Annual Ordinary General Meeting Booklet

29 March 2020
Kingdom of Bahrain

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CONTENT

AGM Agenda

Agenda:

1. To approve the minutes of the past AGM of the Bank dated 24 March 2019.
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 2019.
3. To consider and acknowledge the Report of the Auditors concerning the Consolidated Financial Statements for the financial year ended 31 December 2019.
4. To discuss and approve the Consolidated Financial Statements for the financial year ended 31 December 2019.
5. To approve the recommendation of the Board of Directors for appropriation of profits for the financial year ended 31 December 2019 as follows:

    5.1 The transfer of US$19,364,900 to the legal reserve;

    5.2 Cash payment of 3% dividend or US$0.03 for each outstanding share (net of treasury shares) for approximately a total of US$93 million. The Cum-Dividend Date is 30 March 2020, Ex-Dividend Date is 31 March 2020, Record Date is 01 April 2020, Payment Date is 15 April 2020; and

    5.3 Transfer of the remaining balance of US$81,434,010 to the retained earnings.
6. To discuss and approve the Corporate Governance Report for the year 2019 as per the requirements of the Central Bank of Bahrain.
7. To absolve the Directors from liability for the financial year ended 31 December 2019.
8. 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 2020, and to authorise the Board of Directors to fix their remuneration.
9. 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 2019.
10. 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 2019 will be made available in English and Arabic languages by the second week of March 2020 at ABC Tower, Diplomatic Area, Manama, Kingdom of Bahrain, the Bank's website (www.bank-abc.com), and the website of Bahrain Bourse.
- Any Shareholder registered in the Bank's share register on the date of the AGM is entitled to attend the AGM 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 a shareholder is a company, the proxy that will attend the AGM must submit a letter of authorisation from that 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 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 ٢٤ مارس ٢٠١٩م .

عقدت الجمعية العامة لمساهمي المؤسسة العربية المصرفية (ش.م.ب) اجتماعها السنوي العادي في **يوم الاحد الموافق ٢٤ مارس ٢٠١٩م** 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 ٢٥ مارس ٢٠١٨م.

ثانيا :- مناقشة **تقرير مجلس الإدارة** عن نشاط البنك خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م والتصديق عليه.

ثالثا :- الاستماع الى **تقرير السادة مراقبي الحسابات** عن القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٨/١٢/٣١م.

رابعا :- مناقشة **البيانات المالية للسنة** المنتهية في ٢٠١٨/١٢/٣١م والمصادقة عليها.

خامسا :- المصادقة على توصية مجلس الادارة **بتخصيص صافي أرباح السنة المالية** المنتهية في ٢٠١٨/١٢/٣١م علي النحو التالي: -

- تحويل مبلغ ٢٠,١٩٩,٢٠٠ دولار أمريكي **للاحتياطي القانوني**.
- توزيع **ارباح نقدية** على المساهمين بواقع ٣% عن كل سهم متداول (من دون أسهم الخزانة) قدرها ٣ سنت أمريكي للسهم الواحد، والبالغة اجماليا ٩٢,٩ مليون دولار أمريكي ابتداء من تاريخ ٣ ابريل ٢٠١٩م .
- تحويل الرصيد المتبقي وهو ٨٨,٨٥٨,٨٠٠ دولار أمريكي إلى **حساب الارباح المبقاة** .

سادسا :- اطلاع الجمعية العامة على **تطورات برنامج صناعة السوق** المعتمد لتعزيز سيولة تداول أسهم المؤسسة، وتفويض مجلس الإدارة باتخاذ الإجراءات اللازمة لتجديد برنامج صناعة السوق وتمديد عمله لمدة ثلاث سنوات إضافية بعد أخذ موافقة السادة مصرف البحرين المركزي.

سابعا :- مناقشة **تقرير حوكمة الشركات لسنة ٢٠١٨م** والتزام البنك بمتطلبات مصرف البحرين المركزي والمصادقة عليه.

ثامنا :- ابراء **ذمة أعضاء مجلس الإدارة** عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م.

تاسعا:- النظـر فـي إعـادة **تعييـن السـادة ارنست و يونـغ** كمـدققين لحسـابات البنك للسنة الماليـة المنتهيـة فـي ٣١ ديسمبر ٢٠١٩م، بعـد اخـذ موافقـة السـادة مصـرف البحرين المركزي وتخويل مجلس الإدارة بتحديد أتعابهم .

عاشرا : - انتخـاب **أعضـاء لمجلس الإدارة** عن دورته الثالثة عشرة بعد أخـذ موافقة السـادة مصرف البحرين المركزي.

احد عشر: - اطـلاع **الجمعيـة العامـة على المعاملات** مـع الاطـراف ذات العلاقـة حسب المادة ١٨٩ (ج) مـن قانـون الشـركات التجارية وكمـا هـو وارد في الايضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٨/١٢/٣١م.

اثنا عشر: - ما **يستجد من أعمال طبقاً** لنص المادة ٢٠٧ من قانون الشركات التجارية .

عمـلا باحكـام **المـادة ٤٢/أ** مـن النظـام الأساسـي للمؤسسـة، تولـى **رئاسـة الاجتمـاع 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:-

السيد/ هلال مشاري المطيري	نائب رئيس مجلس الإدارة
السيد/ د. أنور علي المضف	عضو مجلس الإدارة
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	" " "
السيد/ د. خالد سعيد كعوان	الرئيس التنفيذي للمجموعة

السيد/ عيسى المتوج	عن **مصرف البحرين المركزي**
السيدة/ فاطمة عبدالرحمن	" " " "
السيدة/ علياء عمران	" " " "
السيد/ أحمد سلمان أحمد	عن **وزارة الصناعة والتجارة والسياحة**
السيد/ محمد جبيل	عن **بورصة البحرين**
السيد/ نادر رحيمي	عن السادة أ**رنست** و **يونغ** (مدققي الحسابات)
السيد/ اشواني كومار	" " " "
السيد/ هاني الشيخ	عن **مسجلي الأسهم** السادة فخرو كارفي كومبيوترشير
السيد/ محمد الاسود	" " " " "

بعد أن رحب **السيد رئيس الجمعية** بالأصالة عن نفسه ونيابة عن مجلس الإدارة والمؤسسة بالسادة المساهمين ومندوبي الجهات الرسمية وبقية السيدات والسادة الحضور، شاكـرا لهـم حسن تلبية الدعوة ... تـم التأكد من **توافر النصاب القانوني** لصحة الاجتماع بحضـور عـدد مـن المساهمين الممثلين أصالـة أو نيابة **بنسبة** بلغت ٩٥,٤٦ **%** من رأس المال المدفوع.

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

أولا : - <u>التصديق علـى محضـر الاجتمـاع السابق للجمعيــة العامــة العاديــة الـذى عقـد بتاريخ ٢٥ مارس ٢٠١٨م.</u>

أفادت الجمعية العامة العادية باطلاعها على محضر اجتماعها السابق والـذي عقـد بتـاريخ ٢٥ مارس ٢٠١٨م بحسب الوارد في كتيب الجمعية الموزع على السادة المساهمين، حيث **أخذت علما بمحتوياته وصادقت عليه** كما تم تقديمه.

وفي هذا السياق تساءل أحد السادة المساهمين عن سبب عدم ذكر أسماء من يأخذ الكلمة من المساهمين في محضر الجمعية، حيث أجاب الرئيس التنفيذي للمجموعة أن من سياسة المؤسسة عدم ذكر أسماء السادة المساهمين ممن أبدوا ملاحظات حرصا على عدم طغيان الاسم على حساب أهمية الملاحظة، خاصة أن معظم الملاحظات تأتي من صغار المساهمين.

ثانيا : - مناقشة تقرير مجلس الإدارة عن نشاط البنك خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م والتصديق عليه .

أفادت الجمعية العامة **بإطلاعها** على تقرير مجلس الإدارة عن نشاط مجموعة المؤسسة خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م 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 ٢٠١٨/١٢/٣١م.

استمعت الجمعية العامة لتقرير السادة مراقبي الحسابات (السادة ارنست و يونغ) عن نشاط مجموعة المؤسسة خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م حيث أخذت **علما** بمحتوياته.

رابعا : - مناقشة البيانات المالية للسنة المنتهية في ٢٠١٨/١٢/٣١م والمصادقة عليها.

طلب السيد رئيس الجمعية من الرئيس التنفيذي للمجموعة عرض البيانات المالية للسنة المنتهية في ٣١ ديسمبر ٢٠١٨م **(أ)** ليفتح بعدها باب النقاش أمام المساهمين **(ب)**.

أ- عرض الرئيس التنفيذى للمجموعة:-

١- قدم الرئيس التنفيذي للمجموعة عرضا على شرائح تناول تحليلا للبيانات المالية للمؤسسة لسنة ٢٠١٨م في ضوء ظروف عمل المؤسسة.

٢- بدأ الرئيس التنفيذي للمجموعة عرضه بالإشارة إلى أهم التحديات التي واجهت المؤسسة خلال العام ٢٠١٨م في الأسواق التي تعمل بها، ذاكرا أنه اطلق على سنة ٢٠١٨م سنة عصية دون أن تكون سيئة، حيث شهدت الأسواق فيها العديد من التقلبات مع إظهارها بعض النمو، مشيرا إلى التحسن في أسعار النفط وتعافي بعض الأسواق التي تعمل بها المؤسسة مثل مصر، الا أن نسبة الناتج المحلي الإجمالي في هذه الأسواق بقيت في العموم دون ٢%... فضلا عن تدهور التصنيف الائتماني لبعض الأسواق الهامة التي تعمل فيها المؤسسة مثل البرازيل، والبحرين، وعمان، وتركيا، بالإضافة إلى تطبيق ضريبة القيمة المضافة وغيرها من الإجراءات التقشفية في منطقة الخليج، مما أدى إلى تراجع الانفاق الحكومي ... الا أن

الرئيس التنفيذي للمجموعة أكد مع ذلك نجاح المؤسسة في التعامل مع هذه التحديات من خلال تحقيقها ربحا صافيا بلغ ٢٠٢ مليون دولار أمريكي، مقارنة مع أرباح صافية بلغت ١٩٣ مليون دولار أمريكي في العام ٢٠١٧م، أي بمعدل نمو تجاوز معدل نمو أسواق عمل المؤسسة.

٣- وأضاف الرئيس التنفيذي للمجموعة موضّحا أن الدخل الصافي من الفوائد ارتفع بنسبة ١% مقارنة بالعام ٢٠١٧م حيث بلغ ٥٥٩ مليون دولار أمريكي (٢٠١٧م: ٥٥٦ مليون دولار أمريكي)، بينما انخفض الدخل من غير الفوائد بنسبة ١٨% ليصل إلى ٢٥٨ مليون دولار أمريكي (٢٠١٧: ٣١٣ مليون دولار أمريكي) ... وفي هذا السياق عرض الرئيس التنفيذي للمجموعة شريحة أوضحت انخفاض الدخل التشغيلي بنسبة ٦% من سنة إلى أخرى حيث أفاد بان ذلك يعود إلى تذبذب أسعار العملات الأجنبية في حين أن الدخل التشغيلي بالعملات المحلية قد ارتفع بنسبة ٦%.

٤- أما بشأن كلفة خسائر الائتمان، فأوضح الرئيس التنفيذي للمجموعة أنها بلغت ٧٩ مليون دولار أمريكي مقارنة بمبلغ ٩٦ مليون دولار أمريكي في العام الماضي، وذلك بالأخص بعد أن انخفضت كلفة خسائر الائتمان لبنك المؤسسة التابع في البرازيل بشكل جوهري بعد بدء البرازيل في التعافي تدريجيا من فترة الركود التي عرفتها في السنوات الثلاث الأخيرة.

٥- بالمقابل، أكد الرئيس التنفيذي للمجموعة على محافظة الميزانية العمومية للبنك على قوتها حيث استقر إجمالي الموجودات عند نفس مستواه في العام ٢٠١٧م وهو ٢٩,٥ مليار دولار أمريكي، مستندة في ذلك على قاعدة رأسمال قوية تزيد عن ٤,٣ مليار دولار أمريكي، وذلك بمعدل كفاية رأس المال للمجموعة في نهاية العام ٢٠١٨م وفق اتفاقية بازل الثالثة ١٨,٢% فيما بلغت نسبة الفئة الأولى من رأس المال ١٧,٢% - وهذه المعدلات تفوق الحد الأدنى المفروض من مصرف البحرين المركزي والمحددة بنسب ١٢,٥% و ١٠,٥% على التوالي... كما أشاد بتحسن ملموس في نسبة القروض إلى الودائع والتي انخفضت من ٩١,٥% في العام ٢٠١٧م إلى ٩٠,٦% في العام ٢٠١٨م، مع التزام المؤسسة بمتطلبات السيولة للمعيارين LCR و NSFR.

٦- أضاف الرئيس التنفيذي للمجموعة أن المؤسسة حافظت على تصنيفها الائتماني من قبل وكالات التصنيف العالمية على الرغم مما واجهها من صعوبات وتحديات في الأسواق الرئيسية التي تعمل بها خلال سنة ٢٠١٨م، حيث قامت وكالة فيتش للتصنيف الائتماني بتثبيت تصنيف البنك بدرجة BBB, Outlook Stable... كما أشار إلى حصول البنك على جائزة أفضل بنك في البحرين في مجال تمويل التجارة من مؤسسة Global Finance الرائدة، حيث أن مثل هذه الجائزة لها أهمية دولية لأنها تعرف باستقلاليتها وتأتي في الأهمية بعد جائزة The Banker التي كانت المجموعة قد فازت بها السنة الماضية عن السوق في البحرين.

٧- أفاد الرئيس التنفيذي للمجموعة بقيام المؤسسة بتعيين أكثر من ١٥ من كبار التنفيذيين لمساعدة المؤسسة في تنفيذ استراتيجيتها، آملا أن يظهر المردود الجيد لذلك خلال الفترة القادمة... كما أشار إلى تطوير نشاط الجملة بالبنك بعد افتتاح فرعين أحدهما في سنغافورة والآخر في دبي... كما أضاف أن المؤسسة قامت بالعديد من العمليات في منطقة الخليج وتركيا والأسواق الأخرى حيث كان للمؤسسة دور فعال في مساعدة عدد من الشركات بالمنطقة لدخول سوق المال، ضاربا أمثلة على ذلك.

٨- وفي شأن آخر، أشار الرئيس التنفيذي للمجموعة إلى دخول المؤسسة في مجال Digital Banking، بعد حصولها على رخصة تجزئة Neobank من مصرف البحرين المركزي... مؤكدا وجود خطة متكاملة لدخول المؤسسة عالم Fintech وتقديم خدمة مصرفية عبر الانترنت لصيرفة التجزئة لتعزيز وصول خدماتنا لعملاء المؤسسة.

٩- أستعرض الرئيس التنفيذي للمجموعة بعد ذلك شريحة توضح العائد على الأسهم والعائد على حقوق المساهمين، حيث أشار إلى تحسن سعر السهم في السوق بمعدل ٥٠% والذي كان نتيجة لقيام الإدارة التنفيذية بتعيين شركة "سيكو" لمساعدة المؤسسة في مشروع صناعة السوق بعد أن تم أخذ موافقة الجمعية العامة ومصرف البحرين المركزي في السنة الماضية... حيث أسفر ذلك عن فتح الأبواب للمساهمين من شريحة الجمهور لتسويق أسهمهم... مضيفا على صعيد توزيع الربحية على هذه الأسهم بأن المؤسسة كانت قد وضعت خطة استراتيجية في عام ٢٠١٥م تسمح بتوزيع أرباح على المساهمين وفي نفس الوقت تحمي رأسمال المؤسسة من التآكل، موضّحا أن توزيع أرباح على المساهمين بنسبة ٣% يعتبر من النسب الجيدة في منطقة الخليج وذلك بالمقارنة مع عدد من البنوك المنافسة في المنطقة.

