

ALUBAF Arab International Bank B.S.C. (c)

**REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2021

Board of Directors' Report

On behalf of the Board of Directors, I am delighted to present the audited consolidated financial statements of Alubaf Arab International Bank (the "Bank") and its subsidiary (together the "Group") for the year ended 31 December 2021.

The year 2021, witnessed the COVID 19 pandemic continue to disrupt global economy and manifest uncertainties in economic conditions across businesses globally. Amid these challenging and uncertain economic conditions, the Group remained resilient and achieved a consolidated net profit of US\$ 22.7 million for the year ended 31 December 2021 and exceeded management expectations. The results increased by 3% as compared to US\$ 22.1 million prior year ended 2020. This was mainly due to write-back of provisions for expected credit losses in 2021, following recovery of dues from a non-performing facility.

Interest income amounted to US\$ 26.2 million for the year ended 31 December 2021 whereas the interest expenses for 2021 amounted to US\$ 3.4 million. Accordingly, the net interest income for the year 2021 amounted to US\$ 22.8 million.

Total non-interest income of US\$ 4.1 million in 2021 was primarily driven by fee and commission income of US\$ 3.4 from trade finance activities. Despite the ongoing COVID-19 pandemic, the Bank's management ensured continuous uninterrupted operations and services to its customers, which resulted in generating considerable fee and commission income from its core business activity of Trade Finance.

The Bank performed phenomenally well, in collection of past dues, which enabled reversal of US\$ 10.9 million worth of provisions for expected credit losses after maintaining 100% provision coverage for other non-performing facilities and maintaining adequate levels of provision for expected credit losses as required by IFRS.

On the expenses front, the staff costs for the year 2021 amounted to US\$ 9.3 million whereas other operating expenses amounted to US\$ 4.8 million resulting in increased cost to income ratio from 36.2% in 2020 to 38.8% in 2021 driven mainly by the financial assistance of US\$ 468 thousand received from the government in 2020.

The Group's financial position remained strong, with total assets increasing by 9.4% year on year mainly driven by increase in loan's portfolio by 83% followed by a marginal increase in investment portfolio by 8%.

The Group achieved a Return on Average Equity ratio of 6.7% for the year ended 2021 and its capital adequacy and liquidity (liquid assets to total assets) ratios remained strong at 43.3% and 65.4% respectively.

The Group's achievement in 2021, is creditable, as the ongoing COVID-19 pandemic continued to slow credit growth, and businesses in general, globally. This proved the Group's resilience to a challenging business environment.

Furthermore, the Group continued to invest in its information technology infrastructure and related information security to ensure seamless and continuous uninterrupted operations despite the ongoing pandemic, to work from remote locations or from home. This facilitated access to information, communication and services to customers, alongside meeting regulatory requirements.

Besides the above, the Group has evolved and inculcated a strong risk management culture and strengthened its governance framework, thus, continually aligning itself with changes in regulatory practices.

With the remarkable financial performance of the Group in 2021 and in recognition of the importance and support of its valued shareholders, the Board of directors are pleased to propose a dividend of US\$ 2.5 per share, amounting to US\$ 12.5 million, representing 5% of paid up share capital for the year ended 2021, after due appropriation of US\$ 2.3 million from net profit for the year 2021, towards transfer to statutory reserve. This Proposed dividend for the year 2021, is subject to regulatory and shareholders' approval in Annual general meeting.

Although, the Bank's strong capital position and dynamic management efforts enables it to address market challenges and changing regulatory requirements in an effective manner in order for it to better position itself and sustain a year on year growth for the Bank's shareholders. However, due to continued COVID 19 uncertainties, the Group expect a gradual growth year on year. The Group will continue to manage risks, capital and liquidity effectively.

Remuneration of the Board members and the top six remunerated management executives for the fiscal year ended 31 December 2021 is as follows:

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the chairman and BOD	Incentive plans	Others	Total			
First: Independent Directors (Amounts are stated in Bahraini Dinars ('000)):											
1- Mr. Moraja Gaith Solaiman Buhlaiga	-	19	5	24	34	-	-	34	-	58	-
2- Mr. Anthony Constantine Mallis	-	19	2	21	34	-	-	34	-	55	-
3- Mr. Abdulkarim Bucheery	-	19	2	21	34	-	-	34	-	55	-
4- Mr. Basel El Hini	-	19	5	24	34	-	-	34	-	58	-
5- Mr. Abdulrazag Tarhuni	-	17	2	19	34	-	-	34	-	53	-

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the chairman and BOD	Incentive plans	Others	Total			
Second: Non-Executive Directors (Amounts are stated in Bahraini Dinars ('000)):											
1- Mr. Guima Masaud Salem Kordi	-	17	10	27	34	-	-	34	-	61	-
Total	-	110	26	136	204	-	-	204	-	340	-


Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus) for 2021	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Amounts stated in Bahraini Dinars ('000)				
Remunerations of top six executives, including the CEO and the Head of Financial Control	759	175	223	1,157

Finally, I would like to thank all the Board members, the Shareholders, the Ministry of Industry, Commerce and Tourism of the Kingdom of Bahrain, Central Bank of Bahrain, all Correspondent Banks and our customers for their continued support, cooperation and guidance.

I also take this opportunity to extend my special appreciation and gratitude to the Chief Executive Officer and all of the Bank's employees for their determination, professionalism and commitment to the Bank's continued growth and progress.



Chairman
Moraja G. Solaiman



Vice Chairman
Anthony Mallis

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as modified by Central Bank of Bahrain ("CBB").

Basis for opinion

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

Other information

Other information consists of the Board of Directors' report, set out on pages 1 to 2 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

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 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, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

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

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as modified by CBB, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 Board of Directors 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.

Report on Other Legal and Regulatory Requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)**

Report on Other Legal and Regulatory Requirements (continued)


- 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 or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 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.




Partner's registration number: 45
23 February 2022
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	2021 US\$ '000	2020 US\$ '000
ASSETS			
Cash and balances with central bank and other banks	4	345,307	333,194
Deposits with banks and other financial institutions	5	465,361	470,893
Investments classified as fair value through profit or loss (FVTPL)	6	3,661	-
Investment securities	7	263,511	244,867
Loans and advances	8	149,340	81,798
Investment property	9	11,734	-
Property, equipment and software	10	7,674	8,326
Interest receivable		5,488	5,354
Other assets		1,068	810
TOTAL ASSETS		1,253,144	1,145,242
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	11	761,134	662,254
Due to banks and other financial institutions	11	104,854	64,897
Due to customers	12	36,821	72,752
Interest payable		610	444
Other liabilities	13	9,824	10,520
Total liabilities		913,243	810,867
Equity			
Share capital	14	250,000	250,000
Statutory reserve	14	30,115	27,842
Retained earnings		52,580	44,621
Fair value reserve		(5,294)	(588)
Proposed dividend	15	12,500	12,500
Total equity		339,901	334,375
TOTAL LIABILITIES AND EQUITY		1,253,144	1,145,242


Anthony C. Mallis
Vice Chairman



Moraja G. Solaiman
Chairman

The attached notes 1 to 27 form part of these consolidated financial statements.

ALUBAF Arab International Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

	Notes	2021 US\$ '000	2020 US\$ '000
Interest and similar income	16	26,151	31,837
Interest expense	17	(3,378)	(7,740)
Net interest and similar income		22,773	24,097
Fee and commission income	18	3,397	3,828
(Loss) gain on investments classified as FVTPL	19	(584)	20
Gain (loss) on investment securities - net		980	(34)
Foreign exchange gain - net		173	181
Other income		123	5,786
OPERATING INCOME		26,862	33,878
Reversal of provision for expected credit losses - net	20	10,859	1,901
NET OPERATING INCOME		37,721	35,779
Staff costs		9,333	8,260
Depreciation	10	813	870
Other operating expenses	21	4,843	4,536
OPERATING EXPENSES		14,989	13,666
NET PROFIT FOR THE YEAR		22,732	22,113


Anthony C. Mallis
Vice Chairman


Moraja G. Solaiman
Chairman

ALUBAF Arab International Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
	US\$ '000	US\$ '000
NET PROFIT FOR THE YEAR	22,732	22,113
Other comprehensive loss		
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>		
Fair value change in cash flow hedge	-	442
Unrealised fair value loss on investments classified as fair value through other comprehensive income (FVOCI)	(4,485)	(3,828)
Reversal for expected credit loss on FVOCI investments	(221)	(376)
Other comprehensive loss for the year	(4,706)	(3,762)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	18,026	18,351

The attached notes 1 to 27 form part of these consolidated financial statements.

