
Amounts written-off	**-**	**-**	**(31)**	**(31)**
Charge (reversal) for the period - net	**7**	**(2)**	**17**	**22**
Exchange adjustments and other movements	**(2)**	**(1)**	**(7)**	**(10)**
As at 31 March 2021 (Reviewed)	**72**	**90**	**689**	**851**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2020	58	67	492	617
Net transfers between stages	-	7	(7)	-
Amounts written-off	-	-	(4)	(4)
Charge for the period - net	24	49	24	97
Exchange adjustments and other movements	(4)	(3)	(16)	(23)
As at 31 March 2020 (unreviewed)	78	120	489	687

All figures in US$ million

6 OTHER OPERATING INCOME (EXPENSE)

	31 March 2021 Reviewed	*31 March 2020 Unreviewed*
Fee and commission income - net*	**35**	40
Bureau processing income	**6**	8
Income (loss) from trading book - net	**26**	(61)
(Loss) gain on dealing in foreign currencies - net	**(9)**	64
Loss on hedging foreign currency movements**	**(15)**	(98)
Gain on disposal of non-trading debt investments - net	**14**	11
Others - net	**3**	1
	60	(35)

*Included in the fee and commission income is US$ 3 million (31 March 2020: US$ 4 million) of fee income relating to funds under management.

**Loss on hedging foreign currency movements relate to a transaction which has an offsetting impact on the tax expense for the period.

7 CREDIT LOSS EXPENSE

	31 March 2021 Reviewed	*31 March 2020 Unreviewed*
Non-trading debt investments	**(2)**	9
Loans and advances	**22**	97
Credit commitments and contingent items	**-**	14
	20	120

8 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
- **Others** includes activities of Arab Financial Services Company B.S.C. (c) and ila Bank.

All figures in US$ million

8 OPERATING SEGMENTS (continued)

Three-month period ended 31 March 2021 (Reviewed)	***MENA subsidiaries***	***International wholesale banking***	***Group treasury***	***ABC Brasil***	***Others***	***Total***
Net interest income	**29**	**40**	**16**	**36**	**1**	**122**
Other operating income	**9**	**17**	**16**	**13**	**5**	**60**
Total operating income	**38**	**57**	**32**	**49**	**6**	**182**
Total operating expenses	**(25)**	**(27)**	**(5)**	**(24)**	**(17)**	**(98)**
Profit (loss) before taxation credit loss and unallocated operating expenses	**13**	**30**	**27**	**25**	**(11)**	**84**
Credit loss expense	**(1)**	**(10)**	**-**	**(9)**	**-**	**(20)**
Taxation (charge) reversal on foreign operations	**(4)**	**(1)**	**-**	**4**	**-**	**(1)**
Unallocated operating expenses						**(27)**
Profit for the period						**36**
Operating assets as at 31 March 2021	**3,625**	**8,731**	**9,972**	**7,673**	**207**	**30,208**
Operating liabilities as at 31 March 2021	**2,983**	**-**	**16,185**	**6,728**	**210**	**26,106**

Three-month period ended 31 March 2020 (unreviewed)	*MENA subsidiaries*	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Others*	*Total*
Net interest income	30	41	12	43	11	137
Other operating income (expense)	9	19	14	(84)	7	(35)
Total operating income (loss)	39	60	26	(41)	18	102
Total operating expenses	(25)	(28)	(7)	(29)	(12)	(101)
Profit (loss) before taxation and credit loss and unallocated operating expenses	14	32	19	(70)	6	1
Credit loss expense	(2)	(108)	-	(10)	-	(120)
Taxation (charge) reversal on foreign operations	(4)	(1)	-	103	-	98
Unallocated operating expenses						(32)
Loss for the period						(53)
Operating assets as at 31 December 2020	3,648	8,542	10,310	7,745	162	30,407
Operating liabilities as at 31 December 2020	3,053	-	16,309	6,739	162	26,263

All figures in US$ million

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities.

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 March 2021(Reviewed):

Financial assets measured at fair value:

	Level 1	***Level 2***	***Total***
Trading securities	**528**	**10**	**538**
Non-trading investments	**5,266**	**296**	**5,562**
Loans and advances	**-**	**560**	**560**
Derivatives held for trading	**555**	**314**	**869**
Derivatives held as hedges	**-**	**3**	**3**

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 March 2021(Reviewed):

Financial liabilities measured at fair value:

	Level 1	***Level 2***	***Total***
Derivatives held for trading	**516**	**298**	**814**
Derivatives held as hedges	**-**	**141**	**141**

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

Financial assets measured at fair value:

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

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

Financial liabilities measured at fair value:

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

All figures in US$ million

9 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values of financial instruments not carried at fair value

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

	Reviewed		*Audited*	
	31 March 2021		*31 December 2020*	
	Carrying value	***Fair value***	*Carrying value*	*Fair value*
Financial assets				
Non-trading debt investments at amortised cost - gross	**1,378**	**1,381**	1,213	1,213
Financial liabilities				
Borrowings	**1,602**	**1,602**	1,795	1,796

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting 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 current and prior period.