١٠- وعلى صعيد رؤية المؤسسة للمرحلة القادمة أشار الرئيس التنفيذي للمجموعة إلى عدد من الخطوات التي تهدف المؤسسة إلى اتباعها لتحسين ربحيتها ووضعها في السوق وأهمها زيادة عملاء المؤسسة في صيرفة الجملة... وتطوير منتجات تمويل التجارة سواء عن طريق Transaction Banking أو Cash Management أو Digital Receivable Financing... وهذا كله من شأنه أن يساعد على اقتناص الجزء الأكبر من ودائع العملاء وتدعيم وضع البنك في أسواق المنطقة وتحسين ربحيته.

١١- في ختام عرضه استعرض الرئيس التنفيذي للمجموعة شريحة توضح العلاقات المتميزة مع السلطات الرقابية في البحرين والأسواق الأخرى وعلى رأسها CBB,FCA,PRA الخ، حيث استطاعت المؤسسة من خلال هذه العلاقات أن تؤمن لعدد من شركاتها التابعة بالأخص زيادة في ربحيتها نتيجة استثنائها من الالتزام ببعض المتطلبات الرقابية وبالتالي توفير النفقات المطلوبة لتطبيقها.

ب- **نقاش المساهمين: -**

فتح باب النقاش أمام السادة المساهمين، حيث طرحت مجموعة من الأسئلة تناولت ربحية البنك، تطورات الأوضاع في البرازيل، العائد على الأسهم، الاستحواذ والاندماج، وغيرها من الموضوعات ذات الأهمية وذلك كما يلي:-

١- تساءل أحد السادة المساهمين عن أرباح المؤسسة البالغة ٢٠٢ مليون دولار أمريكي بنهاية عام ٢٠١٨م، مشيرا إلى أنه بالنظر إلى معدل الربحية خلال السنوات الماضية يتضح عدم وجود تحسن ملحوظ، متسائلا عما كان هذا الوضع ناتج عن الظروف المحيطة بالأوضاع الراهنة في البرازيل... حيث أجاب الرئيس التنفيذي للمجموعة أنه لابد من النظر إلى كافة العناصر المؤثرة وليس إلى عنصر واحد من أجل تقييم الأمور بشكل دقيق، وعلى سبيل المثال ظروف الأسواق التي تعمل فيها المؤسسة، والمخصصات المطلوب أخذها وأيضا تذبذب أسعار العملات المحلية الخ... موضحًا أن التحوط من تذبذب تلك العملات حمى المؤسسة من الخسائر، كما أنه مع احتفاظ المؤسسة بنسبة كفاية رأسمالية هي الأعلى في المنطقة وأيضا معدلات سيولة استثنائية، استطاعت أن تعطي مساهميها زيادة مضطردة في الربحية الصافية بواقع ٤% سنويا على مدى السنوات الماضية بعد استيعابها لكل نفقات التطور الاستراتيجي خلال السنوات الثلاث الماضية.

٢- في تعليق لمساهم آخر عن نسبة ملكية المؤسسة لبنكها التابع في البرازيل وهل يمكن التخارج من هذا الاستثمار إذا كان المردود في الفترة الأخيرة سلبيا على المؤسسة... أوضح الرئيس التنفيذي للمجموعة أن المؤسسة تمتلك نحو ٦٠% من أسهم رأسمال البنك التابع في البرازيل، مؤكدا أن هذا البنك يعتبر من أفضل البنوك العاملة في السوق البرازيلي ضمن حجمه، فوق تحقيقه لنوع من التوازن والتنوع الجغرافي للمؤسسة خاصة في ظل الأوضاع الراهنة في الشرق الأوسط وشمال أفريقيا... كما قام بشرح ظروف دخول المؤسسة في السوق البرازيلي تاريخيا، مفيدا بان البنك التابع في البرازيل هو البنك العربي الوحيد في أمريكا اللاتينية وهو يعتبر أحد استثماراتنا التي نعتز بها.

٣- في رد على تساؤل لأحد السادة المساهمين عن حجم السيولة الكبير في المؤسسة وعما إذا كان يمكن توظيفها في أصول تعطي عائد أفضل... أفاد الرئيس التنفيذي للمجموعة أن أسهل وسيلة لتحقيق ذلك هو التوسع في الإقراض ولكن لابد للإدارة أن توازن ذلك بالمحافظة على هذه السيولة العالية المقابلة للتركز في سيولة المؤسسة بحكم اعتمادها على ودائع الجملة بحكم تكوينها وذلك كشرط لاستمرار تصنيفها الائتماني الاستثماري من قبل وكالات التصنيف الدولية حتى الوقت الذي تتمكن فيه المؤسسة من تنويع مصادرها التمويلية وهو ما تعمل عليه الخطة الاستراتيجية.

٤- طلب أحد السادة المساهمين رفع نسبة توزيع الأرباح من ٣% على ٥% حتى يكون هناك عائد جيد خاصة للمساهمين من شريحة الجمهور... فيما عقب مساهم آخر أن بعض البنوك تعطي منح سنوية لمساهميها في صورة أسهم... وتساءل مساهم ثالث عن إمكانية زيادة

مبلغ التوزيع إلى ١٠٠ مليون دولار أمريكي... حيث أجاب الرئيس التنفيذي للمجموعة أن تحديد نسبة التوزيع لا تتم جزافا، ولكن جاءت بعد دراسة مستفيضة من جانب مجلس الإدارة بما يحقق عائد جيد للمساهمين وفي نفس الوقت يحافظ على متانة قاعدتها الرأسمالية... مؤكدا أن العائد المقترح يأتي ضمن الأعلى من متوسط السوق في البنوك المنافسة.

٥- تساءل أحد السادة المساهمين عما إذا كانت المؤسسة تفكر في كيفية مواجهة عمليات الاستحواذ والاندماج الحالية في الأسواق والتي شملت بنوك كبرى... حيث أفاد الرئيس التنفيذي للمجموعة أن مجلس الإدارة حاليا يناقش هذه الاستراتيجية، وأنه من المهم في حال اتخاذ قرار بهذا الشأن أن يتم بشكل يفيد المؤسسة ويحقق أهدافها من حيث الربحية، والعوائد على رأسمال مع الحفاظ على معدلات السيولة.

٦- في تعليق لأحد السادة المساهمين عن سبب التراجع في اجمالي حقوق المساهمين بالميزانية مقارنة بالعام السابق وتساءل عما إذا كان ذلك التراجع بسبب تطبيق المعيار IFRS9... أجاب الرئيس التنفيذي للمجموعة بأنه أحد الأسباب فقط، حيث أن مبلغ ٣٩ مليون دولار أمريكي الذي تم استقطاعه لا يزيد عن ١% من اجمالي حقوق المساهمين، إلا أن هناك عناصر أخرى من بينها تذبذب أسعار العملة البرازيلية وأيضا مبلغ الأرباح الموزع على المساهمين كلها لها أثر في انخفاض حقوق المساهمين مقارنة بالسنة السابقة.

وفي النهاية، شكر السادة المساهمون الإدارة التنفيذية للمؤسسة على شفافيتها مع كل المساهمين وأشادوا بالنتائج الطيبة التي حققتها المؤسسة ... مع تمنياتهم بالدوام التوفيق.

وبعد هذه النقاشات والمداولات **صادقت الجمعية العامة** على البيانات المالية عن السنة المالية المنتهية في ٣١ ديسمبر ٢٠١٨م كما **تم تقديمها**.

خامسا :- **المصادقة على توصية مجلس الادارة بتخصيص صافي أرباح السنة المالية المنتهية في ٢٠١٨/١٢/٣١م على النحو التالي:-**

اطلعت الجمعية العامة على الارباح الصافية للسنة المالية المنتهية في ٢٠١٨/١٢/٣١م وكذلك التوصية المرفوعة إليها من مجلس الإدارة بتوزيع ارباح نقدية على المساهمين عن السنة المالية المنتهية في ٢٠١٨/١٢/٣١م بواقع ٣% عن كل سهم متداول (من دون أسهم الخزانة)، حيث أوضح السيد رئيس مجلس الإدارة أنه التزاما بسياسة التوزيعات التي اعتمدتها المؤسسة خلال السنوات الثلاث الماضية يوصي مجلس الإدارة بتوزيع أرباح على المساهمين وذلك ضمن حدود ٣% عن كل سهم متداول بحيث لا تمس بمتانة كفاية رأسمال المؤسسة العالية ... وفي ذلك مراعاة توازن دقيق بين مصلحة المساهمين وأداء المؤسسة وسلامة موازناتها ومركزها المالي . وبعد المداولة: -

"قررت الجمعية العامة: -

١- المصادقة على تحويل مبلغ وقدره ٢٠,١٩٩,٢٠٠ دولار أمريكي للاحتياطي القانوني.

٢- توزيع أرباح نقدية على المساهمين بواقع ٣% عن كل سهم متداول (من دون أسهم الخزانة) بمبلغ اجمالي قدره ٩٢,٩ مليون دولار أمريكي ابتداء من تاريخ ٣ إبريل ٢٠١٩م .

٣- تحويل الرصيد المتبقي وقدره ٨٨,٨٥٨,٨٠٠ دولار أمريكي إلى حساب الأرباح المبقاة".

سادسا : - **اطلاع الجمعية العامة على تطورات برنامج صناعة السوق المعتمد لتعزيز سيولة تداول أسهم المؤسسة، وتفويض مجلس الإدارة باتخاذ الإجراءات اللازمة لتجديد برنامج صناعة السوق وتمديد عمله لمدة ثلاث سنوات إضافية بعد أخذ موافقة السادة مصرف البحرين المركزي.**

أشار الرئيس التنفيذي للمجموعة إلى ما قدمه من إيضاح في هذا السياق خلال عرضه للجمعية من خلال مناقشة البند الرابع من جدول الاعمال، إضافة إلى التفاصيل الموضحة في وثائق كتيب الجمعية العامة الذي تم توزيعه على المساهمين... وفي هذا السياق علق أحد المساهمين بأن كمية الأسهم ليس بها سيولة كافية بالإضافة إلى محدودية سوق البحرين وأضاف أن تدخل SICO أدى إلى تحسن الوضع قليلا لكن بصورة غير كافية واقترح قيام المؤسسة بشراء أسهم الأقلية... حيث أوضح الرئيس التنفيذي للمجموعة أن دخول SICO كان خيار قد وافقت عليه الجمعية العامة في العام الماضي، وعملت على تنفيذه الإدارة التنفيذية بنتائج كانت طيبة وفاقت التوقعات الأولية للمساهمين... مذكّرا بأن المقترح المقدم لشراء أسهم الأقلية كان قد طرح في السنة الماضية وتم استبعاده.

وبعد هذه المداولات **وافقت الجمعية العامة** على طلب مجلس الإدارة باعتماد القرارات التالية: -

"تمديد فترة الموافقة على القرار بما يسمح لبنك ABC إعادة شراء نسبة من أسهمه الصادرة لا تزيد عن ٣% من الإجمالي وإعادة بيعها من خلال صانع سوق معيّن لفترة إضافية تصل إلى ثلاث سنوات، بعد الحصول على موافقة إدارة مراقبة الأسواق المالية في مصرف البحرين المركزي.

تفويض مجلس إدارة بنك ABC، أو من يقوم المجلس بتفويضه، باتخاذ جميع الخطوات اللازمة لتنفيذ القرار."

سابعا : - **مناقشة تقرير حوكمة الشركات لسنة ٢٠١٨م 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 وقابل للمساءلة.

أضاف أمين سر الجمعية بأن المؤسسة تحرص على الافصاح عن المعلومات الهامة بدقة ووضوح إلى المساهمين وأصحاب المصالح المعنيين عن طريق عدة قنوات تشمل الموقع الالكتروني 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 ٢٠١٨م في هذا الشأن أفاد أمين سر الجمعية بما يلي: -

- تم في شهر ديسمبر ٢٠١٨م تعديل ميثاق لجنة التدقيق للمجموعة لتوضيح مسئوليات اعداد تقارير اللجنة، ودور لجنة التدقيق للمجموعة في الاشراف على أداء إدارة مراجعة جودة الأصول للمجموعة.

وتعتبر لجنة التدقيق للمجموعة مسئولة أمام مجلس الإدارة عن نزاهة وفعالية نظام المجموعة فيما يتعلق بالضوابط والممارسات المالية والمحاسبية.

حيث أخذت **الجمعية علما** بهذه التطورات الايجابية.

وفي تعقيب لأحد السادة المساهمين اقترح فيه ان يتم تغيير اسم لجنة التعيينات والمزايا ليصبح لجنة الترشيحات سيرا على المصطلح الوارد في ميثاق الحوكمة النافذ بمملكة البحرين، أفاد الرئيس التنفيذي للمجموعة بأنه لا مانع من النظر في هذا المقترح.

ثامنا : - <u>ابراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م.</u>

قررت الجمعية العامة إبراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠١٨/١٢/٣١م.

تاسعا :- **<u>النظـر فـي إعـادة تعيين السادة ارنسـت و يونـغ كمدققين لحسابات البنـك للسنة الماليــة المنتهيــة فــي ٣١ ديسمبر ٢٠١٩م، بعـد اخـذ موافقــة السـادة مصرف البحرين المركزي وتخويل مجلس الإدارة بتحديد أتعابهم .</u>**

قررت الجمعية العامة إعادة تعيين السادة (ارنست و يونـغ) كمدققين لحسابات المؤسسة للسنة المالية المنتهية في ٢٠١٩/١٢/٣١م مع تخويل مجلس الإدارة الحق في تحديد أتعابهم ، وذلك بعد ملاحظتها عدم ممانعة مصرف البحرين المركزي في هذا التعيين .

تساءل أحد السادة المساهمين عن السبب في التمسك بالسادة ارنست ويونغ، حيث أفاد مندوب ارنست ويونـغ انـه طبقـا لتعليمـات مصـرف البحـرين المركـزي يـتم فقـط تغيير الشـريك كـل ٣ سنوات... الا أن السيد المساهم أوضح أنه رغم أن ميثاق الحوكمة في البحرين يجيز ذلك الا انـه يـرى أن مـن مصـلحة المسـاهمين أن يـتم تغيير الشـركة بالكامـل... حيـث أكـد الـرئيس التنفيـذي للمجموعة أن عملية تعيين مدققي الحسابات تخضع لقوانين كل دولة، ففي حين يتم تغيير الشركة بشكل كامل فـي دول الاتحـاد الأوروبـي فـي إجـراء مسـتحدث سيدخل فـي النفاذ انطلاقـا مـن سـنة ٢٠٢٠م، يختلف الوضع مثلا في الولايات المتحدة حيث تسمح القوانين باستمرار الشركة مع تغيير الشريك وكذلك الوضع هنا في البحرين، ونظرا لمحدودية عدد شركات مدققي الحسابات الدوليـة ذات الجـدارة العالميـة رأت المؤسسـة حتـى الآن الإبقـاء علـى الشـركة مـع تغيير الشـريك بصـورة منتظمة وذلك طبقا لتعليمات السلطات الرقابية وموافقتها.