ALUBAF Arab International Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2021

	Notes	2021 US\$ '000	2020 US\$ '000
OPERATING ACTIVITIES			
Net profit for the year		22,732	22,113
Adjustments for:			
Reversal of provision for expected credit losses - net	20	(10,859)	(1,901)
Depreciation	10	813	870
Amortisation of investments carried at amortised cost		975	373
(Gain) loss on investment securities - net		(980)	34
Unrealised loss on investments classified as FVTPL	19	388	-
Amortisation of assets classified as loans and advances		(1,297)	(1,105)
Operating profit before changes in operating assets and liabilities		11,772	20,384
Changes in operating assets and liabilities:			
Balances with central bank		(176,601)	235
Deposits with banks and other financial institutions		(21,781)	78,790
Investments classified as fair value through profit or loss (FVTPL)		(4,049)	3,028
Loans and advances		(54,674)	14,687
Investment property		(11,734)	-
Interest receivable		(134)	883
Other assets		(258)	139
Deposits from banks and other financial institutions		98,880	15,484
Due to banks and other financial institutions		39,957	(24,299)
Due to customers		(35,931)	(2,752)
Interest payable		166	(1,744)
Other liabilities		(751)	1,297
Net cash flows (used in) from operating activities		(155,138)	106,132
INVESTING ACTIVITIES			
Purchase of investment securities		(126,038)	(64,642)
Proceeds from disposal and/or redemption of investment securities		105,581	49,924
Purchase of property, equipment and software	10	(161)	(209)
Net cash flows used in investing activities		(20,618)	(14,927)
FINANCING ACTIVITY			
Dividends paid		(12,500)	(15,000)
Cash flows used in financing activity		(12,500)	(15,000)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(188,256)	76,205
Cash and cash equivalents at 1 January		614,961	538,756
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	426,705	614,961

The attached notes 1 to 27 form part of these consolidated financial statements.

ALUBAF Arab International Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	<i>Notes</i>	<i>Share capital</i> US\$ '000	<i>Statutory reserve</i> US\$ '000	<i>Retained earnings</i> US\$ '000	<i>Fair value reserve</i> US\$'000	<i>Proposed dividend</i> US\$'000	<i>Total</i> US\$ '000
Balance as of 1 January 2021		250,000	27,842	44,621	(588)	12,500	334,375
Net profit for the year		-	-	22,732	-	-	22,732
Other comprehensive loss		-	-	-	(4,706)	-	(4,706)
Total comprehensive income		-	-	22,732	(4,706)	-	18,026
Dividends paid	15	-	-	-	-	(12,500)	(12,500)
Proposed dividend for 2021	15	-	-	(12,500)	-	12,500	-
Transfer to statutory reserve	14	-	2,273	(2,273)	-	-	-
Balance as of 31 December 2021		250,000	30,115	52,580	(5,294)	12,500	339,901
Balance as of 1 January 2020		250,000	25,631	37,219	3,174	15,000	331,024
Net profit for the year		-	-	22,113	-	-	22,113
Other comprehensive loss		-	-	-	(3,762)	-	(3,762)
Total comprehensive income		-	-	22,113	(3,762)	-	18,351
Dividends paid	15	-	-	-	-	(15,000)	(15,000)
Proposed dividend for 2020	15	-	-	(12,500)	-	12,500	-
Transfer to statutory reserve	14	-	2,211	(2,211)	-	-	-
Balance as of 31 December 2020		250,000	27,842	44,621	(588)	12,500	334,375

The attached notes 1 to 27 form part of these consolidated financial statements.

1 ACTIVITIES

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer to note 14 for more details).

The Bank has incorporated a special purpose vehicle (the "SPV") on 11 August 2020 in the Hashemite Kingdom of Jordan namely 'Bahrain Real Estate Development Company' for the purpose of recovery in kind of fully provided legacy exposure. These consolidated financial statements include the operating results of the Bank and its wholly owned SPV (together "the Group").

The consolidated financial statements of the Group for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 23 February 2022.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

- (a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments'. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9; and
- (b) recognition of financial assistance received from the government in response to its COVID-19 support measures, and meeting the government grant requirements, in equity instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognized in accordance with the requirements of IAS 20.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by CBB' which has been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

The consolidated financial statements have been prepared in accordance with IFRS as modified by CBB framework and are in conformity with the Bahrain Commercial Companies Law ("BCCL"), the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant CBB directives.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investments classified as at fair value through profit or loss ("FVTPL") and investment classified as at fair value through other comprehensive income ("FVOCI") that have been remeasured at fair value.

Functional and presentation currency

The consolidated financial statements are presented in United States Dollars (US\$), being the Bank's functional currency. All values are rounded to the nearest thousand (US\$ '000), except when otherwise indicated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its SPV as at 31 December 2021. The reporting dates of the SPV and the Bank are identical and the SPV's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- b) derecognises the carrying amount of any non-controlling interest;
- c) derecognises the cumulative transaction differences, recorded in equity;
- d) recognises the fair value of consideration received;
- e) recognises the fair value of any investment retained;
- f) recognises any surplus or deficit in the consolidated statement of income; and
- g) reclassifies the parent's share of a component previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial instruments

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., 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 balances due to customers when funds are transferred to the Group.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

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 expected credit loss ("ECL") is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the consolidated statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

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.

Financial assets

2.2.1 Debt instruments - Classification and subsequent measurement

The Group classifies its financial assets - debt instruments in the following measurement categories:

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

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Significant accounting policies (continued)****Financial assets (continued)***2.2.1 Debt instruments - Classification and subsequent measurement (continued)*

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 effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest 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 doing so eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of profit or loss within operating income as 'Gain (loss) on investments classified as FVTPL' in the period in which it arises, unless it arises from debt instruments that were neither designated at fair value nor which are not held for trading, in which case they are presented separately within 'operating income' as a 'Gain on investment securities - net'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest method.

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 a '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;
- 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

Business model (continued)

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

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

SPPI test

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

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

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

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

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

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

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

Modified or forbearance of loans (continued)

- 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 effective interest rate (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 ("SICR") 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.

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 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 forbore 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 assessment as to whether SICR or default has occurred. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forbore asset until it is collected or written off or is transferred back to Stage 2.

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.

Derecognition other than on a modification

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

Derecognition other than on a modification (continued)

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. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

2.2.2 Equity 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 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 within operating income as 'Gain (loss) on investments classified as FVTPL' in the consolidated statement of profit or loss.

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

Financial liabilities

Classification and subsequent measurement

All financial liabilities of the Group are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives and financial liabilities held for trading (e.g. short positions in the trading booking). Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in issuer's credit risk, which is determined as the amount that is not attributable to changes in the 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 issuer's credit risk are also presented in 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.

Derecognition

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Significant accounting policies (continued)****Financial liabilities (continued)***Derecognition (continued)*

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.

Impairment

The Group assesses on a forward-looking basis, the ECL associated with its debt instruments 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 at each reporting date. The measurement of ECL reflects:

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

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

Measurement of ECL

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Impairment (continued)

Measurement of ECL (continued)

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

- Stage 1 – Performing: when financial assets are first recognised, the Group recognises an allowance based up to 12-month ECL.
- Stage 2 – Significant increase in credit risk: when a financial asset shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Impaired: the Group recognises the lifetime ECL for these financial assets.

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

The Group records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, 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.

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.

Stage 2

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

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the rating migration upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks.

Performing exposures restructured will be treated as Stage 2, including loans renegotiated due to deterioration in business condition will be treated as Stage 2 unless the loan is overdue for 90 days or more, where the exposure will be determined as Stage 3.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Impairment (continued)

Measurement of ECL (continued)

Stage 3

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of an impaired loan or advance by the Group will be continue to be classified as Stage 3;
- 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.

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

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

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

Forward looking information

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

The Group considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices, country's equity indices and unemployment rates) and economic forecasts.