10 CREDIT COMMITMENTS AND CONTINGENT ITEMS

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

	31 March 2021 (Reviewed)			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Credit commitments and contingencies	**2,822**	**165**	**79**	**3,066**
ECL allowances	**9**	**10**	**33**	**52**

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

All figures in US$ million

10 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

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

An analysis of movement in the ECL allowances during the period are as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 1 January 2021	**12**	**13**	**32**	**57**
ECL movements for the period - net	**(3)**	**(3)**	**1**	**(5)**
As at 31 March 2021	**9**	**10**	**33**	**52**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January 2020	14	13	11	38
ECL movements for the period - net	-	11	-	11
As at 31 March 2020 (unreviewed)	14	24	11	49

b) Credit commitments and contingencies

	31 March 2021	*31 December 2020*
Short-term self-liquidating trade and transaction-related contingent items	**2,706**	2,148
Direct credit substitutes, guarantees	**2,855**	3,041
Undrawn loans and other commitments	**1,708**	1,865
	7,269	7,054
Credit exposure after applying credit conversion factor	**3,066**	3,021
Risk weighted equivalents	**2,552**	2,619

c) Derivatives

The outstanding notional amounts at the reporting date were as follows:

	31 March 2021	*31 December 2020*
Interest rate swaps	**12,791**	12,790
Currency swaps	**297**	405
Forward foreign exchange contracts	**5,612**	5,990
Options	**9,464**	7,086
Futures	**6,686**	5,722
	34,850	31,993
Risk weighted equivalents (credit and market risk)	**1,811**	1,895

All figures in US$ million

11 RISK MANAGEMENT

Liquidity risk

The Group is required to comply with the liquidity requirements as stipulated by its regulator, the CBB. These requirements relate to maintaining a minimum of 100% (reduced to 80% upto 31 December 2021) for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of HQLA and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 March 2021, the Group's LCR and NSFR were at 200% (31 December 2020: 324%) and 124% (31 December 2020: 122%) respectively.

12 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 period-end and year-end balances in respect of related parties included in the interim consolidated statement of financial position are as follows:

	Ultimate parent	***Major share-holder***	***Directors***	***31 March 2021 (Reviewed)***
Deposits from customers	**3,194**	**700**	**8**	**3,902**
Borrowings	**1,505**	**-**	**-**	**1,505**
Short-term self-liquidating trade and transaction-related contingent items	**330**	**-**	**-**	**330**

	Ultimate parent	*Major share-holder*	*Directors*	*31 December 2020*
Deposits from customers	3,274	700	8	3,982
Borrowings	1,330	-	-	1,330
Short-term self-liquidating trade and transaction-related contingent items	171	-	-	171

The income and expenses in respect of related parties included in the interim consolidated statement of profit or loss are as follows:

	31 March 2021 Reviewed	*31 March 2020 Unreviewed*
Commission income	**2**	2
Interest expense	**20**	29

13 IMPACT OF COVID-19

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a global pandemic. Many countries' governments, including the Kingdom of Bahrain and other countries where the Group operates, implemented restrictions aimed at limiting the rate of its spread which have had immediate impact on people, businesses and economies. Additionally, governments and central banks of economies where the Group operates have launched economic support and relief measures (including payment reliefs) to minimise the impact on individuals and corporates.

All figures in US$ million

13 IMPACT OF COVID-19 (continued)

The Group continues to closely monitor the situation to ensure operational resilience and continuity of its operations. The Bank has activated its business continuity planning and other risk management practices to manage the potential impact of the business disruption due to COVID-19 outbreak, on its operations and financial performance.

Further, banking and accounting regulators have continued to provide guidance on the appropriate provisioning treatment relative to the support provided to customers as a result of the COVID-19 crisis. Accordingly, the Group has performed an assessment of COVID-19 implications on its financial results, expected credit loss (ECL) methodology, use of forward looking information and judgements for the period ended 31 March 2021. The ECL methodology has largely remained unchanged from 31 December 2020)which included the changes to factor into account COVID-19 impacts). Significant inputs used for ECL calculation for the period are described below.

a) Reasonableness of forward looking information and probability weights

The Group uses a range of macro-economic factors in ECL assessment relevant to multiple jurisdictions of operations considering its global footprint under three scenarios, upward, base and downward case. The Group reviews and updates selected economic series on regular basis and applies its judgement in determining what constitutes reasonable and forward-looking estimates.

During the first quarter of 2021, the Group has used the Moody’s latest macroeconomic data which has been reviewed and approved by the management and considered as fit for use for the purpose of ECL modelling. In making estimates, the Group assessed a range of possible outcomes by stressing the macroeconomic factors (that includes upward, base and downward case scenarios), and has kept the scenario weightages of upward, base and downward cases unchanged at 30%, 40% and 30% respectively from 31 December 2020.

b) Support for customers and associated ECL treatment

Obligors seeking forbearance in the form of a deferral of repayments or interest as a result of the impact of COVID-19 have been treated in line with local regulatory guidelines in each jurisdiction. The staging and ECL estimation for such customers and any associated reporting are also done in line with regulatory guidance.

c) Application of overlays to specific industry and customer portfolios

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

Consistent with requirements of IFRS 9, the Group has considered both quantitative and qualitative information in the assessment of a significant increase in risk.

As with any economic forecasts, the projections and likelihood of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

d) Modification of financial assets

The CBB issued several circulars with respect to COVID-19 outbreak to banks in the Kingdom of Bahrain with respect to deferral of repayments of principal and interest due for affected sectors, pursuant to which the Group has assessed the deferral requests received on a case to case basis in compliance with CBB circulars. As the Group has not granted any interest waiver requests, no modification loss has been recognised during the period ended 31 March 2021 and 31 March 2020.

e) Subsequent events impact on ECL

The implications of the COVID-19 pandemic are ongoing and the outcome of this event cannot still be estimated with reasonable certainty. Hence, "non-adjusting events" in line with IAS 10 "Subsequent events" cannot be reasonably quantified at the date of issuance of these interim condensed consolidated financial statements.

All figures in US$ million

14 SIGNIFICANT EVENTS

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