عاشرا : - **<u>انتخاب أعضاء لمجلس الإدارة عن دورته الثالثة عشرة بعد أخذ موافقة السادة مصرف البحرين المركزي.</u>**

أشار السيد رئيس مجلس الادارة إلى النشرة التي تم توزيعها على السادة المساهمين والخاصة بانتخاب أعضاء مجلس الادارة للدورة الثالثة عشرة للمجلس، حيث ذكر أن مجلس الادارة قرر الموافقة على توصية لجنة الحكم المؤسسي بالموافقة على أسماء المرشحين لعضوية مجلس الادارة للدورة القادمة و الواردة أسماؤهم أدناه، علما أن عدد المرشحين لعضوية المجلس لشغل تسعة مقاعد لا يتجاوز عدد العضويات الحالية للمجلس، والأمر معروض على الجمعية العامة الموقرة للموافقة على انتخاب السادة المرشحين للدورة الثالثة عشر للمجلس وهم:

أ- **<u>مصرف ليبيا المركزي:</u>** -

السيد الصديق عمر الكبير
السيد طارق يوسف المقريف
السيد علي سعد الاشهب

ب- **الهيئة العامة للاستثمار – دولة الكويت: -**

السيد خالد عبدالعزيز الحسون
السيد محمد عبدالرضا سليم

وفيما يتعلق بممثلي المساهمين من شريحة الجمهور المكتتبين بأسهم البنك فقد تقرر ترشيح كل من السادة **الدكتور أنور علي المضف والدكتور يوسف عبدالله العوضي والسيد بشير ابوالقاسم عمر والدكتور فاروق عبد الباقي العقدة** لعضوية مجلس الادارة.

وبذلك يلاحظ أن عدد المرشحين لعضوية المجلس لا يتجاوز عدد العضويات الحالية لمجلس الإدارة وعددهم تسعة أعضاء، حيث أفاد السيد رئيس مجلس الإدارة بأن الأمر معروض على الجمعية العامة الموقرة للموافقة على الاطلاع على السادة ممثلي كبار المساهمين المطلوب تعينهم وفقا للمادة ١٩ من النظام الاساسي للمؤسسة وكذلك انتخاب المرشحين من المساهمين عن شريحة الجمهور كما يلي: -

أ- **المعينون من كبار المساهمين:-**

السيد/ الصديق عمر الكبير
السيد/ خالد عبدالعزيز الحسون
السيد/ محمد عبدالرضا سليم
السيد/ د. طارق يوسف المقريف
السيد/ علي سعد الاشهب

ب- **المنتخبون من مساهمي شريحة الجمهور: -**

السيد/ د. انور علي المضف
السيد/ د. فاروق عبدالباقي العقدة .
السيد/ د. يوسف عبدالله العوضي .
السيد/ بشير ابوالقاسم عمر .

وبعد المداولة **قررت الجمعية العامة اعتماد** توصية مجلس الإدارة بانتخاب أعضاء مجلس الإدارة عن دورته الثالثة عشر على النحو المذكور أعلاه.

أحد عشر :- **اطـلاع الجمعية العامـة علـى المعاملات مـع الاطـراف ذات العلاقة حسب المادة ١٨٩ (ج) من قانون الشركـات التجاريـة وكمـا هـو وارد في الايضاح رقـم ٢٧ مـن القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٨/١٢/٣١م.**

طلب السيد رئيس مجلس الإدارة من الجمعية العامة الإفادة باطلاعها على الايضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٨/١٢/٣١م (ص ١٠٧ من الكتيب) كما تم توزيعها على السادة المساهمين قبل اجتماع الجمعية العامة.

حيث **افادت الجمعية العامة باطلاعها** على الايضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠١٨/١٢/٣١م.

اثنا عشر :- **ما يستجد من أعمال طبقا لنص المادة ٢٠٧م من قانون الشركات التجارية .**

سجلت الجمعية العامة عدم وجود أي مستجدات طبقا للمادة ٢٠٧م من قانون الشركات التجارية.

الختام :-

بانتهـاء المـداولات الخاصـة بالجمعيـة العامـة العاديـة سـجّل رئيس الجمعيـة شكره الجزيـل 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** ولـي العهد نائب القائد الاعلـى النائب الأول لـرئيس مجلس الـوزراء علـى دعمهم الـدائم للمؤسسة. كما خص بشكره أيضا **سعادة الشيخ سلمان بن خليفة آل خليفة** وزير المالية **وسعادة السيد/ زايد بن راشد الزياني** وزير الصناعة والتجارة والسياحة فـي مملكـة البحريـن **وسعادة السيد/ رشيد المعراج** محافظ مصرف البحرين المركزي على دعمه الدائم للمؤسسة **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 ٢٠١٨م.

كما اختتم السيد رئيس مجلس الإدارة موجها الشكر إلى مجلس الإدارة على أداءه خلال الدورة المنتهية، متمنيا لمن تم إعادة انتخابه أو انتخابه دورة جديدة موفقة.

وبانتهاء النظر في بنود جدول الاعمال، رفعت الجلسة والساعة إلى ١,٤٥ ظهرا.

Mjaber

مصطفى محمد جابر
أمين سر الجمعية العامة

Directors' Report

Directors' Report

Directors' Report to the Shareholders

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

Key Achievements

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

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

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

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

Financial Performance

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

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

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

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

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

More broadly, our retail business across MENA recorded notable growth. The combined loan book for the MENA region rose to US$653 million, a rise of 8.4% on the 2018 figure of US$602 million. Customer deposits remained stable at US$1.7 billion. In addition, the number of active retail online banking almost tripled in 2019, with average monthly online transaction rising by 52% over the year.

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

Strategic Priorities

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

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

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

In other wholesale product areas, underpinning our Corporate client acquisition strategy, our Financial Markets business also performed strongly seeing increased client flows underpinned by proactive risk management, product diversification via bespoke solutions and a strengthening of its collaborative client centric model. The Capital Markets business significantly outperformed the market in 2019, despite low corporate activity and syndication volumes across core markets. We underwrote and distributed more syndicated loans for corporates and FIs as a direct result of increased collaboration. Debt Capital Markets team did a number of high volume and well noted transactions. Our franchise enhancing Specialised Finance business had a remarkable year arranging and underwriting high profile transactions across our core markets.
Likewise, our Islamic finance franchise had a successful year supporting its significant client base across our network and product capability.
One of ABC's strengths remains its Financial Institutions business, and we continue to prioritise, globalise and optimise both strategic and correspondent FI relationships to ensure the Group's funding, transaction and clearing capabilities are reinforced through effective partnerships, extending our customer reach across the globe.

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

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

Operational efficiency and resilience

Underpinning the focus on our digital strategy, is investment in our core technology platforms. The

Bank has adopted a cloud-first strategy, which will continue to evolve in 2020, with enterprise data, risk and disaster recovery protocols taking centre stage. Our cyber security protocols were also reviewed in 2019, resulting in investments in new tools and systems to monitor potential risk and the provision of patches for updates and enhancements.
On regulation, the Bank has welcomed and planned for effective compliance in all CBB directives, which in 2019 included liquidity integrated stress testing, operational risk modules, data protection regulations and transition from LIBOR. Moreover, SWIFT, the new GPI Global Payments Initiative was rolled out in Bahrain in 2019 and will be rolled out across the network in 2020 and 2021.

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

2020 Outlook

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

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

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

Saddek Omar El Kaber
Chairman

Auditors' Report

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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 2019 and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

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

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

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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)

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

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

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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)

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

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

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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 2019 annual report

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

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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.

Building a better working world

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 Directors report is consistent with the consolidated financial statements;

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

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

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

Ernst + Young

Partner's registration no: 117
9 February 2020
Manama, Kingdom of Bahrain

Consolidated Financial Statements

31 December 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

All figures in US$ Million

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

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

All figures in US$ Million

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

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

All figures in US$ Million

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

All figures in US$ Million

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

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

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

All figures in US$ Million

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

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

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, Islamic Banking, and recently entered into the digital, mobile-only banking space named "ila Bank" within retail consumer banking services. Retail banking services are only provided in the MENA region.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Accounting convention

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

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

2.3 Basis of consolidation

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

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

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

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

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

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 loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 Standards effective for the year

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

IFRS 16 Leases (IFRS 16)

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

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

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

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

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.1 Standards effective for the year (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (Interpretation)
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses instances where an entity separately considers uncertain tax treatments, or makes assumptions related to how a tax authorities would treat certain tax positions. In addition the Interpretation also addresses how an entity determines the taxable profit (tax loss), tax base, amongst other key tax positions including changes in facts and circumstances.

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

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

Amendments to IFRS 9: Prepayment features with negative compensation
Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

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

Annual improvements 2015-2017 cycle
These improvements include:

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

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

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

3.2 Standards issued but not yet effective

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

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

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

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

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

Amendments to IFRS 3: Definition of a Business

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

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

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Liquid funds

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

4.2 Cash and cash equivalents

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Trading securities

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

4.4 Placements with banks and other financial institutions

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

4.5 Investments in associates

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

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

4.6 Premises and equipment

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

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

4.7 Deposits

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

4.8 Repurchase and reverse repurchase agreements

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

4.9 Employee pension and other end of service benefits

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Recognition of income and expenses

4.10.1 The effective interest rate (EIR) method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

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

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

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

4.10.2 Interest and similar income/expense

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

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

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

4.10.3 Fee and commission income

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Recognition of income and expenses (continued)

4.10.3 Fee and commission income (continued)

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

Asset management fees

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

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

Loan commitment fees

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

4.10.4 Net trading income

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

4.11 Treasury shares

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

4.12 Financial instruments

4.12.1 Date of recognition

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Financial instruments (continued)

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

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

4.12.3 Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

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

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

4.13 Financial assets

4.13.1 Debt type instruments - classification and subsequent measurement
The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

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

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

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

- 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)

4.13 Financial assets (continued)

4.13.1 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 other comprehensive income (OCI), except for the recognition of expected credit losses or writebacks, interest income and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading debt investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Group may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in consolidated profit or loss and presented in the consolidated statement of profit or loss within 'Other operating income' as 'Gain on trading securities' in the year in which it arises. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

4.13.2 Business model

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Financial assets (continued)

4.13.3 SPPI test

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

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

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

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

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

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

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

4.13.4 Reclassification

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

4.13.5 Equity type instruments - classification and subsequent measurement

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Financial assets (continued)

4.13.6 Modified or forbearance of loans

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

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

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

4.13 Financial assets (continued)

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

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

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

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

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

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

4.14 Financial liabilities

4.14.1 Classification and subsequent measurement
Financial liabilities are classified as subsequently measured at amortised cost, except for:

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Financial liabilities (continued)

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

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

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 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 financial assets are first recognised, the Group recognises an allowance based upto 12-month ECL.
- Stage 2 – Significant increase in credit risk: when a financial asset shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Impaired: the Group recognises the lifetime ECL for these financial assets.

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

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

No impairment is recorded on equity instruments.

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 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, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, or if the Group expects to grant the borrower forbearance or facility has been restructured owing to credit related reasons, or the facility is placed on the Group's list of accounts requiring close monitoring. Further, any facility having an internal credit risk rating of 8 are also subject to stage 2 ECL calculation.

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

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

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

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Impairment (continued)

Stage 3 (continued)

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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

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

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

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

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Financial guarantee contracts and loan commitments

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

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

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

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

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

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

4.18 Derivatives and hedging activities

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

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

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

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

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges); or
(c) Hedges of a net investment in a foreign operation (net investment hedges).

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 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 consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

4.20 Taxation on foreign operations

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

4.21 Foreign currencies

Transactions and balances

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

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

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

Group companies

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Trade and settlement date accounting

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

4.23 Fiduciary assets

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

4.24 Offsetting

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

4.25 Borrowings

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

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

4.26 Write-off

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

4.27 Collateral valuation

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

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

4.28 Collateral repossessed

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.29 Significant accounting judgements, estimates and assumptions

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

Going concern

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

Measurement of the expected credit loss allowance (ECL)

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

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

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

Classification of financial assets

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

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

Fair value of financial instruments

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

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

At 31 December 2019	***FVTPL***	***FVOCI***	***Amortised cost***	***Total***
ASSETS				
Liquid funds	**-**	**-**	**1,874**	**1,874**
Trading securities	**507**	**-**	**-**	**507**
Placements with banks and other financial institutions	**-**	**-**	**2,051**	**2,051**
Securities bought under repurchase agreements	**-**	**-**	**1,398**	**1,398**
Non-trading investments	**-**	**4,927**	**909**	**5,836**
Loans and advances	**11**	**192**	**16,249**	**16,452**
Other assets	**515**	**-**	**1,230**	**1,745**
	1,033	**5,119**	**23,711**	**29,863**

	FVTPL	***FVOCI***	***Amortised cost***	***Total***
LIABILITIES				
Deposits from customers	-	**-**	**16,666**	**16,666**
Deposits from banks	-	**-**	**3,897**	**3,897**
Certificates of deposit	-	**-**	**399**	**399**
Securities sold under repurchase agreements	-	**-**	**1,008**	**1,008**
Taxation and other liabilities	**463**	**-**	**1,066**	**1,529**
Borrowings	-	**-**	**2,080**	**2,080**
	463	**-**	**25,116**	**25,579**

All figures in US$ Million

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2018	*FVTPL*	*FVOCI*	*Amortised cost*	*Total*
ASSETS				
Liquid funds	-	-	1,607	1,607
Trading securities	977	-	-	977
Placements with banks and other financial institutions	-	-	2,991	2,991
Securities bought under repurchase agreements	-	-	1,668	1,668
Non-trading investments	-	4,541	1,120	5,661
Loans and advances	19	216	14,649	14,884
Other assets	450	-	1,134	1,584
	1,446	4,757	23,169	29,372

	FVTPL	*FVOCI*	*Amortised cost*	*Total*
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

6 LIQUID FUNDS

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

7 TRADING SECURITIES

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

All figures in US$ Million

8 NON-TRADING INVESTMENTS

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

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

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

Following are the stage wise break-up of debt securities as at 31 December 2019 and 31 December 2018:

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debt securities, gross	**5,788**	**55**	**74**	**5,917**
ECL allowances	**(13)**	**(4)**	**(74)**	**(91)**
	5,775	**51**	**-**	**5,826**

All figures in US$ Million

8 NON-TRADING INVESTMENTS (continued)

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities, gross	5,534	137	102	5,773
ECL allowances	(13)	(6)	(102)	(121)
	5,521	131	-	5,652

An analysis of movement in the ECL allowances during the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 1 January	**13**	**6**	**102**	**121**
Transfers to stage 1	**-**	**-**	**-**	**-**
Transfers to stage 2	**-**	**-**	**-**	**-**
Transfers to stage 3	**-**	**-**	**-**	**-**
Net transfers between stages	**-**	**-**	**-**	**-**
Additions	**-**	**-**	**-**	**-**
Recoveries / write back	**-**	**(2)**	**-**	**(2)**
Write back for the year - net	**-**	**(2)**	**-**	**(2)**
Amounts written-off	**-**	**-**	**(28)**	**(28)**
Exchange adjustments and other movements	**-**	**-**	**-**	**-**
As at 31 December	**13**	**4**	**74**	**91**

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
As at 1 January	14	4	103	121
Transfers to stage 1	1	(1)	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Net transfers between stages	1	(1)	-	-
Additions	-	1	-	1
Recoveries / write back	-	-	-	-
Charge for the year - net	-	1	-	1
Exchange adjustments and other movements	(2)	2	(1)	(1)
As at 31 December	13	6	102	121

Interest income received during the year on impaired investments classified under Stage 3 amounted to US$ nil million (2018: nil).