The Group uses published external information from International Monetary Fund (IMF) website, 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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Impairment (continued)

Presentation of allowance for ECL in the statement of financial position (continued)

- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the cumulative changes in fair value reserve.

Limitation of estimation techniques

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

Experienced credit adjustment

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

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 within operating income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

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

Derivative financial instruments

The Group makes use of derivative instruments, such as forward foreign exchange contracts.

Derivatives are initially recognised, and subsequently measured, at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with banks, treasury bills and deposits with banks and other financial institutions with original maturities of 3 months or less.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Significant accounting policies (continued)****Property, equipment and software**

Property, equipment and software are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Expenditure incurred to replace a component of an item of property, equipment and software that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. When significant parts of property, equipment and software are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Land and capital work in progress are not depreciated. Repairs and maintenance costs are recognised in the consolidated statement of profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Assets	<i>Estimated useful life in years</i>
Building	15
Furniture, equipment and motor vehicles	3 to 5
Software	3 to 5

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, equipment and software are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment property

Investment property is property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both. Investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses. Subsequently, investment property is accounted for in accordance with the cost model where its stated at cost less accumulated depreciation and accumulated impairment losses.

Investment property is derecognised when either it is disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the year of derecognition.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with the difference being recognised as an impairment in the consolidated statement of profit or loss.

Renegotiated loans

In the ordinary course of its business, the Group seeks to restructure loans. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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 a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated statement of profit or loss.

Employees' end of service benefits

The Group provides end of service benefits to its non - Bahraini employees. The entitlement to these benefits is based upon the employee's final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

The Group also makes contributions to the Social Insurance Organisation (SIO) Scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Contingent liabilities

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Share capital, statutory reserve and dividend

Share capital

Ordinary shares issued by the Group are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Statutory reserve

The Bahrain Commercial Companies Law requires that 10% of the annual profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50% of the paid up share capital.

Dividend

The Group recognises a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the Bahrain Commercial Companies Law, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Fair value measurement

The Group measures financial instruments, such as investments and derivatives at fair value at the reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are detailed in note 23.5.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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 interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained earlier.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as fair value through other comprehensive income, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The recognition of interest income is suspended when the loans become impaired, such as when overdue by more than 90 days.

Fee and commission income

Fee and commission income are recognised when earned.

Foreign exchange gain

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 reporting date. Any gains or losses are taken to the consolidated statement of profit or loss.

Dividend income

Dividend income is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Share based payments

Cash-settled share based payments

The cost of cash-settled share based payment transactions is measured initially at fair value at the grant date using an appropriate valuation model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in the consolidated statement of profit or loss.

Foreign currencies

The Group's consolidated financial statements are presented in United States Dollars (US\$), which is the Bank's functional currency.

Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI) or profit or loss are recognised in OCI or profit or loss, respectively).

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2021

The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2021. The adoption of these standards and interpretations did not have any effect on the Group's financial position, financial performance or disclosures.

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) Standards issued but not yet effective

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group is currently assessing the impact of the amendments to determine the impact it will have on the Group's accounting policy disclosures.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The Group is currently assessing the impact of the amendments to determine the impact it will have on the Group's accounting policy disclosures.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**2.3 Changes in accounting policies and disclosures (continued)****ii) Standards issued but not yet effective**

Other standards and interpretations that are issued, but not yet effective, are listed below:

- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective for annual reporting periods beginning on or after 1 January 2022).
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2023).
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective for annual reporting periods beginning on or after 1 January 2022).
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (effective for annual reporting periods beginning on or after 1 January 2022).
- IFRS 17 Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2023).

3 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 or estimates involved.

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;
- Management's evaluation of the performance of the portfolio;
- 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.

As at 31 December 2021

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS*Going concern*

The Group's Board of Directors 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 Board of Directors are 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 a going concern basis.

Impairment losses on financial assets

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.

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2021	2020
	US\$ '000	US\$ '000
Cash and balance with bank	3	13
Money at call and short notice with other banks	49,481	41,609
Treasury bills - balances with Central Bank	299,564	291,578
Provision for expected credit losses (note 4.1)	(3,741)	(6)
Cash and balances with central bank and other banks	345,307	333,194
Treasury bills - balances with Central Bank with original maturities of more than 3 months	(299,564)	(126,766)
Deposits with banks and other financial institutions with original maturities of 3 months or less (note 5)	380,962	408,533
Cash and cash equivalents	426,705	614,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS (continued)**Note 4.1**

Movement in provision for expected credit losses were as follows:

	31 December 2021			
	Stage 1:	Stage 2:	Stage 3:	Total
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
US\$ '000	impaired	impaired		
Balance at 1 January	6	-	-	6
Provided during the year	4	-	3,803	3,807
Reversals during the year	(4)	-	-	(4)
	-	-	3,803	3,803
Exchange differences	-	-	(68)	(68)
At 31 December	6	-	3,735	3,741

	31 December 2020			
	Stage 1:	Stage 2:	Stage 3:	Total
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
US\$ '000	impaired	impaired		
Balance at 1 January	3	2	-	5
Transfer to stage 1	2	(2)	-	-
Provided during the year	5	-	-	5
Reversals during the year	(4)	-	-	(4)
	1	-	-	1
At 31 December	6	-	-	6

5 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits with banks and other financial institutions represent interest bearing money market deposits held with banks and other financial institutions as at the reporting date and are as follows:

	2021	2020
	US\$ '000	US\$ '000
Deposits with original maturities of 3 months or less (note 4)	380,962	408,533
Deposits with original maturities of over 3 months	84,594	62,813
	465,556	471,346
Provision for expected credit losses (note 5.1)	(195)	(453)
	465,361	470,893

Note 5.1

Movement in provision for expected credit losses were as follows:

	2021	2020
	Stage 1	Stage 1
	12-month	12-month
	ECL	ECL
	US\$ '000	US\$ '000
Balance at 1 January	453	235
Provided during the year	174	443
Reversal during the year	(432)	(225)
	(258)	218
At 31 December	195	453

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

6 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments classified as fair value through profit or loss (FVTPL) represent quoted debt securities amounting to US\$ 3,661 thousand as at 31 December 2021 (2020: Nil). During the year the Group recognised unrealised fair value loss amounting to US\$ 388 thousand (2020: Nil) on its FVTPL portfolio.(refer note 19).

7 INVESTMENT SECURITIES

	31 December 2021			31 December 2020		
	FVOCI US\$'000	Amortised cost US\$'000	Total US\$'000	FVOCI US\$'000	Amortised cost US\$'000	Total US\$'000
Quoted investments						
- Sovereign debt securities	97,047	126,986	224,033	116,388	71,418	187,806
- Banks and Corporate debt securities	25,563	15,057	40,620	37,717	23,153	60,870
Total quoted investments	122,610	142,043	264,653	154,105	94,571	248,676
Provision for expected credit losses (note 7.1)	(1,232)	(1,142)	(2,374)	(1,453)	(3,809)	(5,262)
Reclassifying provision relating to FVOCI to OCI	1,232	-	1,232	1,453	-	1,453
Total investment securities	122,610	140,901	263,511	154,105	90,762	244,867

As at 31 December 2021, investments classified under stage 2 amounted to US\$ 37,415 thousand (2020: US\$ 25,199 thousand) for FVOCI investments and US\$ 24,061 thousand (2020: US\$ 27,154 thousand) for amortised cost investments respectively. The remaining investments were classified under stage 1.

Note 7.1

Movements in provision for expected credit losses of FVOCI investments were as follows:

	31 December 2021 (FVOCI)			31 December 2020 (FVOCI)		
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Total ECL US\$ '000	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Total ECL US\$ '000
Balance at 1 January	568	885	1,453	291	1,538	1,829
Transfer to stage 2	(17)	17	-	-	-	-
Provided during the year	291	61	352	370	462	832
Reversals during the year	(384)	(189)	(573)	(93)	(1,115)	(1,208)
	(93)	(128)	(221)	277	(653)	(376)
At 31 December	458	774	1,232	568	885	1,453

Movements in provision for expected credit losses of amortised cost investments were as follows:

	31 December 2021 (Amortised cost)			31 December 2020 (Amortised cost)		
	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Total ECL US\$ '000	Stage 1: 12-month ECL US\$ '000	Stage 2: Lifetime ECL not credit- impaired US\$ '000	Total ECL US\$ '000
Balance at 1 January	406	3,403	3,809	28	2,794	2,822
Provided during the year	188	-	188	396	2,020	2,416
Reversals during the year	(195)	(2,660)	(2,855)	(18)	(1,411)	(1,429)
	(7)	(2,660)	(2,667)	378	609	987
At 31 December	399	743	1,142	406	3,403	3,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

8 LOANS AND ADVANCES

Loans and advances are stated net of provision for expected credit losses. The table below discloses the gross loans and provision for expected credit losses excluding interest in suspense amounting to US\$ 31,168 thousand as of 31 December 2021 (2020: US\$ 32,775 thousand).

