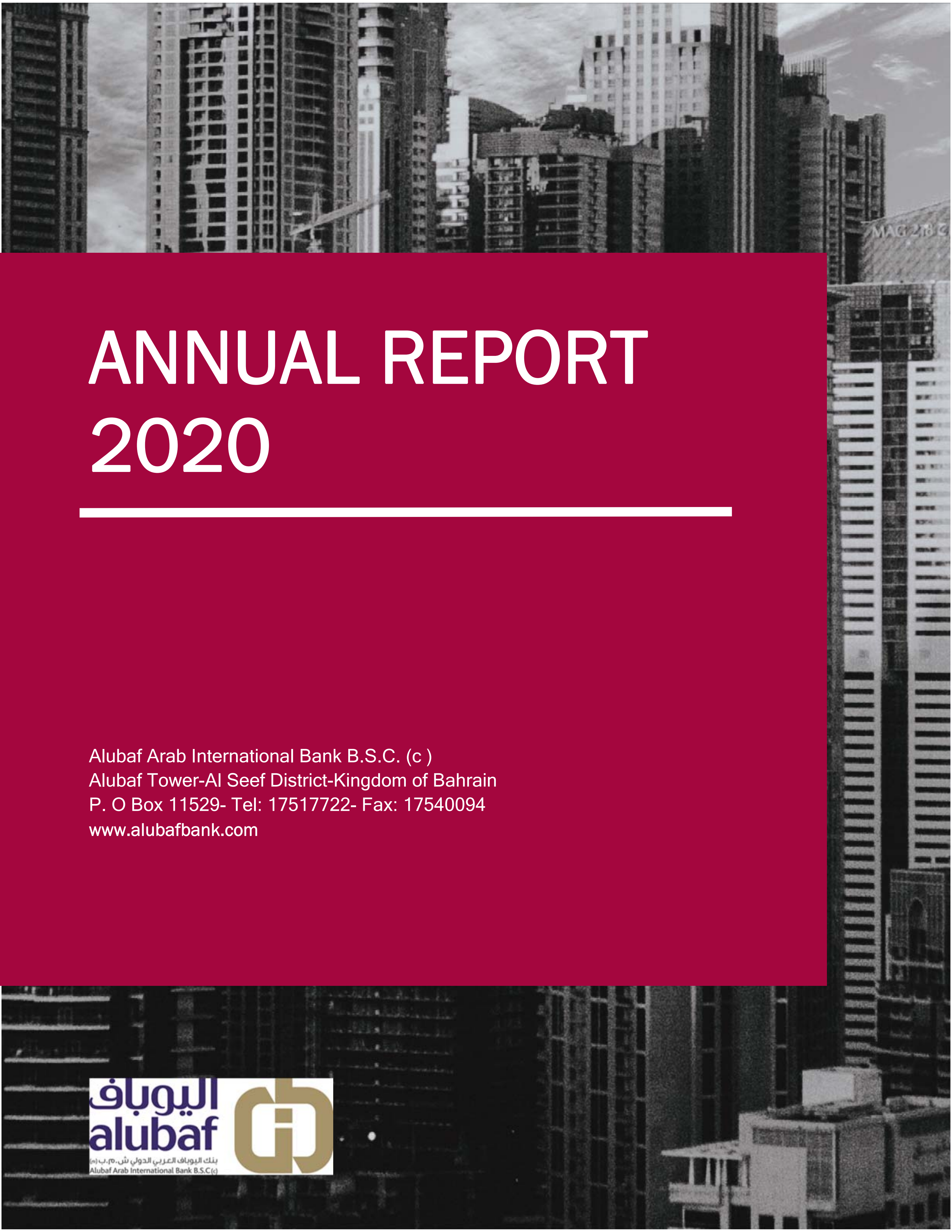

ANNUAL REPORT 2020

Alubaf Arab International Bank B.S.C. (c)
Alubaf Tower-Al Seef District-Kingdom of Bahrain
P. O Box 11529- Tel: 17517722- Fax: 17540094
www.alubafbank.com

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- **ALUBAF Arab International Bank B.S.C. (c) is a wholesale bank registered in the Kingdom of Bahrain.**
- **ALUBAF's operations include Treasury, Trade finance and Lending.**