All figures in US$ Million

9 LOANS AND ADVANCES

Below is the classification of loans and advances by measurement:

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
At FVTPL				
- Wholesale	**11**	**-**	**-**	**11**
At FVOCI				
- Wholesale	**192**	**-**	**-**	**192**
At Amortised cost				
- Wholesale	**14,758**	**803**	**601**	**16,162**
- Retail	**614**	**56**	**34**	**704**
	15,575	**859**	**635**	**17,069**
ECL allowances	**(58)**	**(67)**	**(492)**	**(617)**
	15,517	**792**	**143**	**16,452**

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
At FVTPL				
- Wholesale	19	-	-	19
At FVOCI				
- Wholesale	216	-	-	216
At Amortised cost				
- Wholesale	13,068	905	586	14,559
- Retail	590	33	31	654
	13,893	938	617	15,448
ECL allowances	(47)	(88)	(429)	(564)
	13,846	850	188	14,884

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

	Gross loans		***ECL allowances***		***Net loans***	
	2019	*2018*	***2019***	*2018*	***2019***	*2018*
Financial services	**3,308**	3,299	**22**	20	**3,286**	3,279
Energy	**1,165**	696	**9**	7	**1,156**	689
Utilities	**756**	621	**4**	11	**752**	610
Distribution	**609**	251	**4**	4	**605**	247
Retailers	**278**	367	**2**	1	**276**	366
Manufacturing	**2,734**	2,464	**65**	67	**2,669**	2,397
Construction	**1,242**	1,096	**140**	112	**1,102**	984
Mining and quarrying	**413**	337	**9**	2	**404**	335
Transport	**768**	888	**12**	18	**756**	870
Personal/consumer finance	**657**	560	**37**	26	**620**	534
Commercial real estate financing	**601**	507	**8**	1	**593**	506
Residential mortgage	**102**	188	**1**	1	**101**	187
Trade	**1,306**	1,241	**161**	165	**1,145**	1,076
Agriculture, fishing and forestry	**1,332**	1,207	**30**	29	**1,302**	1,178
Technology, media and telecommunications	**334**	267	**30**	33	**304**	234
Government	**183**	184	**2**	3	**181**	181
Other services	**1,281**	1,275	**81**	64	**1,200**	1,211
	17,069	15,448	**617**	564	**16,452**	14,884

All figures in US$ Million

9 LOANS AND ADVANCES (continued)

An analysis of movement in the ECL allowances during the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 1 January	**47**	**88**	**429**	**564**
Transfers to stage 1	**1**	**(1)**	**-**	**-**
Transfers to stage 2	**(1)**	**1**	**-**	**-**
Transfers to stage 3	**-**	**(21)**	**21**	**-**
Net transfers between stages	**-**	**(21)**	**21**	**-**
Additions	**11**	**1**	**81**	**93**
Recoveries / write back	**-**	**-**	**(14)**	**(14)**
Charge for the year - net	**11**	**1**	**67**	**79**
Amounts written-off	**-**	**-**	**(50)**	**(50)**
Exchange adjustments and other movements	**-**	**(1)**	**25**	**24**
As at 31 December	**58**	**67**	**492**	**617**

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

The fair value of collateral that the Group holds relating to loans and advances individually determined to be impaired and classified under Stage 3 at 31 December 2019 amounts to US$ 114 million (2018: US$ 232 million).

At 31 December 2019, interest in suspense on past due loans under Stage 3 amounts to US$ 101 million (2018: US$ 86 million).

10 CREDIT LOSS EXPENSE

	2019	*2018*
Non-trading debt investments (note 8)	**(2)**	1
Loans and advances (note 9)	**79**	85
Credit commitments and contingent items (note 21)	**6**	(6)
Other financial assets	**(1)**	(1)
	82	79

All figures in US$ Million

11 OTHER ASSETS

	2019	*2018*
Interest receivable	**316**	410
Right-of-use assets	**64**	-
Trade receivables	**269**	243
Positive fair value of derivatives (note 20)	**518**	468
Assets acquired on debt settlement	**69**	82
Deferred tax assets	**124**	98
Bank owned life insurance	**39**	38
Margin dealing accounts	**61**	40
Staff loans	**29**	27
Advances and prepayments	**39**	30
Investments in an associate	**22**	17
Others	**217**	148
	1,767	1,601

The negative fair value of derivatives amounting to US$ 520 million (2018: US$ 444 million) is included in other liabilities (note 13). Details of derivatives are given in note 20.

Below are the carrying amounts of the Group's right-of-use assets and movements during the year recognised in the consolidated statements of financial position and profit or loss:

	Right-of-use assets
As at 1 January 2019	**70**
Add: New/terminated leases - net	**5**
Less: Amortisation	**(10)**
Others (including foreign exchange movements)	**(1)**
As at 31 December 2019	**64**

12 TAXATION ON FOREIGN OPERATIONS

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

	2019	*2018*
Consolidated statement of financial position		
Current tax liability	**20**	25
Deferred tax liability	**43**	18
	63	43
Consolidated statement of profit or loss		
Current tax on foreign operations	**24**	33
Deferred tax on foreign operations	**(1)**	(17)
	23	16
Analysis of tax charge		
At Bahrain (income tax rate of nil)	**-**	-
On profits of subsidiaries operating in other jurisdictions	**35**	67
Credit arising from tax treatment of hedging currency movements	**(12)**	(51)
Income tax expense reported in the consolidated statement of profit or loss	**23**	16

All figures in US$ Million

12 TAXATION ON FOREIGN OPERATIONS (continued)

The effective tax rates on the profit of subsidiaries in MENA was 28% (2018: 29%) and United Kingdom was 16% (2018: 19%) as against the actual tax rates of 19% to 38% (2018: 19% to 35%) in MENA and 19% (2018: 19%) in United Kingdom. In the Bank's Brazilian subsidiary, the effective tax rate was 2% (2018: nil) as against the actual tax rate of 42% (2018: 38%).

As reflected above, the tax credit for the year includes US$ 12 million arising from the tax treatment of hedging currency movements (2018: tax credit of US$ 51 million) on a certain transaction. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments at the group level, the average effective tax rate is 9% (2018: 6%).

In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits.

13 OTHER LIABILITIES

	2019	*2018*
Interest payable	**388**	359
Lease liabilities	**69**	-
Negative fair value of derivatives (note 20)	**520**	444
Employee related payables	**130**	127
Margin deposits including cash collateral	**48**	62
Deferred income	**21**	29
ECL allowances for credit commitments and contingent items (note 21)	**38**	52
Accrued charges and other payables	**252**	163
	1,466	1,236

The positive fair value of derivatives amounting to US$ 518 million (2018: US$ 468 million) is included in other assets (note 11). Details of derivatives are given in note 20.

Below are the carrying amounts of the Group's lease liabilities and movements during the year recognised in the consolidated statements of financial position and profit or loss:

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

All figures in US$ Million

14 BORROWINGS

In the ordinary course of business, the Bank and certain subsidiaries raise term financing through various capital markets at commercial rates.

Total obligations outstanding at 31 December 2019

Aggregate maturities	Currency	Rate of Interest %	*Parent bank*	*Subsidiaries*	*Total*
2020*	US$	*7.875*	**-**	**126**	**126**
2020	US$	*Libor + 1.20%*	**-**	**175**	**175**
2020	US$	*Libor + 1.25%*	**-**	**75**	**75**
2021	US$	*Libor + 1.80%*	**171**	**-**	**171**
2021	EUR	*Libor + 1.10%*	**-**	**84**	**84**
2022	US$	*Libor + 2.25%*	**1,330**	**-**	**1,330**
2023	TND	*10.03*	**-**	**6**	**6**
Perpetual**	BRL	*7.81*	**-**	**113**	**113**
			1,501	**579**	**2,080**
Total obligations outstanding at 31 December 2018			1,561	451	2,012

* Subordinated
During the year ended 31 December 2019, the Bank repurchased a portion of its term loan borrowings with a nominal value of US$ 6 million (2018: US$ 6 million). The resultant net gain on the repurchase amounting to US$ nil (2018 : US$ nil) is included in "Other operating income".

** Additional Tier 1 ("AT1")
During the year, a subsidiary of the Bank issued perpetual financial instruments amounting to US$ 113 million. This instrument has been approved by its local regulator for inclusion in AT1 capital and accordingly has been included as part of AT1 for the purpose of capital adequacy ratio calculation as disclosed in note 32.

15 EQUITY

a) Share capital

	2019	*2018*
Authorised – 3,500 million shares of US$ 1 each (2018: 3,500 million shares of US$ 1 each)	**3,500**	3,500
Issued, subscribed and fully paid – 3,110 million shares of US$ 1 each (2018: 3,110 million shares of US$ 1 each)	**3,110**	3,110

b) Treasury shares

The Group owns 14,997,026 treasury shares (2018: 12,200,000 shares) for a cash consideration of US$ 6 million (2018: US$ 4 million).

c) Statutory reserve

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

d) General reserve

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

All figures in US$ Million

15 EQUITY (continued)

e) Cumulative changes in fair value

	2019	*2018*
At 1 January	**(37)**	5
Net movement in fair value during the year	**79**	(42)
At 31 December	**42**	(37)

16 INTEREST AND SIMILAR INCOME

	2019	*2018*
Loans and advances	**897**	908
Securities and investments	**359**	384
Placements with banks and other financial institutions	**193**	175
Others	**11**	5
	1,460	1,472

17 INTEREST AND SIMILAR EXPENSE

	2019	*2018*
Deposits from banks	**234**	217
Deposits from customers	**554**	596
Borrowings	**98**	94
Certificates of deposit and others	**10**	6
	896	913

18 OTHER OPERATING INCOME

	2019	*2018*
Fee and commission income - net*	**199**	205
Bureau processing income	**33**	32
Income from trading book - net	**11**	10
Gain on dealing in foreign currencies - net	**28**	39
Loss on hedging foreign currency movements**	**(12)**	(51)
Gain on disposal of non-trading debt investments - net	**13**	8
Other - net	**29**	15
	301	258

*Included in the fee and commission income is US$ 13 million (2018: US$ 13 million) of fee income relating to funds under management.

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

All figures in US$ Million

19 GROUP INFORMATION

19.1 Information about subsidiaries

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

	Principal activities	*Country of incorporation*	*Interest of Arab Banking Corporation (B.S.C.)*	
			2019	*2018*
			%	%
ABC International Bank Plc	*Banking*	*United Kingdom*	**100.0**	100.0
ABC Islamic Bank (E.C.)	*Banking*	*Bahrain*	**100.0**	100.0
Arab Banking Corporation (ABC) - Jordan	*Banking*	*Jordan*	**87.0**	87.0
Banco ABC Brasil S.A.	*Banking*	*Brazil*	**61.1**	60.6
ABC Algeria	*Banking*	*Algeria*	**87.7**	87.7
Arab Banking Corporation - Egypt [S.A.E.]	*Banking*	*Egypt*	**99.8**	99.8
ABC Tunisie	*Banking*	*Tunisia*	**100.0**	100.0
Arab Financial Services Company B.S.C. (c)	*Credit card and Fintech services*	*Bahrain*	**60.3**	56.6

19.2 Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. In certain jurisdictions, distribution of reserves is subject to prior supervisory approval.

19.3 Material partly-owned subsidiaries

Financial information of a subsidiary that has material non-controlling interests is provided below:

Banco ABC Brasil S.A.

	2019	*2018*
Proportion of equity interest held by non-controlling interests (%)	**38.9%**	39.4%
Dividends paid to non-controlling interests	**22**	22

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

	2019	*2018*
Summarised statement of profit or loss:		
Interest and similar income	**555**	648
Interest and similar expense	**(385)**	(471)
Other operating income	**116**	85
Credit loss expense	**(34)**	(39)
Operating expenses	**(128)**	(126)
Profit before tax	**124**	97
Taxation	**(2)**	17
Profit for the year	**122**	114
Profit attributable to non-controlling interests	**47**	45
Total comprehensive income (loss)	**86**	(38)
Total comprehensive income (loss) attributable to non-controlling interests	**33**	(15)

All figures in US$ Million

19 GROUP INFORMATION (continued)

19.3 Material partly-owned subsidiaries (continued)

Banco ABC Brasil S.A. (continued)

	2019	*2018*
Summarised statement of financial position:		
Total assets	**8,093**	7,757
Total liabilities	**7,089**	6,792
Total equity	**1,004**	965
Equity attributable to non-controlling interests	**390**	380
Summarised cash flow information:		
Operating activities	**369**	(92)
Investing activities	**(377)**	108
Financing activities	**76**	(13)
Net increase in cash and cash equivalents	**68**	3

20 DERIVATIVES AND HEDGING

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	2019			*2018*		
	Positive fair value	***Negative fair value***	***Notional amount***	*Positive fair value*	*Negative fair value*	*Notional amount*
Derivatives held for trading						
Interest rate swaps	**107**	**123**	**9,525**	88	82	7,416
Currency swaps	**31**	**8**	**632**	27	14	507
Forward foreign exchange contracts	**18**	**37**	**5,000**	19	11	3,101
Options	**348**	**285**	**8,373**	314	298	6,661
Futures	**11**	**10**	**4,234**	2	8	3,208
	515	**463**	**27,764**	450	413	20,893
Derivatives held as hedges						
Interest rate swaps	**3**	**56**	**4,638**	15	26	2,303
Currency swaps	**-**	**-**	**31**	-	1	25
Forward foreign exchange contracts	**-**	**1**	**447**	3	4	560
	3	**57**	**5,116**	18	31	2,888
	518	**520**	**32,880**	468	444	23,781
Risk weighted equivalents (credit and market risk)			**2,226**			2,102

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

All figures in US$ Million

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, debt instruments at amortised cost and subordinated loan of a subsidiary.

For the year ended 31 December 2019, the Group recognised a net loss of US$ 42 million (2018: net gain of US$ 26 million) on hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to US$ 42 million (2018: loss of US$ 26 million).

b) The Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2019, the Group had deposits amounting to US$ 644 million (2018: US$ 610 million) which were designated as net investment hedges.

Derivative product types

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

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

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

Derivative related credit risk

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

All figures in US$ Million

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 two separate hedging strategies, as follows:

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

The Group holds a portfolio of long-term variable and fixed rate loans / securities / deposits and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed / receive floating interest rate swaps.

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

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

(i) differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
(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.

All figures in US$ Million

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:

	Within 1 month	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*5-10 years*	*Over 10 years*	*Total*
Notional								
2019	**4,967**	**3,897**	**2,116**	**4,672**	**12,139**	**4,623**	**466**	**32,880**
2018	2,509	2,473	1,505	4,413	8,757	3,015	1,109	23,781

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of exposures to fluctuations in foreign exchange rates, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses quantitative hedge effectiveness testing using the dollar offset method to assess effectiveness.

In hedges of foreign currency exposures, ineffectiveness may arise if the timing of the cash flows changes from what was originally estimated, or if there are changes in the credit risk of the Bank or the derivative counterparty.

Hedge ineffectiveness only arises to the extent the hedging instruments exceed in nominal terms the risk exposure from the foreign operations. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI, while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statement of profit or loss.

The ineffectiveness during 2019 or 2018 in relation to the interest rate swaps is however not significant to the Group.

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS

Credit commitments and contingent items include commitments to extend credit, standby letters of credit, acceptances and guarantees, which are structured to meet the various requirements of customers.