	31 December 2021			
	Stage 1:	Stage 2:	Stage 3:	Total
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
US\$ '000	impaired	impaired		
Letters of credit - financing and discounting	35,418	-	41,303	76,721
Sovereign loans	46,315	-	-	46,315
Commercial loans	69,874	-	-	69,874
	151,607	-	41,303	192,910
Provision for expected credit losses (note 8.1)	(2,267)	-	(41,303)	(43,570)
	149,340	-	-	149,340
	31 December 2020			
	Stage 1:	Stage 2:	Stage 3:	Total
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
	US\$ '000	impaired	impaired	
Letters of credit - financing and discounting	13,700	-	53,017	66,717
Sovereign loans	44,838	-	-	44,838
Commercial loans	25,384	-	6,326	31,710
Factoring	-	-	20,418	20,418
	83,922	-	79,761	163,683
Provision for expected credit losses (note 8.1)	(2,124)	-	(79,761)	(81,885)
	81,798	-	-	81,798

Note 8.1

Movements in provision for expected credit losses were as follows:

	31 December 2021			
	Stage 1:	Stage 2:	Stage 3:	US\$ '000
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
US\$ '000	impaired	impaired		
Balance at 1 January 2021	2,124	-	79,761	81,885
Provided during the year	1,539	-	20	1,559
Reversals and writebacks during the year (note 9)	(1,396)	-	(11,734)	(13,130)
	143	-	(11,714)	(11,571)
Write-offs	-	-	(26,744)	(26,744)
At 31 December 2021	2,267	-	41,303	43,570

As at 31 December 2021

8 LOANS AND ADVANCES (continued)**Note 8.1 (continued)**

	31 December 2020			
	Stage 1:	Stage 2:	Stage 3:	US\$ '000
	12-month ECL US\$ '000	Lifetime ECL not credit- impaired US\$ '000	Lifetime ECL credit- impaired US\$ '000	
Balance at 1 January 2020	1,935	-	93,007	94,942
Provided during the year	412	-	42	454
Reversals during the year	(223)	-	(2,870)	(3,093)
	189	-	(2,828)	(2,639)
Write-offs	-	-	(11,517)	(11,517)
Exchange differences	-	-	1,099	1,099
At 31 December 2020	2,124	-	79,761	81,885

Write off during the year

During the year, no facilities were renegotiated by the Group (2020: same).

During the year, fully provided facilities amounting to US\$ 26,744 thousands were written off by the Group (2020: US\$ 11,517 thousands).

The total value of collateral held by the Group against its loans and advances exposure amounted to US\$ 1,807 thousand as at 31 December 2021 (31 December 2020: US\$ 1,277 thousand).

9 INVESTMENT PROPERTY

During the year, the Group has acquired investment property amounting to US\$ 11,734 thousand in lieu of partial settlement of a fully provided financing facility. The Group has determined the cost of such investment property to be equal to the value of the facility settled which is also deemed to be the fair value of the investment property.

10 PROPERTY, EQUIPMENT AND SOFTWARE

	Land US\$ '000	Building US\$ '000	Furniture, equipment and motor vehicles US\$ '000	Software US\$ '000	Capital work in progress US\$ '000	Total US\$ '000
Cost:						
At 1 January 2021	4,243	7,652	3,940	1,508	-	17,343
Additions	-	-	97	54	10	161
At 31 December 2021	4,243	7,652	4,037	1,562	10	17,504
Accumulated depreciation:						
At 1 January 2021	-	4,053	3,663	1,301	-	9,017
Depreciation charge for the year	-	509	171	133	-	813
At 31 December 2021	-	4,562	3,834	1,434	-	9,830
Net book value:						
At 31 December 2021	4,243	3,090	203	128	10	7,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

10 PROPERTY, EQUIPMENT AND SOFTWARE (continued)

	<i>Land</i>	<i>Building</i>	<i>Furniture, equipment and motor vehicles</i>	<i>Software</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Cost:					
At 1 January 2020	4,243	7,652	3,775	1,464	17,134
Additions	-	-	165	44	209
At 31 December 2020	<u>4,243</u>	<u>7,652</u>	<u>3,940</u>	<u>1,508</u>	<u>17,343</u>
Accumulated depreciation:					
At 1 January 2020	-	3,545	3,441	1,161	8,147
Depreciation charge for the year	-	508	222	140	870
At 31 December 2020	<u>-</u>	<u>4,053</u>	<u>3,663</u>	<u>1,301</u>	<u>9,017</u>
Net book value:					
At 31 December 2020	<u>4,243</u>	<u>3,599</u>	<u>277</u>	<u>207</u>	<u>8,326</u>

The land relates to the building on which the Group's premises is constructed.

11 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**11.1 Deposits from banks and other financial institutions**

Deposits from banks and other financial institutions represent interest bearing money market deposits held with the Group as at the reporting date.

11.2 Due to banks and other financial institutions

Due to banks and other financial institutions comprise the following current account balances and cash collateral held with the Group in relation to the facilities of letters of credit and letters of guarantee as at the reporting date:

	2021	2020
	US\$ '000	US\$ '000
Current account balances	75,594	34,547
Cash collateral held	29,260	30,350
	<u>104,854</u>	<u>64,897</u>

12 DUE TO CUSTOMERS

Due to customers represent current account balances, interest bearing money market deposits and cash collateral of corporate customers held with the Group in relation to the facilities of letters of credit and letters of guarantee as at the reporting date:

	2021	2020
	US\$ '000	US\$ '000
Current account balances and deposit	33,887	66,248
Cash collateral held	2,934	6,504
	<u>36,821</u>	<u>72,752</u>

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13 OTHER LIABILITIES

	2021	2020
	US\$ '000	US\$ '000
Accrued expenses and payables	9,213	9,728
Due to directors and employees	254	641
Provision for expected credit losses for off balance sheet exposures (note 13.1)	74	19
Unearned fee income	272	121
Others	11	11
	9,824	10,520

Accrued expenses include US\$ 810 thousand (2020: US\$ 985 thousand) of liability relating to cash settled share based payments.

The Group has established an Employee Phantom Share Scheme (EPSS) in compliance with the sound remuneration rules issued by the Central Bank of Bahrain. Under the scheme, certain eligible employees of the Group become entitled to share based compensation. Under the EPSS, each eligible employee is issued with a phantom share award which entitles the holder to receive one phantom share at the delivery date. The share awards will vest over 3 years with one third award vesting at the end of each of the subsequent 3 years. The eligible employee has to retain the shares for a period of 6 months post the award date prior to encashing the vested awards. Phantom units are ultimately cash settled based on the audited net book value of the Group at the vesting dates.

The cost of the phantom units are initially measured at net-book-value per share of the Group at the grant date and expensed in the consolidated statement of profit or loss with a corresponding liability being recognised. The liability is remeasured to its net-book-value per share of the Group at each reporting date up to the date of settlement with changes in fair value recognised in the consolidated statement of profit or loss.