At the consolidated statement of financial position date, the principal outstanding and the risk weighted equivalents were as follows:

	2019	*2018*
Short-term self-liquidating trade and transaction-related contingent items	**2,449**	3,662
Direct credit substitutes and guarantees	**3,349**	4,043
Undrawn loans and other commitments	**2,416**	2,272
	8,214	9,977
Credit exposure after applying credit conversion factor	**4,103**	4,173
Risk weighted equivalents	**3,059**	3,274

All figures in US$ Million

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

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

	2019	*2018*
On demand	**1,438**	2,430
1 - 6 months	**2,497**	3,095
6 - 12 months	**1,510**	1,946
1 - 5 years	**2,727**	2,453
Over 5 years	**42**	53
	8,214	9,977

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

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Credit commitments and contingencies	**3,789**	**289**	**25**	**4,103**
ECL allowances	**(14)**	**(13)**	**(11)**	**(38)**

	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Credit commitments and contingencies	3,996	160	17	4,173
ECL allowances	(14)	(22)	(16)	(52)

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

	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
As at 1 January	**14**	**22**	**16**	**52**
Transfers to stage 1	**-**	**-**	**-**	**-**
Transfers to stage 2	**(1)**	**1**	**-**	**-**
Transfers to stage 3	**-**	**(12)**	**12**	**-**
Net transfers between stages	**(1)**	**(11)**	**12**	**-**
Additions	**1**	**2**	**3**	**6**
Recoveries / write back	**-**	**-**	**-**	**-**
Charge for the year - net	**1**	**2**	**3**	**6**
Exchange adjustments and other movements	**-**	**-**	**(20)**	**(20)**
As at 31 December	**14**	**13**	**11**	**38**

All figures in US$ Million

21 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

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

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group is engaged in litigation in various jurisdictions. The litigation involves claims by and against the Group which have arisen in the ordinary course of business. The Directors of the Bank, after reviewing the claims pending against Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

22 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

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

	2019		*2018*	
Long (short)	***Currency***	***US$ equivalent***	*Currency*	*US$ equivalent*
Brazilian Real	**2,448**	**609**	2,269	585
Pound Sterling	**(9)**	**(12)**	4	6
Egyptian Pound	**1,783**	**111**	1,735	97
Jordanian Dinar	**85**	**120**	136	191
Algerian Dinar	**16,860**	**142**	15,422	130
Tunisian Dinar	**99**	**36**	74	25
Euro	**10**	**11**	1	2
Bahrain Dinar	**7**	**19**	8	20

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

23.1 31 December 2019

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2019:

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

	Level 1	*Level 2*	*Total*
Trading securities	**507**	**-**	**507**
Non-trading investments	**4,762**	**165**	**4,927**
Loans and advances	**11**	**192**	**203**
Derivatives held for trading	**213**	**302**	**515**
Derivatives held as hedges	**-**	**3**	**3**

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2019:

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading	**150**	**313**	**463**
Derivatives held as hedges	**-**	**57**	**57**

Fair values of financial instruments not carried at fair value

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

	Carrying value	*Fair value*
Financial assets		
Non-trading investments at amortised cost - gross	**912**	**913**
Financial liabilities		
Borrowings	**2,080**	**2,079**

23.2 31 December 2018

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

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

	Level 1	*Level 2*	*Total*
Trading securities	977	-	977
Non-trading investments	4,448	93	4,541
Loans and advances	19	216	235
Derivatives held for trading	272	178	450
Derivatives held as hedges	-	18	18

All figures in US$ Million

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

23.2 31 December 2018 (continued)

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

Financial liabilities measured at fair value:

	Level 1	*Level 2*	*Total*
Derivatives held for trading	263	150	413
Derivatives held as hedges	-	31	31

Fair values of financial instruments not carried at fair value

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

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

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 December 2019 (31 December 2018: none).

All figures in US$ Million

24 RISK MANAGEMENT

24.1 Introduction

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

The Group continues to invest to strenthgen its comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems as well as a strong business process to monitor and control these risks.

24.2 Risk management structure

Executive Management is responsible for implementing the Group's Risk Strategy/Appetite and Policy Guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all material risks to the business and the design and implementation of appropriate internal controls to mitigate them. This is done through the Board Committees, Senior Management Committees, the Credit & Risk Group, Compliance and Balance Sheet Management Group functions at Head Office.

Within the broader governance framework, the Board Committees carry out the main responsibility for best practice of risk management and oversight. The BRC oversees the establishment of the risk appetite framework, risk capacity and risk appetite statement. The BRC is also responsible for coordinating with other board committees for monitoring compliance with the requirements of the regulatory authorities in various countries in which the Group operates. BRC is supported by three management level committees – Group Risk Committee (GRC), Group Asset Liability Committee (GALCO) and the Group Compliance Oversight Committee (GCOC).

The Board Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in various countries in which the Group operates.

The GRC defines, develops and monitors the Group’s overarching risk management framework considering the Group’s strategy and business plans. The GRC is responsible for initiating, discussions and monitoring of key regulations, both local and international, as applicable to the businesses and geographies in which the Group operates. The GRC is assisted by specialised sub-committees to manage credit risk (Group Credit Committee), operational risk (Group Operational Risk Committee) risk management framework, risk models (Group Risk Governance and Analytics Committee)and operational resilience (Group Operational Resilience Committee).

The GALCO is responsible for defining Asset and Liability management policy, which includes capital, liquidity & funding and market risk in line with the risk appetite framework. GALCO monitors the Group’s capital, liquidity, funding and market risks, and the Group’s risk profile in the context of economic developments and market volatility. GALCO is assisted by tactical sub-committees for Capital & Liquidity Management.

The GCOC has the oversight responsibilities relating to maintaining and enforcing a strong and sustainable compliance culture and is responsible for establishing the operating framework and the processes to support a permanent and an effective compliance function.

The above management structure, supported by teams of risk & credit analysts, and compliance officers, provide a coherent infrastructure to carry credit, risk, balance sheet management and compliance functions in a seamless manner.

Each subsidiary is responsible for managing its own risks and has its own Board Risk Committee and Management Committees with responsibilities generally analogous to the Group Committees.

All figures in US$ Million

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 and mitigation

Exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. EAD for unfunded facilities is calculated by multiplying the outstanding exposure with the credit conversion factor (CCF) ranging from 20% to 100%.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events and the cash flows following within 12 months for the calculation of the 12 months ECL. For Stage 2 and Stage 3, the exposure at default is considered for events over the lifetime of the instruments.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment 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, guarantees, etc.

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

Definition of default and cure

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

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

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

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

Credit risk grading and PD estimation process

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

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment 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 (%)
01 to 04-	Superior	>= 0.00% to <0.49%
05+ to 05-	Satisfactory	>= 0.49% to <1.52%
06+ to 06-	Satisfactory	>= 1.52% to <5.02%
07+ to 07-	Marginal	>= 5.02% to <17.32%
08	Watchlist	>= 17.32%

The PDs obtained as above are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information. This is repeated for each economic scenario as appropriate.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment 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 SICR has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	Significant increase in credit risk (since initial recognition)	(Default or credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment 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 or has applied for bankruptcy/protection; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of 12 months for the purposes of transition from Stage 3 to 2. This period of 12 months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

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

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

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

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

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment and mitigation (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The Lifetime PD is developed by applying the forward looking information on 12-month PD over the maturity of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type.

For secured products, this is primarily based on collateral values after applying approved haircuts depending on the collateral type. Further, the Group has applied LGD floors with respect to the fully secured portion of the portfolio depending on the collateral type.

For unsecured products, LGD’s are computed based on models which take into account several factors such as country, industry, PD, etc which consider the recoveries made post default.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. These assumptions vary by country of exposure. Refer to note 4 and below for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

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

Economic variable assumptions

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.1 Credit risk impairment assessment and mitigation (continued)

Economic variable assumptions (continued)

The most significant assumptions affecting the ECL allowance are as follows:

(i) GDP, given the significant impact on companies' performance and collateral valuations;

(ii) Oil price, given its impact on the region's economies in which the Bank and the majority of the Group's subsidiaries are domiciled and operated; and

(iii) Equity index, given its impact on the economy where the majority of the Group's exposures are lying.

The following table sets out the key macroeconomic variables of ECL calculation and weightages used for scenarios.

Key macroeconomic variables used	ECL scenario and assigned weightage	2020	2021	2022	2023	2024
	Base (40%)	[1.55%, 5.79%]	[1.50%, 5.82%]	[1.48%, 5.84%]	[1.46%, 5.80%]	[1.43%, 5.77%]
GDP growth rate	Upside (30%)	[2.48%, 12.47%]	[2.67%, 10.41%]	[2.26%, 6.76%]	[2.04%, 6.28%]	[1.90%, 6.15%]
	Downside (30%)	[- 6.86%, 3.61%]	[- 5.13%, 4.51%]	[- 3.40%, 5.09%]	[- 2.29%, 5.31%]	[- 1.67%, 5.38%]
	Base (40%)	9.07%	5.89%	4.23%	3.58%	3.30%
Oil price	Upside (30%)	36.40%	18.64%	11.81%	8.60%	6.90%
	Downside (30%)	-33.36%	-14.13%	-6.96%	-2.46%	-0.49%
	Base (40%)	[- 8.40%, 12.91%]	[- 1.73%, 12.73%]	[0.64%, 12.31%]	[1.06%, 11.54%]	[1.49%, 10.97%]
Equity index	Upside (30%)	[5.17%, 22.18%]	[5.86%, 18.45%]	[3.79%, 16.06%]	[3.14%, 14.31%]	[2.90%, 13.16%]
	Downside (30%)	[- 31.80%, -16.52%]	[- 12.38%, -4.70%]	[- 6.04%, -0.22%]	[- 3.56%, 1.86%]	[- 1.70%, 3.30%]

The above macroeconomic variables are selected based on the regression analysis between the macroeconomic variables and the PD. These economic variables and their associated impact on the PD and LGD vary by country and industry. Forecasts of these economic variables (for all sccenarios) are provided by Moody's on a quarterly basis and provide the best estimate view of the economy over future years.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis
Based on the above significant assumptions and changes in each economic variable by +5% and -5% while keeping other key variables constant will result in a change in the ECL (stage 1 and 2) in the range of decrease by -4.9% to an increase by 6.6%.

All figures in US$ Million

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

The Group's concentration of risk is managed by geographical region and by industry sector. The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit commitments and contingent items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	2019	*2018*
Liquid funds	**1,843**	1,575
Trading debt securities	**491**	961
Placements with banks and other financial institutions	**2,051**	2,991
Securities bought under repurchase agreements	**1,398**	1,668
Non-trading debt investments	**5,826**	5,652
Loans and advances	**16,452**	14,884
Other credit exposures	**1,745**	1,584
	29,806	29,315
Credit commitments and contingent items (note 21)	**8,214**	9,977
Total	**38,020**	39,292

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.

24.4.3 Risk concentration of the maximum exposure to credit risk

The Group's assets (before taking into account any cash collateral held or other credit enhancements) can be analysed by the following geographical regions:

	Assets			
	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Western Europe	**2,363**	**170**	**-**	**2,533**
Arab World	**12,439**	**564**	**42**	**13,045**
Asia	**1,998**	**-**	**14**	**2,012**
North America	**2,671**	**2**	**5**	**2,678**
Latin America	**7,969**	**102**	**74**	**8,145**
Other	**1,351**	**34**	**8**	**1,393**
Total	**28,791**	**872**	**143**	**29,806**

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)

	Assets			
	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Western Europe	3,095	136	1	3,232
Arab World	11,755	507	28	12,290
Asia	1,733	9	-	1,742
North America	3,257	-	20	3,277
Latin America	7,249	140	131	7,520
Other	1,028	218	8	1,254
Total	28,117	1,010	188	29,315

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

	Liabilities and equity	
	2019	*2018*
Western Europe	**2,064**	2,489
Arab World	**19,091**	18,879
Asia	**433**	468
North America	**692**	706
Latin America	**6,632**	6,046
Other	**894**	727
Total	**29,806**	29,315

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

	Credit commitments and contingent items			
	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Western Europe	**1,087**	**181**	**18**	**1,286**
Arab World	**2,690**	**205**	**6**	**2,901**
Asia	**376**	**22**	**-**	**398**
North America	**708**	**97**	**22**	**827**
Latin America	**2,723**	**14**	**-**	**2,737**
Other	**57**	**7**	**1**	**65**
Total	**7,641**	**526**	**47**	**8,214**

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)

	Credit commitments and contingent items			
	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Western Europe	1,723	59	30	1,812
Arab World	3,809	111	-	3,920
Asia	253	84	-	337
North America	631	64	-	695
Latin America	3,076	-	-	3,076
Other	120	16	1	137
Total	9,612	334	31	9,977

An industry sector analysis of the Group's financial assets, before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure			
	2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Financial services	**8,320**	**73**	**-**	**8,393**
Energy	**1,327**	**32**	**-**	**1,359**
Utilities	**1,083**	**21**	**-**	**1,104**
Distribution	**946**	**9**	**-**	**955**
Retailers	**305**	**68**	**-**	**373**
Manufacturing	**3,276**	**116**	**38**	**3,430**
Construction	**998**	**145**	**26**	**1,169**
Mining and quarrying	**424**	**11**	**8**	**443**
Transport	**897**	**64**	**-**	**961**
Personal /consumer finance	**626**	**59**	**6**	**691**
Commercial real estate financing	**575**	**11**	**8**	**594**
Residential mortgage	**101**	**-**	**1**	**102**
Trade	**1,103**	**195**	**2**	**1,300**
Agriculture, fishing and forestry	**1,351**	**19**	**17**	**1,387**
Technology, media and telecommunications	**473**	**-**	**-**	**473**
Government	**4,787**	**34**	**-**	**4,821**
Other services	**2,199**	**15**	**37**	**2,251**
Total	**28,791**	**872**	**143**	**29,806**

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.3 Risk concentration of the maximum exposure to credit risk (continued)

	Gross maximum exposure			
	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Financial services	9,290	301	-	9,591
Energy	899	35	-	934
Utilities	924	28	3	955
Distribution	663	7	-	670
Retailers	458	13	-	471
Manufacturing	2,955	154	72	3,181
Construction	837	41	34	912
Mining and quarrying	362	12	-	374
Transport	971	82	9	1,062
Personal /consumer finance	595	32	7	634
Commercial real estate financing	431	76	-	507
Residential mortgage	186	-	1	187
Trade	1,420	121	1	1,542
Agriculture, fishing and forestry	1,129	42	35	1,206
Technology, media and telecommunications	381	-	8	389
Government	4,842	34	-	4,876
Other services	1,774	32	18	1,824
Total	28,117	1,010	188	29,315

An industry sector analysis of the Group's financial assets, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2019	*2018*
Financial services	**6,555**	7,638
Energy	**1,359**	934
Utilities	**1,104**	955
Distribution	**955**	670
Retailers	**371**	471
Manufacturing	**3,373**	3,136
Construction	**1,078**	823
Mining and quarrying	**443**	374
Transport	**961**	1,062
Personal /consumer finance	**691**	634
Commercial real estate financing	**594**	507
Residential mortgage	**102**	187
Trade	**1,293**	1,534
Agriculture, fishing and forestry	**1,387**	1,206
Technology, media and telecommunications	**473**	389
Government	**4,652**	4,287
Other services	**2,234**	1,797
Total	**27,625**	26,604

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

	Gross maximum exposure			
	2019			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Financial services	**2,274**	**85**	**1**	**2,360**
Energy	**330**	**62**	**-**	**392**
Utilities	**104**	**23**	**-**	**127**
Distribution	**64**	**4**	**-**	**68**
Retailers	**107**	**65**	**-**	**172**
Manufacturing	**976**	**168**	**28**	**1,172**
Construction	**722**	**79**	**18**	**819**
Mining and quarrying	**1,009**	**-**	**-**	**1,009**
Transport	**240**	**8**	**-**	**248**
Personal /consumer finance	**16**	**-**	**-**	**16**
Commercial real estate financing	**110**	**-**	**-**	**110**
Trade	**526**	**21**	**-**	**547**
Agriculture, fishing and forestry	**185**	**-**	**-**	**185**
Technology, media and telecommunications	**159**	**10**	**-**	**169**
Government	**50**	**-**	**-**	**50**
Other services	**769**	**1**	**-**	**770**
Total	**7,641**	**526**	**47**	**8,214**

	Gross maximum exposure			
	2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Financial services	3,928	61	1	3,990
Energy	100	71	-	171
Utilities	121	48	-	169
Distribution	52	2	-	54
Retailers	80	-	-	80
Manufacturing	1,323	61	-	1,384
Construction	602	62	30	694
Mining and quarrying	957	-	-	957
Transport	325	-	-	325
Personal /consumer finance	36	-	-	36
Commercial real estate financing	189	-	-	189
Trade	379	16	-	395
Agriculture, fishing and forestry	190	-	-	190
Technology, media and telecommunications	272	-	-	272
Government	877	-	-	877
Other services	181	13	-	194
Total	9,612	334	31	9,977