Note 13.1

Movement in provision for expected credit losses for off balance sheet exposures was as follows:

	2021	2020
	Stage 1	Stage 1
	12-month	12-month
	ECL	ECL
	US\$ '000	US\$ '000
Balance at 1 January	19	111
Provided during the year	74	17
Write-backs	(19)	(109)
	55	(92)
At 31 December	74	19

14 SHARE CAPITAL

	2021	2020
	US\$ '000	US\$ '000
Authorised:		
10,000,000 (2020: 10,000,000) ordinary shares of US\$ 50 each	500,000	500,000
	2021	2020
	US\$ '000	US\$ '000
Issued and fully paid up :		
5,000,000 (2020: 5,000,000) ordinary shares of US\$ 50 each	250,000	250,000

As at 31 December 2021

14 SHARE CAPITAL (continued)**Shareholders**

	2021		2020	
	<i>Percentage holding (%)</i>	<i>US\$ '000</i>	<i>Percentage holding (%)</i>	<i>US\$ '000</i>
Libyan Foreign Bank	99.50	248,750	99.50	248,750
National Bank of Yemen	0.28	689	0.28	689
Yemen Bank for Reconstruction and Development	0.22	561	0.22	561
	100.00	250,000	100.00	250,000

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, a statutory reserve has been created by transfer of 10% of its annual profit. The Group may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL and following approval of the Central Bank of Bahrain. The Group has transferred US\$ 2,273 thousand (2020: US\$ 2,211 thousand) to statutory reserve in the current year.

15 PROPOSED DIVIDEND

Dividend of US\$ 12,500 thousand i.e. US\$ 2.5 per share (31 December 2020: 12,500 thousand i.e. US\$ 2.5 per share), is proposed for the year ended 31 December 2021 subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting. During the year, dividends amounting US\$ 12,500 thousand have been paid to shareholders relating to the year ended 31 December 2020 (2020: US\$ 15,000 thousand relating to the year ended 31 December 2019) after due approval from the shareholders at the Annual General Assembly Meeting held on 29 March 2021.

16 INTEREST AND SIMILAR INCOME

	2021	2020
	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest on:		
- Deposits with banks, other financial institutions and balance with central bank	7,339	12,880
- Loans and advances	6,391	6,787
- Investments classified as fair value through profit or loss	225	115
- Investment securities	12,196	12,055
	26,151	31,837

17 INTEREST EXPENSE

	2021	2020
	<i>US\$ '000</i>	<i>US\$ '000</i>
Interest on:		
- Deposits from and due to banks and other financial institutions	3,336	7,574
- Due to customers	42	166
	3,378	7,740

18 FEE AND COMMISSION INCOME

	2021	2020
	<i>US\$ '000</i>	<i>US\$ '000</i>
Commission income on letters of credit and guarantee	3,374	3,804
Bank charges and other income	23	24
	3,397	3,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19 (LOSS) GAIN ON INVESTMENTS CLASSIFIED AS FVTPL

	2021	2020
	US\$ '000	US\$ '000
Changes in fair value of investments classified as FVTPL	(388)	-
Realised (loss) gain during the year - net	(196)	20
	<u>(584)</u>	<u>20</u>

20 REVERSAL OF PROVISION FOR EXPECTED CREDIT LOSSES

	2021	2020
	US\$ '000	US\$ '000
Expected credit loss:		
- Charge against balances with central bank and other banks (note 4.1)	3,803	1
- (Reversal) charge against deposits with banks and other financial institutions (note 5.1)	(258)	218
- (Reversal) charge against investment securities (note 7.1)	(2,888)	611
- Reversal against loans and advances (note 8.1)	(11,571)	(2,639)
- Charge (reversal) against off balance sheet (note 13)	55	(92)
	<u>(10,859)</u>	<u>(1,901)</u>

21 OTHER OPERATING EXPENSES

	2021	2020
	US\$ '000	US\$ '000
Professional services	1,984	1,696
Administration and travelling expenses	1,678	1,487
Board of Directors' remuneration and expenses (note 25)	985	900
Fees and other charges	196	453
	<u>4,843</u>	<u>4,536</u>

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2021	2020
	US\$ '000	US\$ '000
Credit related contingencies		
Letters of credit	113,389	51,065
Loan commitment	2,955	-
Letters of guarantee	-	118
Provision for expected credit losses (note 13)	(74)	(19)
	<u>116,270</u>	<u>51,164</u>
	<u>116,270</u>	<u>51,164</u>

All undrawn loan commitments are maturing within one year from 31 December 2021 (2020: nil).

23 RISK MANAGEMENT**23.1 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. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities. The main risks to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk.

23 RISK MANAGEMENT (continued)

23.1 Introduction (continued)

a) Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee (ARCC) of the Board is responsible for assessing the quality and integrity of financial reporting, effectiveness of systems monitoring financial and disclosure compliance with legal and regulatory requirements, supervision of compliance function and soundness of internal controls. The ARCC also obtains regular updates from management and the Group's compliance officer regarding compliance matters, which may have a material impact on the Group's consolidated financial statements and reviews the findings of any examinations by regulatory agencies.

Management Risk Committee

The Management Risk Committee is responsible to support the ARCC in overseeing the Group's risk management framework, reviewing the risk strategy, policies and limits. It is responsible for evaluating the key risk issues and manages and monitors relevant risk decisions.

Asset Liability Management Committee

The Asset Liability Management Committee's (ALCO) objective is to prudently direct and manage asset and liability allocation to achieve the Group's strategic goals. The ALCO monitors the Group's liquidity risks by ensuring that the Group's activities are in line with the risk/reward guidelines approved by the Board.

Internal Audit

Internal control processes throughout the Group are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the ARCC. Internal audit staff examine both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the ARCC.

b) Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that it is willing to accept. The Group also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Credit concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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 manage credit concentration risk, the Group's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.2 Credit risk**

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk arises from lending, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define strict guidelines for undertaking credit risk exposures and the same are approved in line with Board-approved delegated authority. The Group manages its credit risk by monitoring concentration of exposures by geographic location and adhering to approved limits. Where appropriate, the Group seeks collateral to mitigate credit risks.

a. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The net maximum exposure is shown after the effect of provision for expected credit losses and mitigation through the use of netting and collateral arrangements.

	<i>Gross maximum exposure</i>	<i>Provision for expected credit losses</i>	<i>Net maximum exposure</i>	<i>Gross maximum exposure</i>	<i>Provision for expected credit losses</i>	<i>Net maximum exposure</i>
	<i>2021</i>	<i>2021</i>	<i>2021</i>	<i>2020</i>	<i>2020</i>	<i>2020</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Balances with banks	349,045	(3,741)	345,304	333,187	(6)	333,181
Deposits with banks and other financial institutions	465,556	(195)	465,361	471,346	(453)	470,893
Investments classified as fair value through profit or loss	3,661	-	3,661	-	-	-
Investment securities	264,653	(1,142)	263,511	248,676	(3,809)	244,867
Loans and advances	192,910	(43,570)	149,340	163,683	(81,885)	81,798
Interest receivable	5,488	-	5,488	5,354	-	5,354
Other assets	616	-	616	418	-	418
Total funded credit risk exposure	1,281,929	(48,648)	1,233,281	1,222,664	(86,153)	1,136,511
Unfunded exposure on credit related contingencies	116,344	(74)	39,222	51,183	(19)	29,502
Total funded and unfunded credit risk exposures	1,398,273	(48,722)	1,272,503	1,273,847	(86,172)	1,166,013

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include cash collateral, residential and commercial real estate and securities.

b. Credit quality per class of financial assets

The table below presents an analysis of the financial assets exposed to credit risk and external rating designation at 31 December 2021 and 31 December 2020. The credit quality is graded based on external credit rating agencies - Standard & Poor, Fitch and Moody's and internal ratings are categorised as follows:

- (i) High standard - Where external credit rating agency ratings are A and above.
- (ii) Standard - Where external credit rating agency ratings are below A and unrated.
- (iii) Watch list - Where the facility is not past due but recoverability is being monitored.
- (iv) Past due but not impaired - Where interest or principal sum is overdue for less than 90 days.
- (v) Past due and impaired - Where interest or principal sum is overdue for more than 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

b. Credit quality per class of financial assets (continued)