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

	Net maximum exposure	
	2019	*2018*
Financial services	**2,230**	3,652
Energy	**392**	171
Utilities	**127**	169
Distribution	**68**	54
Retailers	**172**	80
Manufacturing	**1,141**	1,374
Construction	**817**	693
Mining and quarrying	**1,009**	957
Transport	**248**	325
Personal /consumer finance	**16**	36
Commercial real estate financing	**110**	189
Trade	**541**	391
Agriculture, fishing and forestry	**185**	190
Technology, media and telecommunications	**169**	271
Government	**42**	841
Other services	**769**	194
Total	**8,036**	9,587

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 2019	***Neither past due nor impaired***				
	High grade	***Standard grade***	***Past due but not impaired***	***Past due and individually impaired***	***Total***
Liquid funds	**1,842**	**1**	**-**	**-**	**1,843**
Trading debt securities	**17**	**474**	**-**	**-**	**491**
Placements with banks and other financial institutions	**987**	**1,064**	**-**	**-**	**2,051**
Securities bought under repurchase agreements	**100**	**1,298**	**-**	**-**	**1,398**
Non-trading debt investments	**3,843**	**1,983**	**-**	**-**	**5,826**
Loans and advances	**4,218**	**12,016**	**75**	**143**	**16,452**
Other credit exposures	**1,510**	**235**	**-**	**-**	**1,745**
	12,517	**17,071**	**75**	**143**	**29,806**

31 December 2018	*Neither past due nor impaired*				
	High grade	*Standard grade*	*Past due but not impaired*	*Past due and individually impaired*	*Total*
Liquid funds	1,574	1	-	-	1,575
Trading debt securities	54	907	-	-	961
Placements with banks and other financial institutions	1,835	1,156	-	-	2,991
Securities bought under repurchase agreements	171	1,497	-	-	1,668
Non-trading debt investments	4,387	1,265	-	-	5,652
Loans and advances	4,478	10,163	55	188	14,884
Other credit exposures	1,392	192	-	-	1,584
	13,891	15,181	55	188	29,315

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 2019

	Liquid funds	*Trading debt securities*	*Placements with banks and other financial institutions*	*Securities bought under repurchase agreements*	*Non-trading debt investments*	*Loans and advances*
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	**1,555**	**17**	**987**	**100**	**4,230**	**5,980**
Rating grades 5+ to 5-	**82**	**474**	**221**	**824**	**427**	**3,974**
Rating grades 6+ to 6-	**205**	**-**	**843**	**459**	**1,118**	**5,200**
Rating grade 7+ to 7-	**-**	**-**	**-**	**15**	**-**	**363**
Carrying amount (net)	**1,842**	**491**	**2,051**	**1,398**	**5,775**	**15,517**
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	**-**	**-**	**-**	**-**	**-**	**7**
Rating grades 5+ to 5-	**-**	**-**	**-**	**-**	**-**	**45**
Rating grades 6+ to 6-	**-**	**-**	**-**	**-**	**51**	**387**
Rating grade 7+ to 7-	**1**	**-**	**-**	**-**	**-**	**220**
Rating grade 8	**-**	**-**	**-**	**-**	**-**	**133**
Carrying amount (net)	**1**	**-**	**-**	**-**	**51**	**792**
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	**-**	**-**	**-**	**-**	**-**	**143**
Carrying amount (net)	**-**	**-**	**-**	**-**	**-**	**143**
Total	**1,843**	**491**	**2,051**	**1,398**	**5,826**	**16,452**

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)

31 December 2018

	Liquid funds	*Trading debt securities*	*Placements with banks and other financial institutions*	*Securities bought under repurchase agreements*	*Non-trading debt investments*	*Loans and advances*
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	1,352	436	1,903	103	4,258	5,786
Rating grades 5+ to 5-	151	525	389	925	505	4,583
Rating grades 6+ to 6-	71	-	699	627	758	3,263
Rating grade 7+ to 7-	-	-	-	13	-	214
Carrying amount (net)	1,574	961	2,991	1,668	5,521	13,846
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	-	-	-	-	-	40
Rating grades 5+ to 5-	-	-	-	-	-	82
Rating grades 6+ to 6-	1	-	-	-	131	442
Rating grade 7+ to 7-	-	-	-	-	-	131
Rating grade 8	-	-	-	-	-	155
Carrying amount (net)	1	-	-	-	131	850
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	-	188
Carrying amount (net)	-	-	-	-	-	188
Total	1,575	961	2,991	1,668	5,652	14,884

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.4 Credit risk (continued)

24.4.4 Credit quality per class of financial assets (continued)

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. The attributable risk ratings are assessed and updated regularly. Each risk rating class has grades equivalent to Moody's, S&P, Fitch and CI rating agencies.

24.4.5 Carrying amount per class of financial assets whose terms have been renegotiated as at year-end

	2019	*2018*
Loans and advances	**267**	330

24.4.6 Overview of modified or forborne loans

From a risk management point of view, once an asset is forborne or modified, the Group's Remedial Loan Unit (RLU) continues to monitor the exposure until it is completely and ultimately derecognised.

No financial assets were modified having a loss allowance measured at an amount equal to lifetime ECL during 2019 (2018: gross carrying amount of US$ 9 million with a corresponding ECL of nil).

24.4.7 Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly includes cash, guarantees from banks, movable and immovable assets.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also makes use of master netting agreements with counterparties.

Credit exposure loan to value ratios of real estate portfolio

The real estate credit exposure of the Group amounts to US$ 878 million (2018: US$ 834 million). Predominantly, the loan to value ratios for these exposures are in the range of 28% to 80% (2018: 30% to 60%).

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

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

	Maximum exposure to credit risk	
	2019	*2018*
Trading securities		
- Debt Securities	**491**	961
Trading derivatives	**515**	450
Hedging derivatives	**3**	18
Financial assets designated at FVTPL		
- Loans and advances to customers	**11**	19

24 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.

The Group manages market risk by classifying into two types: a) trading market risk; and b) investment market risk. Trading market risk arises primarily from positions held in the trading books from market-making to support client activities. This involves the management of client originated exposures in interest rates, equities, corporate and sovereign debt, foreign exchange rates, commodities and derivatives of these asset classes, such as forwards, futures, options and swaps. Trading market risk may also arise from positions originated by the Bank subject to the market risk appetite and limits defined by the GALCO and BRC.

Investment market risk arises from market factors affecting securities held in high quality liquid assets (HQLA) portfolio and liquid marketable securities which are held under its FVOCI portfolio and where the impact of the changes in fair value due to market factors is through FVOCI.

The trading and investment market risks are managed by MR using a full suite of market risk limits including Value at Risk, sensitivity limits on key market parameters, notional limits on the size of investment portfolios, stop-loss limits and also stress testing to monitor the impact of significant market moves. These limits are monitored by MR and reported daily to business lines and management.

24.7 Interest rate risk in the banking book

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets, including the effect of any associated hedges and swaps. Substantially all the FVOCI non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is insignificant.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.7 Interest rate risk in the banking book (continued)

	2019			
	Increase in basis points	***Sensitivity consolidated statement of profit or loss***	***Decrease in basis points***	***Sensitivity consolidated statement of profit or loss***
US Dollar	**25**	**(2)**	**25**	**2**
Euro	**25**	**1**	**25**	**(1)**
Pound Sterling	**25**	**1**	**25**	**(1)**
Brazilian Real	**25**	**1**	**25**	**(1)**
Others	**25**	**1**	**25**	**(1)**

	2018			
	Increase in basis points	*Sensitivity consolidated statement of profit or loss*	*Decrease in basis points*	*Sensitivity consolidated statement of profit or loss*
US Dollar	25	(3)	25	3
Euro	25	-	25	-
Pound Sterling	25	1	25	(1)
Brazilian Real	25	1	25	(1)
Others	25	1	25	(1)

24.8 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2019 and 31 December 2018 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US$, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive trading and non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges) and the effect of the impact of foreign currency movements on the structural positions of the Bank in its subsidiaries. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a potential net increase.

	2019			*2018*		
	Change in currency rate in %	***Effect on profit before tax***	***Effect on equity***	*Change in currency rate in %*	*Effect on profit before tax*	*Effect on equity*
Currency						
Brazilian Real	**+/- 5%**	**-**	**+/-30**	+/- 5%	-	+/-29
Egyptian Pound	**+/- 5%**	**-**	**+/-5**	+/- 5%	-	+/-5
Jordanian Dinar	**+/- 5%**	**+/-3**	**+/-9**	+/- 5%	-	+/-10
Algerian Dinar	**+/- 5%**	**-**	**+/-7**	+/- 5%	-	+/-6
Pound Sterling	**+/- 5%**	**+/-1**	**-**	+/- 5%	-	-
Bahrain Dinar	**+/- 5%**	**+/-1**	**-**	+/- 5%	+/-1	-

24.9 Equity price risk

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.9 Equity price risk (continued)

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

	2019		*2018*	
	% Change in equity price	***Effect on consolidated statement of profit or loss/ equity***	*% Change in equity price*	*Effect on consolidated statement of profit or loss/ equity*
Trading equities	**+/- 5%**	**+/-1**	+/- 5%	+/-1
Equity securities at FVOCI	**+/- 5%**	**-**	+/- 5%	-

24.10 Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems including internal frauds, or from external events including external frauds. This definition includes legal, Technology (IT) and Shari'a non- compliance risks, but excludes strategic and reputational risk.

The Group adheres to the three lines of defence model for the management of operational risk. The business (First line of defence) is supported by independent Operational Risk Management Departments reporting to the local Chief Risk Officers or local Heads of Risk (Second line of defence). The management of Operational Risk is subject to independent review by Internal Audit (Third line of defence).

The Group Operational Risk Committee (GORCO), as a sub-committee of GRC assists with the management of Operational Risks across the Group to ensure that the Operational Risk Policy as approved by the BRC, is implemented and monitored across the Group.

The GORCO:

- Defines the policy for the management of Operational Risks and recommends for approval by the GRC and BRC.
- Advises the GRC and the BRC with establishing, approving and periodically reviewing the tolerance for Operational Risks at the Group.
- Monitors and reviews the Operational Risk losses across various Group businesses and its subsidiaries.
- Defines the various components of the Operational Risk Management Framework at the Group and oversees the implementation of the framework across the Group.
- Oversees the actions taken to maintain losses are in line with the Operational Risk Appetite.

The implementation of the Operational Risk Management Framework is governed by the GORCO. Local Operational Risk Committees oversee the implementation of the Operational Risk Management Framework and the management of Operational Risk across all subsidiaries and branches of the Group. The Group Operational Risk Management Department at Head Office is responsible for the development of the group-wide methodology, quality control and system support.

The Group has implemented the following for the management of Operational Risks:

- Operational Risk Appetite, as part of the Group Risk Appetite Statement;
- Incident management;
- Risk & Control Self-Assessments;
- Issue and Action management; and
- Key Risk and Performance Indicators.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.10 Operational risk (continued)

All loss events and relevant incidents are captured in a group-wide incident database. The threshold for reporting loss events is US$ 50 gross. The Group has implemented a group-wide Governance, Risk and Compliance solution, ARC solution. This group-wide solution is being used by Audit, Risk and Compliance.

A wide range of management information reports have been tailored to meet the needs of different stakeholders, these also provide information on the Operational Risk profile of the Bank and its subsidiaries.

Operational risk tolerance

The Group has expressed Operational Risk tolerance in the Board Approved Group Risk Appetite Statement in terms of absolute gross loss amounts due to Operational Risk incidents. In addition, the Group uses a quantitative and qualitative risk rating scale to classify actual and potential Operational Risks as 'Critical', Significant', 'Moderate' or 'Minor'.

Timeframes have been defined within which action plans must be prepared for the treatment of control weaknesses rated 'Critical', Significant' or 'Moderate'.

In line with the Board-led Group Risk Appetite Statement, Operational Risk tolerance is set and monitored by the Board Risk Committee.

24.10.1 Operational resilience

Operational resilience is the ability of the Bank to carry out its mission or business despite the occurrence of operational stress or disruption, protecting its customers, shareholders and ultimately the integrity of the financial system. The operational resilience framework includes a set of techniques that allow people, processes and informational systems to adapt to changing patterns, respond to and recover from factors that may hinder the Bank from functioning.

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

The Group Operational Resilience Committee ("GORC") assists GRC with the oversight of the Bank's Operational resilience framework, by such it oversees:

- Information security, including Cyber security
- Information Technology
- Business Continuity, Disaster Recovery and Crisis Management
- Bank's compliance with Privacy laws (Personal Data Protection)
- Outsourcing and Vendor Management (External dependencies)

The GORC reviews and recommends to GRC, the Bank's business resilience for each area it oversees.

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 conditions. To mitigate this risk, management seeks to fund its assets from diversified funding sources. In order to mitigate the liquidity risk, in addition to its core deposit base, the Bank maintains a adequate pool of high quality liquid assets (HQLA) that can be monetized within a short timeframe to meet potential outflows arising from stress. The Bank monitors its future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains HQLA at prudential levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of surplus liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and inter-bank borrowings. The Liquidity Survival Horizon (LSH) represents the number of days the Group can survive the combined outflow of deposits and contractual drawdowns, under market driven realisable value scenarios.

The Group is also required to comply with the liquidity requirements as stipulated by its regulator, the CBB, which became effective during the year 2019. These requirements relate to maintaining a minimum of 100% liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of HQLA and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 December 2019, the Group's LCR and NSFR were at 303% and 115% respectively.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. See the next table for the expected maturities of these liabilities. Repayments which are subjected to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2019	*Within 1 month*	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*5-10 years*	*Over 10 years and undated*	*Total*
Financial liabilities								
Deposits from customers	4,693	4,493	1,171	2,956	3,663	235	97	17,308
Deposits from banks	1,949	784	502	481	230	-	-	3,946
Certificates of deposits	11	253	30	81	28	-	-	403
Securities sold under repurchase agreements	496	467	-	-	56	-	-	1,019
Interest payable and other liabilities	1,466	-	-	-	-	-	-	1,466
Borrowings	-	-	155	290	1,782	1	113	2,341
Total non-derivative undiscounted financial liabilities on statement of financial position	8,615	5,997	1,858	3,808	5,759	236	210	26,483
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	2,955	2,290	968	3,912	3,948	8	-	14,081
Guarantees	3,022	-	-	-	-	-	-	3,022

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.11 Liquidity risk (continued)

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

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.11 Liquidity risk (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled or when they could be realised.

At 31 December 2019	*Within 1 month*	*1 -3 months*	*3 - 6 months*	*6 - 12 months*	*Total within 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Over 20 years*	*Undated*	*Total over 12 months*	*Total*
ASSETS												
Liquid funds	**1,630**	**27**	**40**	**68**	**1,765**	**109**	**-**	**-**	**-**	**-**	**109**	**1,874**
Trading securities	**14**	**125**	**-**	**270**	**409**	**61**	**12**	**9**	**-**	**16**	**98**	**507**
Placements with banks and other financial institutions	**1,589**	**458**	**-**	**4**	**2,051**	**-**	**-**	**-**	**-**	**-**	**-**	**2,051**
Securities bought under repurchase agreements	**1,224**	**37**	**100**	**37**	**1,398**	**-**	**-**	**-**	**-**	**-**	**-**	**1,398**
Non-trading investments	**362**	**802**	**477**	**307**	**1,948**	**2,287**	**1,363**	**189**	**39**	**10**	**3,888**	**5,836**
Loans and advances	**2,971**	**2,368**	**2,014**	**3,077**	**10,430**	**5,266**	**604**	**152**	**-**	**-**	**6,022**	**16,452**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,950**	**1,950**	**1,950**
Total assets	**7,790**	**3,817**	**2,631**	**3,763**	**18,001**	**7,723**	**1,979**	**350**	**39**	**1,976**	**12,067**	**30,068**
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	**3,888**	**2,962**	**1,114**	**2,825**	**10,789**	**5,613**	**200**	**64**	**-**	**-**	**5,877**	**16,666**
Deposits from banks	**1,741**	**723**	**494**	**472**	**3,430**	**467**	**-**	**-**	**-**	**-**	**467**	**3,897**
Certificates of deposit	**11**	**252**	**29**	**81**	**373**	**26**	**-**	**-**	**-**	**-**	**26**	**399**
Securities sold under repurchase agreements	**495**	**465**	**-**	**-**	**960**	**48**	**-**	**-**	**-**	**-**	**48**	**1,008**
Borrowings	**-**	**-**	**126**	**250**	**376**	**1,591**	**-**	**-**	**-**	**113**	**1,704**	**2,080**
Others	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,529**	**1,529**	**1,529**
Shareholders' equity and non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,489**	**4,489**	**4,489**
Total liabilities, shareholders' equity and non-controlling interests	**6,135**	**4,402**	**1,763**	**3,628**	**15,928**	**7,745**	**200**	**64**	**-**	**6,131**	**14,140**	**30,068**
Net liquidity gap	**1,655**	**(585)**	**868**	**135**	**2,073**	**(22)**	**1,779**	**286**	**39**	**(4,155)**	**(2,073)**	**-**
Cumulative net liquidity gap	**1,655**	**1,070**	**1,938**	**2,073**		**2,051**	**3,830**	**4,116**	**4,155**	**-**		

Within 1 month are primarily liquid securities that can be sold under repurchase agreements. Deposits are continuously replaced with other new deposits or rollover from the same or different counterparties, based on available lines of credit.

All figures in US$ Million

24 RISK MANAGEMENT (continued)

24.11 Liquidity risk (continued)

At 31 December 2018	*Within 1 month*	*1 -3 months*	*3 - 6 months*	*6 - 12 months*	*Total within 12 months*	*1 - 5 years*	*5-10 years*	*10 - 20 years*	*Over 20 years*	*Undated*	*Total over 12 months*	*Total*
ASSETS												
Liquid funds	1,354	50	-	30	1,434	173	-	-	-	-	173	1,607
Trading securities	69	110	5	391	575	324	58	3	-	17	402	977
Placements with banks and other financial institutions	2,313	581	92	5	2,991	-	-	-	-	-	-	2,991
Securities bought under repurchase agreements	511	1,063	91	-	1,665	1	2	-	-	-	3	1,668
Non-trading investments	111	141	527	689	1,468	2,905	1,071	162	46	9	4,193	5,661
Loans and advances	2,598	2,004	1,941	2,351	8,894	4,920	873	190	7	-	5,990	14,884
Others	61	35	9	38	143	116	19	1	-	1,482	1,618	1,761
Total assets	7,017	3,984	2,665	3,504	17,170	8,439	2,023	356	53	1,508	12,379	29,549
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	3,822	1,696	2,066	2,784	10,368	5,785	265	7	-	-	6,057	16,425
Deposits from banks	1,930	894	478	578	3,880	327	-	-	-	-	327	4,207
Certificates of deposit	4	6	3	5	18	21	-	-	-	-	21	39
Securities sold under repurchase agreements	766	457	-	-	1,223	48	-	-	-	-	48	1,271
Borrowings	-	57	-	5	62	1,950	-	-	-	-	1,950	2,012
Others	17	40	34	46	137	87	15	-	-	1,040	1,142	1,279
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,316	4,316	4,316
Total liabilities, shareholders' equity and non-controlling interests	6,539	3,150	2,581	3,418	15,688	8,218	280	7	-	5,356	13,861	29,549
Net liquidity gap	478	834	84	86	1,482	221	1,743	349	53	(3,848)	(1,482)	-
Cumulative net liquidity gap	478	1,312	1,396	1,482		1,703	3,446	3,795	3,848	-		

All figures in US$ Million

25 OPERATING SEGMENTS

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking and treasury activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil; and
- **Other** includes activities of Arab Financial Services B.S.C. (c).

	2019					
	MENA subsidiaries	*International wholesale banking*	*Group treasury*	*ABC Brasil*	*Other*	*Total*
Net interest income	**117**	**176**	**38**	**170**	**63**	**564**
Other operating income	**42**	**78**	**41**	**115**	**25**	**301**
Total operating income	**159**	**254**	**79**	**285**	**88**	**865**
Profit before credit losses	**62**	**141**	**57**	**157**	**46**	**463**
Credit loss expense	**(22)**	**(26)**	**-**	**(34)**	**-**	**(82)**
Profit before taxation and unallocated operating expenses	**40**	**115**	**57**	**123**	**46**	**381**
Taxation expense on foreign operations	**(11)**	**(4)**	**(1)**	**(7)**	**-**	**(23)**
Unallocated operating expenses						**(122)**
Profit for the year						**236**
Operating assets as at 31 December 2019	**3,558**	**10,132**	**8,198**	**8,113**	**67**	**30,068**
Operating liabilities as at 31 December 2019	**3,041**	**-**	**15,572**	**6,923**	**43**	**25,579**

All figures in US$ Million

25 OPERATING SEGMENTS (continued)

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

Geographical information

The Group operates in six geographic markets: Middle East and North Africa, Western Europe, Asia, North America, Latin America and others. The following table show the external total operating income of the major units within the Group, based on the country of domicile of the entity for the years ended 31 December 2019 and 2018:

2019	***Bahrain***	***Europe***	***Brasil***	***Other***	***Total***
Total operating income	**247**	**115**	**286**	**217**	**865**
2018					
Total operating income	232	120	262	203	817

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2018: none).

26 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year-end amounted to US$ 1,008 million (2018: US$ 1,271 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$ 1,024 million (2018: US$ 1,359 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$ 1,398 million (2018: US$ 1,668 million), net of ECL allowance, and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the year-end amounted to US$ 1,465 million (2018: US$ 1,747 million).

All figures in US$ Million

27 TRANSACTIONS WITH RELATED PARTIES

Related parties represent the ultimate parent, major shareholders, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	Ultimate parent	*Major shareholder*	*Directors*	***2019***	*2018*
Deposits from customers	**3,161**	**700**	**8**	**3,869**	3,803
Borrowings	**1,505**	**-**	**-**	**1,505**	1,505
Short-term self-liquidating trade and transaction-related contingent items	**348**	**-**	**-**	**348**	515

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

	2019	*2018*
Commission income	**10**	8
Interest expense	**161**	122

Compensation of the key management personnel is as follows:

	2019	*2018*
Short term employee benefits	**17**	18
Post employment benefits	**3**	3
	20	21

28 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$ 16,346 million (2018: US$ 14,927 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

29 ISLAMIC DEPOSITS AND ASSETS

Deposits from customers, banks and borrowings include Islamic deposits of US$ 1,775 million (2018: US$ 784 million). Loans and advances, non-trading investments and placements include Islamic assets of US$ 1,175 million (2018: US$ 1,167 million), US$ 818 million (2018: US$ 639 million) and US$ 285 million (2018: US$ 289 million).

30 ASSETS PLEDGED AS SECURITY

At the consolidated statement of financial position date, in addition to the items mentioned in note 26, assets amounting to US$ 380 million (2018: US$ 407 million) have been pledged as security for borrowings and other banking operations.

31 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS

31.1 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares during the year. No figures for diluted earnings per share have been presented, as the Bank has not issued any capital based instruments which would have any impact on earnings per share, when exercised.

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 (continued)

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

	2019	*2018*
Profit attributable to the shareholders of the parent	**194**	202
Weighted average number of shares outstanding during the year (millions)	**3,088**	3,096
Basic and diluted earnings per share (US$)	**0.06**	0.07

31.2 Proposed dividends and transfers

	2019	*2018*
Proposed cash dividend for 2019 of US$ 0.03 per share (2018: US$ 0.03 per share)	**93**	93

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

32 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations as at 31 December 2019 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

CAPITAL BASE		***2019***	*2018*
CET 1		**4,262**	4,085
AT 1		**96**	49
Total Tier 1 capital		**4,358**	4,134
Tier 2		**251**	218
Total capital base	[a]	**4,609**	4,352

RISK WEIGHTED EXPOSURES

		2019	*2018*
Credit risk weighted assets and off balance sheet items		**22,412**	20,719
Market risk weighted assets and off balance sheet items		**1,690**	1,680
Operational risk weighted assets		**1,639**	1,578
Total risk weighted assets	[b] #	**25,741**	23,977
Risk asset ratio	[a/b*100]	**17.9%**	18.2%
Minimum requirement		**12.5%**	12.5%

All figures in US$ Million

32 CAPITAL ADEQUACY (continued)

The Group's capital base primarily comprises:

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

(b) Additional Tier 1 Capital: eligible portion of a perpetual financial instrument issued by a subsidiary of the Bank; and

(c) Tier 2 capital: eligible subordinated term debt and expected credit losses.

The Group has complied with all the capital adequacy requirements as set by the Central Bank of Bahrain.

33 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2019	***Cash flow, net***	***Foreign exchange movement***	***31 December 2019***
Certificates of deposit	**39**	**360**	**-**	**399**
Borrowings	**2,012**	**68**	**-**	**2,080**
Total liabilities from financing activities	**2,051**	**428**	**-**	**2,479**

	1 January 2018	*Cash flow, net*	*Foreign exchange movement*	*31 December 2018*
Certificates of deposit	27	12	-	39
Borrowings	2,148	(128)	(8)	2,012
Total liabilities from financing activities	2,175	(116)	(8)	2,051

Group
Financial Review

Group Financial Review

Statement of Profit or loss

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

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

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

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

Sources and uses of funds

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

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

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

Credit commitments, contingent items and derivatives

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

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

Geographical and maturity distribution of the balance sheet

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

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

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

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

Distribution of credit exposure

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

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

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

Classified exposures and impairment provisions

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

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

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

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

Impaired loans

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

Impaired securities

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

Group capital structure and capital adequacy ratios

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

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

Factors affecting historical and/or future performance

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

Regional geopolitical conditions

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

Energy Prices

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

Stability of financial markets

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

Foreign currencies

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

Volatility of currency markets

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

Interest rate levels

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

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 2019 (31 December 2018: US$3.11 billion).

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

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

Shareholders

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

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

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

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

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

Bank ABC's Corporate Governance Charter

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2010 (the "Code"), which the Ministry of Industry 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:

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

Recent Corporate Governance Changes

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

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

Compliance with CBB Corporate Governance Requirements and the Code

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

Board of Directors

Responsibilities of the Board

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

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

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

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

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

Appointment of Directors

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

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

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

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

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

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

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 2019.

Independence of Directors

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

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

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

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

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

Compensation & interests of Directors

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

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

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

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

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

No Director owned or traded Bank ABC shares in 2019.

Board Committees

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

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

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

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

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

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

Attendance of Directors

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

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

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

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

Meeting dates during 2019:

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

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

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

	Dates of Meetings
Board	10 February 2019 24 March 2019 24 March 2019 (New Term) 22 July 2019 23 & 24 November 2019 22 December 2019
The Board Risk Committee	9 February 2019 23 March 2019 26 June 2019 30 October 2019 23 November 2019 5 December 2019
The Corporate Governance Committee	24 March 2019 22 December 2019
The Group Audit Committee	04 February 2019 18 April 2019 27 June 2019 31 October 2019 5 December 2019 22 December 2019
The Remuneration Committee	9 February 2019 22 July 2019 21 December 2019

Internal Controls

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

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

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

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

Management structure

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

Senior managers did not hold or trade any shares in Bank ABC during 2019.

The management organisation chart is included in appendix 2.

Compliance

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

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

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

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

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

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

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

External Auditors

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

Policy on the Employment of Relatives and Approved Persons

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i. Financial performance is not the sole measure of performance; both quantitative and qualitative approaches are used to measure risk; bonus pools are adjusted for all types of risk, both tangible and intangible, reflecting both Group and business unit performance.
ii. Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
iii. Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.

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

Pay principles

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

Summary

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

Principle 1 | We pay for performance

Approach

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

Delivery

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

Principle 2 | We take risk seriously

Approach

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

Delivery

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

Principle 3 | We think long-term

Approach

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

Delivery

- Deferral mechanisms are used for approved persons / material risk takers.
- Deferral mechanisms include an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly-paid employees is deferred for three years.
- 40% of variable pay for material risk takers and approved persons (paid over BHD100,000) is deferred for three years.
- No form of guaranteed variable remuneration can be granted, except in exceptional circumstances, for a period of no more than one year following hire.
- Unvested deferred bonuses can be recovered in light of discovering past failures in risk management, or policy breaches, that led to the award originally being granted.
- Participation in deferral is reviewed on an annual basis, subject to meeting the minimum requirements under the CBB rules.

Principle 4 | Pay decisions are governed effectively

Approach

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

Delivery

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

Principle 5 | Clear and simple

Approach

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

Delivery

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

Principle 6 | Competitive, sustainable and affordable

Approach

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

Delivery

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

Application of pay principles

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

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

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

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

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. Mohammad Abdulredha Saleem
Deputy Chairman
RC GC ‡ >|<

Bachelor of Business Administration-Finance from Kuwait University.

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

Mr. Khaled Al Hassoun
Director
AC RemCo ‡ >|<

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

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

Dr. Anwar Ali Al Mudhaf
Director
AC RemCo RC ‡ §

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

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

Economic Task Force dealing with the implications of the 2008 Global Financial Crisis on Kuwait; Vice Chairman in Al Mal Investment Company; and a Director of Al Ahli Bank in Kuwait; and Member of the Board of Directors of the Public Authority for Applied Education. Dr. Al Mudhaf joined Arab Banking Corporation in 1999 and has more than 21 years of experience in banking and finance.

Dr. Yousef Abdullah Al Awadi KBE
Director
AC GC RC ‡ §

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

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

Dr. Tarik Yousef
Director
AC GC ‡ >|<

PhD in Economics, Harvard University, USA.

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

Mr. Bashir Omer
Director
AC RC RemCo ‡ §

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

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

Dr. Farouk El Okdah
Director
GC ‡ §

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

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

Mr. Ali Al Ashhab
Director
RC ‡ >|<

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

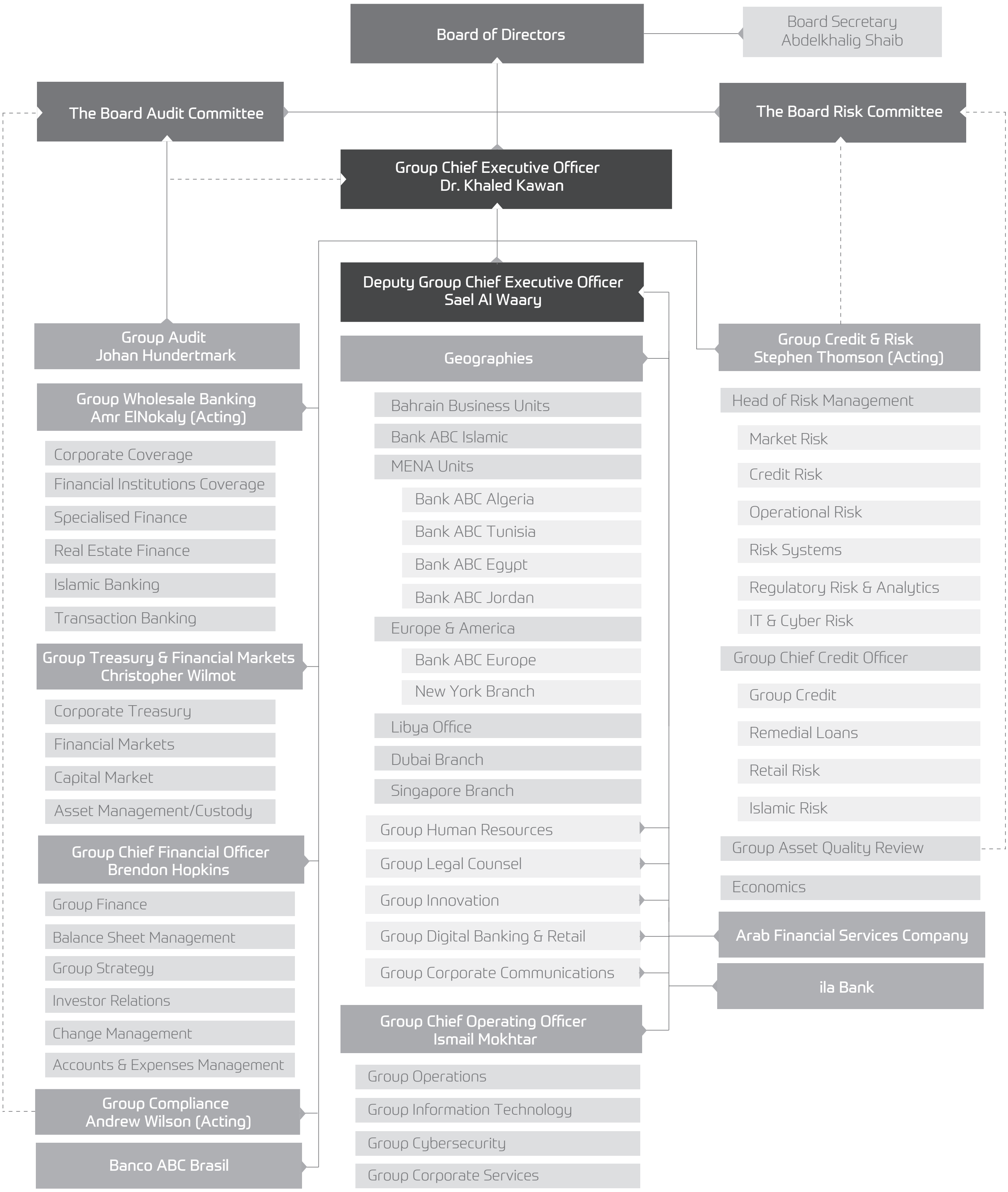
Director of the Financial Markets Department, Member of the Strategy Committee and Member of the Investment Committee at the Central Bank of Libya. Previously, Mr. Al Ashhab held key positions at the Central Bank of Libya including being the Deputy Director of Investments in the Financial Markets Department,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

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

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 our employees, directors, senior management and contract and temporary workers (herein referred to as "employees").