	<i>Neither past due nor impaired</i>		<i>Past due and individually impaired</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>High standard grade</i>	<i>Standard grade</i>			
	<i>US\$ '000</i>	<i>US\$ '000</i>			
At 31 December 2021					
Balances with banks	36,830	308,480	3,735	(3,741)	345,304
Deposits with banks and other financial institutions	73,097	392,459	-	(195)	465,361
Investments classified as fair value through profit and loss	-	3,661	-	-	3,661
Investment securities *	18,531	246,122	-	(1,142)	263,511
Loans and advances	-	151,607	41,303	(43,570)	149,340
Interest receivable	256	5,232	-	-	5,488
Other assets	-	616	-	-	616
Funded exposures	128,714	1,108,177	45,038	(48,648)	1,233,281
Credit related contingencies	-	116,344	-	(74)	116,270
Unfunded exposures	-	116,344	-	(74)	116,270
Funded and unfunded exposures	128,714	1,224,521	45,038	(48,722)	1,349,551
	<i>Neither past due nor impaired</i>		<i>Past due and individually impaired</i>	<i>Provision for loan losses</i>	<i>Total</i>
	<i>High standard grade</i>	<i>Standard grade</i>			
	<i>US\$ '000</i>	<i>US\$ '000</i>			
At 31 December 2020					
Balances with banks	35,617	297,570	-	(6)	333,181
Deposits with banks and other financial institutions	105,338	366,008	-	(453)	470,893
Investments classified as fair value through profit and loss	-	-	-	-	-
Investment securities*	11,003	237,673	-	(3,809)	244,867
Loans and advances	-	83,922	79,761	(81,885)	81,798
Interest receivable	164	5,190	-	-	5,354
Other assets	-	418	-	-	418
Funded exposure	152,122	990,781	79,761	(86,153)	1,136,511
Credit related contingencies	118	51,065	-	(19)	51,164
Unfunded exposures	118	51,065	-	(19)	51,164
Funded and unfunded exposures	152,240	1,041,846	79,761	(86,172)	1,187,675

* ECL held against FVOCI investments have not been included above as it does not affect the carrying value of investments.

As of 31 December 2021, the Group did not have any financial assets that were past due but not impaired (2020: same).

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As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.2 Credit risk (continued)****c. Concentration of maximum exposure to credit risk**

The geographical distribution of gross credit exposures is presented below:

At 31 December 2021

	Bahrain US\$ '000	Other GCC countries US\$ '000	Other Middle- East and African countries US\$ '000	Europe US\$ '000	Rest of the world US\$ '000	Provision for expected credit losses US\$ '000	Total US\$ '000
Balances with banks	300,772	1,551	3,881	42,788	53	(3,741)	345,304
Deposits with banks and other financial institutions	152,406	180,698	64,811	67,641	-	(195)	465,361
Investments classified as fair value through profit and loss	-	-	-	3,661	-	-	3,661
Investment securities *	83,740	80,750	43,435	39,029	17,699	(1,142)	263,511
Loans and advances	-	1,670	85,948	84,040	21,252	(43,570)	149,340
Interest receivable	1,632	969	1,768	745	374	-	5,488
Other assets	616	-	-	-	-	-	616
Gross funded exposures	539,166	265,638	199,843	237,904	39,378	(48,648)	1,233,281
Credit related contingencies	-	1,100	112,475	41	2,728	(74)	116,270
Gross unfunded exposures	-	1,100	112,475	41	2,728	(74)	116,270
Gross funded and unfunded exposures	539,166	266,738	312,318	237,945	42,106	(48,722)	1,349,551

At 31 December 2020

	Bahrain US\$ '000	Other GCC countries US\$ '000	Other Middle- East and African countries US\$ '000	Europe US\$ '000	Rest of the world US\$ '000	Provision for expected credit losses US\$ '000	Total US\$ '000
Balances with banks	295,299	3,395	70	3,668	30,755	(6)	333,181
Deposits with banks and other financial institutions	167,173	171,880	51,374	80,919	-	(453)	470,893
Investments classified as fair value through profit and loss	-	-	-	-	-	-	-
Investment securities *	79,588	84,508	35,722	40,598	8,260	(3,809)	244,867
Loans and advances	-	1,670	112,511	37,980	11,522	(81,885)	81,798
Interest receivable	1,976	879	1,835	450	214	-	5,354
Other assets	418	-	-	-	-	-	418
Gross funded exposures	544,454	262,332	201,512	163,615	50,751	(86,153)	1,136,511
Credit related contingencies	-	26,499	20,840	2,135	1,709	(19)	51,164
Gross unfunded exposures	-	26,499	20,840	2,135	1,709	(19)	51,164
Gross funded and unfunded exposures	544,454	288,831	222,352	165,750	52,460	(86,172)	1,187,675

* ECL held against FVOCI investments have not been included above as it does not affect the carrying value of investments.

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As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.2 Credit risk (continued)****c. Concentration of maximum exposure to credit risk (continued)**

Sectoral classification of gross credit exposures is presented below:

	<i>Sovereign</i>	<i>Banks and financial institutions</i>	<i>Commercial, business and others</i>	<i>Provision expected credit losses</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
At 31 December 2021					
Balances with banks	299,564	49,481	-	(3,741)	345,304
Deposits with banks and other financial institutions	-	465,556	-	(195)	465,361
Investments classified as fair value through profit and loss	3,661	-	-	-	3,661
Investment securities *	224,033	26,404	14,216	(1,142)	263,511
Loans and advances	46,315	88,273	58,322	(43,570)	149,340
Interest receivable	4,480	716	292	-	5,488
Other assets	-	-	616	-	616
Gross funded exposures	578,053	630,430	73,446	(48,648)	1,233,281
Credit related contingencies	2,955	110,414	2,975	(74)	116,270
Gross unfunded exposures	2,955	110,414	2,975	(74)	116,270
Gross funded and unfunded exposures	581,008	740,844	76,421	(48,722)	1,349,551
At 31 December 2020					
Balances with banks	291,578	41,609	-	(6)	333,181
Deposits with banks and other financial institutions	-	471,346	-	(453)	470,893
Investments classified as fair value through profit and loss	-	-	-	-	-
Investment securities *	187,806	35,623	25,247	(3,809)	244,867
Loans and advances	44,838	80,855	37,990	(81,885)	81,798
Interest receivable	4,235	801	318	-	5,354
Other assets	-	-	418	-	418
Gross funded exposures	528,457	630,234	63,973	(86,153)	1,136,511
Credit related contingencies	-	24,684	26,499	(19)	51,164
Gross unfunded exposures	-	24,684	26,499	(19)	51,164
Gross of funded and unfunded exposures	528,457	654,918	90,472	(86,172)	1,187,675

* ECL held against FVOCI investments have not been included above as it does not affect the carrying value of investments.

23.3 Market risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates.

As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.3 Market risk (continued)**

The Group has clearly defined policies for conducting investments (including FVTPL investments) and foreign exchange business which stipulates limits for these activities. Investments are made in line with approved investment criteria. The Group does not undertake any commodity trading activities.

23.3.1 IBOR reform

The Group does not have any exposure linked to LIBOR or other IBORs which are being phased out. The Group has exposure linked to EURIBOR which will not require to be transitioned as EURIBOR is not being phased out. Nonetheless, the Group has established a committee comprising of senior management members with the objective of ensuring a smooth transition to RFRs. Following the progress made during 2021, the Group has established the necessary procedures for using the new RFRs and is confident that it shall have the operational capability to manage the transition.

23.3.2 Interest rate risk

Interest rate risk arises from the possibility that adverse movement in interest rates will affect the value of financial instruments and its financial position. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period.

The Group has established policies and procedures for managing interest rate risk. The Group endeavors to keep its assets and liabilities mismatches at stable and acceptable levels to maintain steady interest income. The Group monitors interest rate risk based on interest rate gap monitoring and by establishing sensitivity limits for impact of interest rate shift on net interest income and economic value of equity of the Group.

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

Sensitivity analysis - interest rate risk

	<i>Impact on consolidated statement of profit or loss</i>	
	2021	2020
	US\$ '000	US\$ '000
<i>25 bps increase in interest rate</i>		
US Dollar	+ 478	+ 518
AED	+ 64	+ 40
Euro	+ 3	+ 169

* An equal decrease in interest rate would have an equal and opposite impact on the consolidated statement of profit or loss for the year.

23.3.3 Currency risk

Currency risk arises from the movement of the rate of exchange over a period of time. The Group's currency risk is mainly towards assets and liabilities denominated in Euro. The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, on the Group's consolidated statement of profit or loss:

	<i>Increase in exchange rate</i>	<i>Effect on consolidated statement of profit or loss for the year</i>	
		2021	2020
		US\$ '000	US\$ '000
Euro	5%	(36)	(4)

As at 31 December 2021

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

23.3.3 Currency risk (continued)

* An equal decrease in foreign exchange rate would have an equal and opposite impact on the consolidated statement of profit or loss for the year.