This Code is supported by policies and standards that you are also expected to read and understand (refer to Related Material in section 10). It should also be read in conjunction with any supporting procedures and your employment contract.

Where local laws or regulations applicable to your Unit set stricter requirements than those detailed in this Code, you must follow them.

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

1.2 Our Values

You should display 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 responsibilities under this Code are to:

- Understand and comply with the Code
- Act fairly, honestly and with integrity when performing your duties on behalf of the Bank
- Avoid conflicts of interest
- Comply with all applicable laws and regulations
- Adhere to our policies, standards and procedures
- Observe your limits of authority when acting on behalf of the Bank
- Cooperate with any investigations, examination, litigation or inquiry related to our business
- Complete mandatory training when required
- Report any legal or regulatory proceeding that involves you personally
- Report any concerns of misconduct

Managers have a greater level of responsibility. As a manager you should:

- Lead by example
- Promote equal opportunity and not favor or victimise any colleagues
- Help employees with ethical queries or direct them to someone who can help
- Encourage employees to report misconduct
- Protect employees from any form of retaliation if they report misconduct in good faith

We promote a culture of personal responsibility and transparency which requires you to report and discuss any actual or pending incident or risk event that you are aware of with your line manager, who may be required to further escalate the information as per the Escalation Standard.

1.4 Compliance with the Code

On joining and annually thereafter, you must acknowledge in writing or electronically that you have read and understood your obligations under the Code and the supporting policies and standards, and that you agree to comply with them.

If a situation arises where you find that you have breached this Code or any supporting policies or standards you should immediately consult your line manager and Unit Head of Compliance who will deal with the matter in a sympathetic manner and help to ensure that the breach is remedied effectively.

However, a willful breach or any failure to disclose a known breach of the Code or any supporting policies or standards could result in consequences for you and/or the Bank and may result in disciplinary action including dismissal, or in some circumstances, criminal prosecution.

1.5 Ethical Decision Making

Not every situation can be covered in the Code and our policies, standards and procedures. Here are some basic questions you can apply to help you make ethical decisions:

- Is it legal and in keeping with the spirit of the law?
- Is it consistent with our Code?
- Am I making an informed decision?
- Do I need to consult others?
- Who else could be affected by the decision?
- Could it reflect negatively on me or the Bank?
- How would it look in the media?
- Would I be embarrassed if others knew I had made this decision?
- Does it feel right?

2. OUR PEOPLE

2.1 Introduction

We recognise that our employees are our most valuable asset and essential for the success of our business. We aim to provide a safe working environment in which you are treated fairly and with respect.

2.2 Performance Management

We develop, support and embed a culture of high performance where relevant objectives are agreed, reviewed and assessed; where exceeding objectives is recognised; and where development is supported.

2.3 Equal Opportunities

We offer equal treatment to all job applicants and employees. We will not discriminate on the grounds of race, religion, color, nationality, ethnic or national origin, gender, marital status, disability or any other basis.

Discrimination, harassment, violence or bullying of any kind will not be tolerated.

It is each employee's responsibility to report any behavior that violates this policy. We take all reports seriously.

2.4 Fitness for Duty

You are responsible for ensuring you are fit and able to perform your duties when you report for work.

The use of alcohol or illegal drugs on our premises or during working hours is prohibited.

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

2.5 Safe Workplace

You have a personal responsibility while at work to take reasonable care of your own and others' health and safety.

In particular:

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

3. OUR CLIENTS AND THE MARKETPLACE

3.1 Introduction

The trust of our clients and the marketplace is the cornerstone of our success.

3.2 Treating Clients Fairly

Treating clients in a fair, ethical and non-discriminatory manner, throughout the life cycle of the relationship, is an integral part of our working culture. This helps to build long-term relationships with our clients.

Always make sure:

- Communications with our clients are clear, fair and not misleading
- Only to sell approved products and services that are suitable for a client
- To handle client complaints sensitively, professionally and efficiently

Never take advantage of our clients through:

- Manipulation
- Concealment
- Abuse of privileged information
- Misrepresentation of material facts
- Any other unfair practice

3.3 Insider Trading

Insider trading undermines the integrity of the financial system by creating an unfair advantage. As an employee, you may have access to non-public material information ("Inside Information") about the Bank, our clients or other companies that we do business with. Inside Information, if it were known to the public, is likely to affect the market price of a company's securities, or affect the decision of a reasonable investor to buy or sell a company's securities.

It is a criminal offence to communicate unpublished price sensitive information to anyone who is not authorised to have it, or to act on such information.

In particular do not:

- Trade securities for your own account or any account over which you exercise control when you have Inside Information relating to those securities
- Cause anyone else to trade securities by tipping them off or passing on Inside Information relating to those securities

3.4 Confidentiality

All information that you obtain through your employment with us should be considered private and confidential and for internal use only unless clearly stated otherwise by the Information Owner in writing.

You must not disclose Bank, client or any other parties' information unless you are authorised to do so or required by law. This obligation applies even after you have left employment with the Bank.

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

3.5 Supplier Relationships

You must ensure that all suppliers and contractors are treated fairly and that their selection is based on price and quality of service. There should be no personal favoritism.

Always follow our Group-wide Control Standard Outsourcing and Procurement Standard and Procedures when dealing with suppliers and contractors.

3.6 Conduct with Competitors

Any information gathered on the marketplace and our competitors must be obtained only through legal and ethical channels.

You must not engage an employee of a competitor to gain proprietary information.

3.7 Public Communication

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

3.8 Political Neutrality

We are politically neutral. If you wish to participate in political activities such as campaigning or making political donations, do so in your own personal capacity and not as a representative of the Bank. Such activities should not be undertaken on our premises, using the Bank's equipment or during working hours.

4. FINANCIAL CRIME

4.1 Introduction

We are committed to promoting the highest ethical and professional standards and strive to prevent the Bank from being used, intentionally or unintentionally, for financial crime.

We adhere to applicable laws, regulations and international standards. This includes the financial crime regulations issued by the Central Bank of Bahrain and by local regulators of those jurisdictions in which we operate. We also adhere to the recommendations of the Financial Action Task Force (FATF).

Financial crime includes, among others:

- Money Laundering
- Terrorist Financing
- Breach of Sanctions
- Fraud
- Bribery and Corruption
- Tax Evasion

4.2 Your Financial Crime Responsibilities

You are required to:

- Act with due care and diligence in your job role, preventing the Bank from being used as a conduit for financial crime activity
- Understand and comply with our Financial Crime policies, standards and procedures
- Understand how to identify red flags indicating that a client may be seeking to engage in a relationship or transaction for other than a lawful purpose or with the proceeds of illegal activity
- Ensure sufficient customer due diligence has been conducted for new and existing client relationships, in line with the Bank's policies, standards and procedures
- Attend Financial Crime training as your job requires and achieve required pass rates
- Understand and follow applicable Sanctions restrictions and the Group Sanctions Policy
- Report suspicious activity immediately to your Unit MLRO
- Not "tip off" a client if you have a suspicion or if you are reporting that suspicion.

4.3 Bribery and Corruption

We take a zero-tolerance approach to bribery and corruption. This includes giving or receiving gifts, entertainment, facilitation payments or anything else of value if it is intended to obtain, or appears to give, an improper business advantage.

In many of the jurisdictions in which we operate or do business, it is a criminal offence to offer, promise, give, request, or accept a bribe, and significant penalties can be imposed if found guilty.

All gifts, entertainment and hospitality given or received with a nominal or actual value of USD 100 or above should be reported in accordance with the Anti-Bribery and Corruption Standard.

4.4 Expenses

You are responsible for the accurate and timely reporting of expenses. All expenditures must be business related and approved in accordance with the Business Travel Standard and Business Entertainment Standard. Further, you must not use your business credit card for any purpose other than appropriate business expenses.

4.5 Charities and Non-Profit Organisations

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

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

At times we may be asked by clients or suppliers to make a contribution to a charity or non-profit organisation. All contributions must be pre-approved by the Unit Head of Compliance to ensure they do not contravene any local laws or regulations and the Group Donations Policy.

5. PROTECTING OUR ASSETS

5.1 Introduction

You are responsible for safeguarding the Bank's assets against theft, loss, waste or abuse. They should be used for our legitimate business only.

Our assets include:

- Office furnishings, equipment and supplies
- Software, information systems and support systems either on premises or on The Cloud
- Records and data (including backup and portable media) whether stored electronically or in paper form
- Cash and securities
- Loans and other claims on clients and third parties
- Intellectual property
- Client relationships

5.2 Data Protection

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

Personal information that we hold must be:

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

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

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

5.3 Information Security

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

We may monitor, review and disclose data that you create, store, send or receive on our systems (including approved cloud-based solutions). You should not have any expectation of personal privacy when you use our systems or infrastructure.

You must adhere to our Information Security Policy. In particular, you must not:

- Use unapproved services, tools, software or cloud-based solutions to perform your job or share information with external parties or unauthorized internal personnel
- Send confidential information outside our network without using an approved encryption or security program
- Send confidential or non-public information to your personal email account
- Copy information stored on Bank assets to external media or public cloud sites
- Share business information with external parties using unapproved communication channels

- Violate software licensing agreements or intellectual property rights
- Use the Bank's computer and network resources to commit illegal activities or use them in a manner that could be embarrassing or harmful to the Bank or detrimental to its reputation or interests
- Share your username and password with anyone or have possession of anyone else's username and password
- Try to get access to or scan systems, shared folders or network areas you are not entitled to
- Make unauthorised changes on the functionality or configuration of assets under your management or control
- Leave sensitive information unattended, including your company laptop and authorized mobile devices
- Disclose or discuss sensitive matters or proprietary or confidential information in public places, including the Internet (e.g. public email, file sharing sites, social media, etc.).
- Access approved IT services, including cloud-based solutions, from unmanaged computers or portable devices.

5.4 Intellectual Property

We own all rights, title and interest in all intellectual property that you develop during your employment with us.

Intellectual property includes strategy papers, business plans, internal policies, standards and procedures, improvements, ideas, processes or work related to the Bank.

5.5 Record Keeping

You are responsible for keeping accurate and complete records in accordance with relevant laws and regulations.

6. CONFLICT OF INTEREST

6.1 Introduction

It is important you avoid situations where personal interests conflict, or appear to conflict, with the interests of the Bank or our clients.

A conflict of interest exists, or may be perceived to exist, where a personal circumstance impairs professional judgment or the ability to act in the best interest of the Bank or our clients.

6.2 Avoiding Conflicts

It is difficult to identify every situation where a conflict, or perception of a conflict, may arise. You should use good judgment and seek advice from the Unit Head of Compliance if you are unsure of the proper course of action.

Typical conflicts that may arise are:

- An outside business interest
- Hiring or working with relatives, near relatives or Connected Persons (as defined in the Group Standard on the Employment of Relatives and Connected Persons)
- Dealing on your own account or using your position in the Bank to gain an unfair advantage
- Acting for the Bank in a transaction or business relationship that involves yourself, your relatives or other people or organisations where you or your relatives have a significant personal connection or financial interest

You have a responsibility to identify and disclose any conflicts or potential conflicts of interest to your Division Head, Head of HR and Head of Compliance.

6.3 Personal Finances

Conduct your own financial affairs responsibly, with integrity and in compliance with the law, to avoid situations that could reflect unfavorably on the Bank.

In general you may not:

- Participate in personal transactions with colleagues, clients or suppliers, including investment activities (unless part of a Bank sponsored investment plan)
- Borrow from or lend money to your colleagues, clients or suppliers (except nominal amounts e.g. for lunch)

7. RELATIONS WITH REGULATORS AND AUDITORS

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

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

You must:

- Refer all enquiries received from regulators to your Unit Head of Compliance
- Do not contact the regulators unless authorised to do so by your Head of Compliance[1]

8. RAISING CONCERNS

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

You are often the first person to realise that your co-workers are participating in activities that are inappropriate or contrary to the Bank's policies, standards and procedures.

If you are aware or suspect violations to the Code of Conduct, our policies, standards and procedures, applicable laws or regulations, you are obliged to promptly report such violations using the resources described below.

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

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

Hotline: +973 1754 3714
Email: gco-wb@bank-abc.com
Mail: Group Head of Compliance, Bank ABC, P.O. Box 5698, Manama, Bahrain
If you do not receive a satisfactory response you may report your concern to the Group Chief Auditor:
Telephone: +973 1754 3350
Email: ga-wb@bank-abc.com

[1] This does not prejudice your rights under the Group Employee Whistleblowing Policy

9. Version History

Version History:	Approver(s)	Approval Date	Revision Summary
1.0	Board of Directors	Nov 2007	First version
2.0	Board of Directors	June 2015	Updated to incorporate additional points following a gap analysis with industry standards and regulatory requirements
3.0	Board of Directors	May 2017	Minor amendments during annual review
4.0	Board of Directors	3 Nov 2018	Minor amendments during annual review. Additional references added to specific policies and standards. Contact details for Whistleblowing Hotline updated.
5.0	Board of Directors	24 Nov 2019	Minor amendments during annual review.

10. Related Material

The following Policies and Standards can be found on the Bank ABC Intranet under "Group Policies and Standards":

Escalation Standard
Fire, Health and Safety Policy
Procurement Standard and Procedures
Media Policy
Anti-Bribery and Corruption Standard
Information Security Policy
Employee Whistleblowing Policy
Financial Crime Policies and Procedures
Sanctions Policy
Human Resources Policies
Complaints Handling Standard
Group Standard on the Employment of Relatives and Connected Persons
Group-wide Control Standard Outsourcing
Business Travel Standard
Business Entertainment Standard
Donations Policy
Customer Conduct Standard
Conflicts Management Standard
Chinese Wall and Insider Trading Standard
Key Persons Dealing Standard