As other currency exposures are insignificant and GCC currencies to which the Group is exposed are pegged to the US Dollar, their balances are not considered to represent currency risk.

23.3.4 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. For the year ended 31 December 2021, there is no effect on the Group's consolidated profit and equity as the investment portfolio does not contain any equity investments (2020: same).

23.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To limit this risk, the Group endeavors to diversify its funding sources and maintains a healthy liquidity cushion comprising of cash equivalents and readily marketable securities.

The Group has in place a Board-approved Liquidity Risk Management Policy which provides guidelines for managing the liquidity risk and specifies limits on minimum level of liquid assets to be maintained as well as gap limits for cash flow mismatch. The Group's ALCO regularly oversees the liquidity position of the Bank and ensures adequate liquidity is available at all times. The Group also has in place a contingency funding plan to deal with extra-ordinary conditions if the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.4 Liquidity risk (continued)**

The maturity profile below reflects the contractual and expected maturities of the assets and liabilities on the basis of the remaining period at the date of the consolidated statement of financial position:

<i>At 31 December 2021</i>	<i>Up to 1 year</i>				<i>More than 1 year</i>	<i>No specific maturity</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>				
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
ASSETS								
Cash, balances with banks and Central Bank	183,016	143,822	18,475	345,313	3,735	-	(3,741)	345,307
Deposits with banks and other financial institutions	429,744	35,812	-	465,556	-	-	(195)	465,361
Investments classified as fair value through profit and loss				-	3,661	-	-	3,661
Investment securities	5,018	5,019	35,216	45,253	219,400	-	(1,142)	263,511
Loans and advances	19,729	10,121	33,668	63,518	129,392	-	(43,570)	149,340
Investment property	-	-	-	-	11,734	-	-	11,734
Property, equipment and software	-	-	-	-	-	7,674	-	7,674
Interest receivable	2,956	1,428	1,104	5,488	-	-	-	5,488
Other assets	-	3	46	49	1,019	-	-	1,068
Total assets	640,463	196,205	88,509	925,177	368,941	7,674	(48,648)	1,253,144
LIABILITIES								
Deposits from banks and other financial institutions	433,621	30,000	20,001	483,622	277,512	-	-	761,134
Due to banks and other financial institutions	101,328	-	-	101,328	3,526	-	-	104,854
Due to customers	26,021	10,800	-	36,821	-	-	-	36,821
Interest payable	116	8	462	586	24	-	-	610
Other liabilities	-	20	68	88	9,662	-	74	9,824
Total liabilities	561,086	40,828	20,531	622,445	290,724	-	74	913,243
Net liquidity gap	79,377	155,377	67,978	302,732	78,217	7,674	(48,722)	339,901
Cumulative liquidity gap	79,377	234,754	302,732	-	380,949	388,623	339,901	-

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As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.4 Liquidity risk (continued)**

At 31 December 2020	Up to 1 year			Total US\$ '000	More than 1 year US\$ '000	No specific maturity US\$ '000	Provision for expected credit losses US\$ '000	Total US\$ '000
	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 to 12 months US\$ '000					
ASSETS								
Cash, balances with banks and Central Bank	136,591	132,346	64,081	333,018	182	-	(6)	333,194
Deposits with banks and other financial institutions	344,030	97,811	29,505	471,346	-	-	(453)	470,893
Investments classified as fair value through profit or loss	-	-	-	-	-	-	-	-
Investment securities	15,038	5,007	10,003	30,048	218,628	-	(3,809)	244,867
Loans and advances	3,792	5,080	21,693	30,565	133,118	-	(81,885)	81,798
Property, equipment and software	-	-	-	-	-	8,326	-	8,326
Interest receivable	2,949	1,594	811	5,354	-	-	-	5,354
Other assets	113	471	65	649	161	-	-	810
Total assets	502,513	242,309	126,158	870,980	352,089	8,326	(86,153)	1,145,242
LIABILITIES								
Deposits from banks and other financial institutions	193,189	112,308	-	305,497	356,757	-	-	662,254
Due to banks and other financial institutions	61,374	-	-	61,374	3,523	-	-	64,897
Due to customers	61,952	10,800	-	72,752	-	-	-	72,752
Interest payable	120	20	-	140	304	-	-	444
Other liabilities	641	7,630	-	8,271	2,230	-	19	10,520
Total liabilities	317,276	130,758	-	448,034	362,814	-	19	810,867
Net liquidity gap	185,237	111,551	126,158	422,946	(10,725)	8,326	(86,172)	334,375
Cumulative liquidity gap	185,237	296,788	422,946	-	412,221	420,547	334,375	-

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As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.4 Liquidity risk (continued)**

The maturity profile of the financial and contingent liabilities as at reporting date based on contractual undiscounted repayment amounts is as follows:

<i>At 31 December 2021</i>	<i>Up to 1 year</i>				<i>More than 1 year</i>	<i>No specific maturity</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>				
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Liabilities								
Deposits from banks and financial institutions	433,774	30,023	171,779	635,576	127,606	-	-	763,182
Due to banks and other financial institutions	101,328	-	-	101,328	3,526	-	-	104,854
Due to customers	26,021	10,808	-	36,829	-	-	-	36,829
Total undiscounted liabilities	561,123	40,831	171,779	773,733	131,132	-	-	904,865
Commitments and contingent liabilities								
Letters of credit	12,179	40,173	49,700	102,052	11,337	-	(59)	113,330
Loan commitment	-	-	-	-	2,955	-	(15)	2,940
	12,179	40,173	49,700	102,052	14,292	-	(74)	116,270
<i>At 31 December 2020</i>								
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>	<i>More than 1 year</i>	<i>No specific maturity</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Liabilities								
Deposits from banks and financial institutions	218,342	162,406	151,830	532,578	131,840	-	-	664,418
Due to banks and other financial institutions	61,397	-	-	61,397	3,500	-	-	64,897
Due to customers	61,952	10,805	-	72,757	-	-	-	72,757
Total undiscounted liabilities	341,691	173,211	151,830	666,732	135,340	-	-	802,072
Commitments and contingent liabilities								
Letters of credit	39,661	2,104	8,200	49,965	1,100	-	(18)	51,047
Loan commitment	118	-	-	118	-	-	(1)	117
	39,779	2,104	8,200	50,083	1,100	-	(19)	51,164

As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.5 Fair value of financial instruments***Fair value hierarchy - financial instruments measured at fair value*

The following table provides the fair value measurement hierarchy of the Group's financial instruments measured at fair value:

At 31 December 2021

	<i>Level 1</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Investments classified as fair value through profit and loss	3,661	3,661
Investments classified as fair value through other comprehensive income	122,610	122,610
Derivative financial instruments	2	2
	<u>126,273</u>	<u>126,273</u>

At 31 December 2020

	<i>Level 1</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Investments classified as fair value through other comprehensive income	154,105	154,105
	<u>154,105</u>	<u>154,105</u>

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2021, there were no transfers between level 1 and level 2 of fair value hierarchy, and no transfers into or out of level 3 fair value hierarchy (2020: same).

Fair value hierarchy - financial instruments not measured at fair value

The following table provides the fair value measurement hierarchy of the Group's financial instruments not measured at fair value:

At 31 December 2021

	<i>Fair value</i> <i>US\$ '000</i>	<i>Carrying value</i> <i>US\$ '000</i>
Amortised cost investments	148,092	140,901
Loans and advances	42,905	39,269
	<u>190,997</u>	<u>180,170</u>

At 31 December 2020

	<i>Fair value</i> <i>US\$ '000</i>	<i>Carrying value</i> <i>US\$ '000</i>
Amortised cost investments	99,171	90,762
Loans and advances	48,275	44,838
	<u>147,446</u>	<u>135,600</u>

As at 31 December 2021

23 RISK MANAGEMENT (continued)**23.5 Fair value of financial instruments (continued)**

Management has assessed that the fair values of balances with banks, deposits with banks and other financial institutions, loans and advances (other than those disclosed in the table above), interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities these approximate their carrying values as of 31 December 2021 and 31 December 2020.

24 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include forward exchange contracts which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favorable or unfavorable.

The table below shows the net fair values of derivative financial instruments together with the notional amount. These contracts are settled on a net basis. Depending on currency movements, the contracts may result in either a net asset or a net liability. The following table shows the outstanding contracts as at 31 December:

	2021		2020	
	<i>Notional amount</i>	<i>Gain / (loss)</i>	<i>Notional amount</i>	<i>Gain / (loss)</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Forward foreign exchange contracts	738	2	-	-
	738	2	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

25 RELATED PARTY BALANCES AND TRANSACTIONS

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

Transactions with related parties included in the consolidated statement of profit or loss and consolidated statement of financial position are as follows:

	31 December 2021				31 December 2020			
	<i>Shareholders</i>	<i>Key management personnel/ Board members</i>	<i>Other related parties</i>	<i>Total</i>	<i>Shareholders</i>	<i>Key management personnel/ Board members</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Consolidated statement of profit or loss								
Interest income	1	-	139	140	4	-	136	140
Interest expense	3,095	-	27	3,122	7,128	-	145	7,273
Fee and commission income	19	-	511	530	1	-	268	269
Consolidated statement of financial position								
Assets								
Cash and balances with banks	37	-	1,518	1,555	60	-	1,187	1,247
Loans and advances	-	-	4,605	4,605	-	-	-	-
Interest receivable	-	-	20	20	-	-	-	-
Other assets	-	42	-	42	-	65	-	65
Liabilities								
Deposits from banks and other financial institutions	574,776	-	25,000	599,776	501,766	-	25,000	526,766
Due to banks and other financial institutions	23,208	-	2,541	25,749	20,043	-	885	20,928
Interest payable	576	-	1	577	425	-	4	429
Other liabilities	-	250	-	250	-	493	-	493
Contingent liabilities								
Letters of credit and letters of guarantee	2,206	-	5,504	7,710	1,123	-	2,830	3,953
Forward foreign exchange contracts	-	-	738	738	-	-	-	-

As at 31 December 2021

25 TRANSACTIONS WITH RELATED PARTIES (continued)**Compensation paid to the Board of Directors and key management personnel:**

	2021	2020
	US\$ 000	US\$ 000
Short term benefits	4,876	4,892
End of term benefits	227	303
Total compensation	5,103	5,195

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US\$ 893 thousand (2020: US\$ 847 thousand) and reimbursement of travel, accommodation and other expenses amounting to US\$ 92 thousand (2020: US\$ 53 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

Short term benefits also include compensation paid to key management personnel as salary, allowances and provision for bonus accrual.

26 CAPITAL ADEQUACY, NET STABLE FUNDING AND LIQUIDITY COVERAGE RATIOS

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

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.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines, under Basel III, approved by the Central Bank of Bahrain is as follows:

	2021	2020
	US\$ 000	US\$ 000
Capital base:		
Tier 1 capital	336,105	333,361
Tier 2 capital	5,917	5,917
Total capital base (a)	342,022	339,278
Risk weighted assets (b)	789,215	606,397
Capital adequacy (a/b * 100)	43.34%	55.95%
Minimum requirement	12.50%	12.50%

27 LIQUIDITY RATIOS**Liquidity Coverage Ratio**

The Group is subject to the Basel III liquidity ratios requirement, as stipulated by the regulator Central Bank of Bahrain, whereby the Bank is required to maintain a minimum of 100% (currently revised to 80%, due to COVID-19 measures) Liquidity Coverage ratio (LCR) and Net Stable Funding ratio (NSFR).

The main objective of the Liquidity Coverage Ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient level of high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of up to 30 days.

At 31 December 2021, the Group's LCR was 362% (2020: 512%), which is well above the required level. The Group's simple average of daily LCR was 365% (30 September 2021: 384%).

As at 31 December 2021

27 LIQUIDITY RATIOS (continued)**Net Stable Funding Ratio**

The objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have a sufficient level of stable funding from stable sources and long term borrowing in relation to their assets and commitments, in order to reduce the risks of disruptions which might impact the bank's liquidity position.

The Group's NSFR was well above the regulatory requirement and stood at 136% as at 31 December 2021 (31 December 2020: 177%). The main drivers for robust Available Stable Funding (ASF) is its sizeable capital base, which contributes about 74% of total ASF and the remaining 26% of ASF constituted funding from non-financial corporate customers and deposits from financial institutions. Required Stable Funding (RSF), primarily comprised of short term deposit placements with Banks and other performing loans, which constituted about 54% of total RSF. High quality liquid assets (that comprised mainly of Bahrain government securities and other highly rated debt issuances) accounted for about 9% of the total RSF, while non-HQLA securities accounted for 28% of the total RSF.

The NSFR (as a percentage) is calculated as follows:

Item	Unweighted Values (i.e. before applying relevant factors)				USD 000s
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	342,022	-	-	-	342,022
Wholesale funding:					
Other wholesale funding	-	701,747	201,062	-	118,942
Other liabilities:					
All other liabilities not included in the above categories	-	10,337	24	-	-
Total ASF					460,964
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)					29,382
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	535,745	6,484	22,702	106,306
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities	-	16,189	2,490	79,297	76,742
Performing residential mortgages, of which: Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	5,018	25,152	94,374	95,303
Other assets:					
All other assets not included in the above categories	25,964	-	-	-	25,964
Off balance sheet items	-	116,344	-	-	5,816
Total RSF					339,513
NSFR (%)					136%

**(The attached schedules do not form part of the consolidated
financial statements)**

As at 31 December 2021

FINANCIAL IMPACT OF COVID-19

In the second year of the COVID-19 coronavirus pandemic, recovery remained uneven globally and continued presenting a variety of challenges and risks from economic uncertainty to changes in consumer demand, disrupted supply chains and staff shortages along with new hybrid working patterns. Although observable progress is being made in tackling the pandemic, it seems its set to remain an ongoing global challenge for the foreseeable future although indications of normal life and a resurgence of economic activity is started being observed.

Nevertheless, the Group continued to take the required and necessary precautionary measures recommended by authorities along with extensive remote working, without disrupting its smooth operations and provision of uninterrupted services.

For the year ended 31 December 2021, the Bank's overall performance exceeded its budget estimates. This outcome was mainly attributed to Bank's efforts to recover a fully provided non performing facility, which enabled the Bank to write back a significant amounting to US\$ 11.7 million of provision for expected credit losses.

Despite the exceptional income, the continued declining trend in interest rates evidenced since the end of the first quarter of 2020, narrowed the interest margins, contributing to a decline in the Group's net interest income. Moreover, the Group's fee and commission income, especially related to trade finance activities, observed a declining trend due to the effect of the continued uncertainties in the market and slow-down in international trade.

The Group recorded interest income of US\$ 26.2 million for the year ended 31 December 2021 as compared to US\$ 31.8 million for last year, reflecting a decrease of 17.9%, nevertheless, the net interest income observed a decrease of 5.5%, due to the decrease in interest expense with the fall in LIBOR and interest rates.

Income from fee and commission was US\$ 3.4 million for 2021, as compared to US\$ 3.8 million in 2020, reflecting a decrease of 11%. Trading income decreased in current year compared to last year, from a gain of US\$ 20 thousand to a loss of US\$ 584 thousand.

Overall the Bank continued to be resilient in current COVID-19 pandemic, and its effect on banking industry, which challenged the business model and created a new competitive landscape and achieved a net profit of US\$ 22.7 million for the year ended 31 December 2021, as compared to US\$ 22.1 million for the same period last year.

The Bank's Capital adequacy ratio (CAR), continues to be strong at 43.3% at 31 December 2021 and well above the regulatory requirement of 12.5%. The Bank's Liquidity coverage ratio (LCR) and Net Stable fund ratio (NSFR), continues to be well above the regulatory norms and stood at 362% and 136% at 31 December 2021, respectively.

Further, the Bank has continued to enhance its information technology facilities and adequately equipped itself to meet the challenges faced by banking industry and had a smooth transition to work extensively from remote location, thus ensuring business continuity.

The above supplementary information on the Financial impact of COVID-19, is provided to comply with Central Bank of Bahrain circular reference OG/259/2020 dated 14 July 2020, due to the current COVID-19 pandemic.

This information has not been subject to any review by external auditors.