VISION

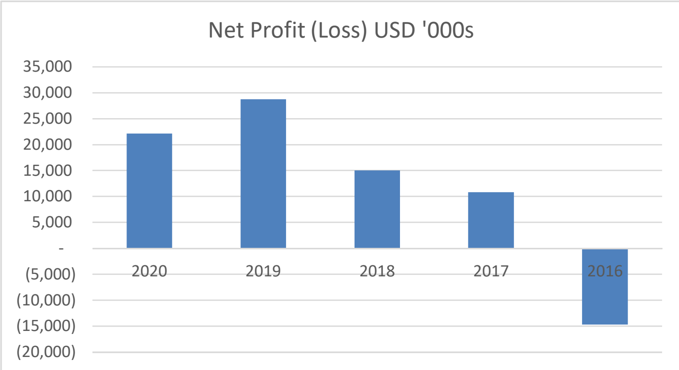
ALUBAF Arab International Bank visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients.

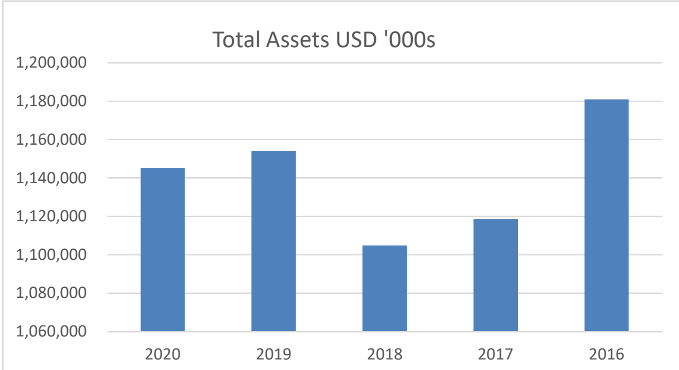
MISSION

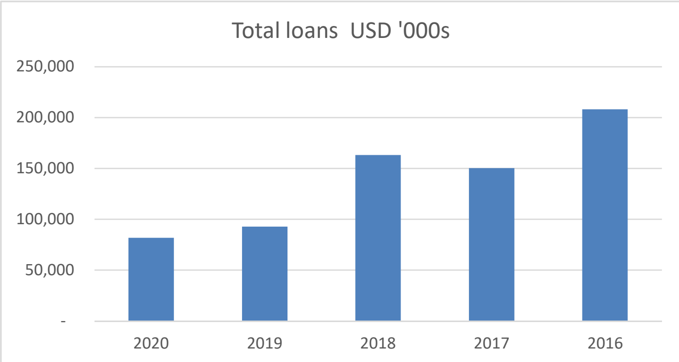
To augment shareholder value by maximizing profitability with prudent financial management and to entrench a disciplined risk and cost management culture.

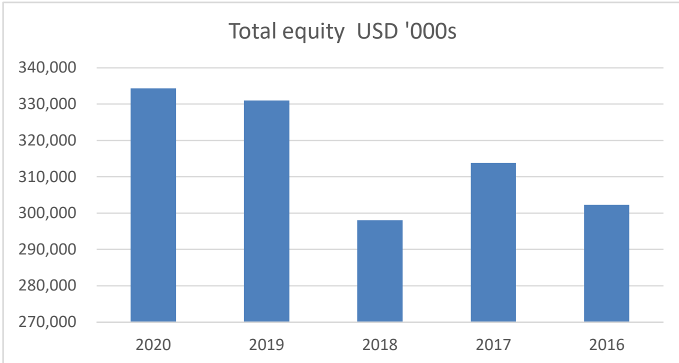
FINANCIAL HIGHLIGHTS

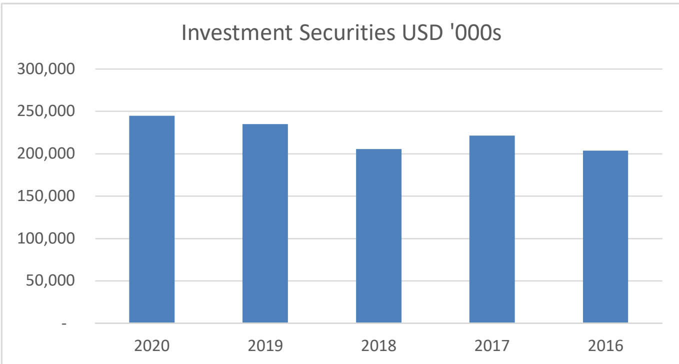
	2020	2019	2018	2017	2016
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
Financial Position					
Net Profit (Loss) before appropriation	22,113	28,741	15,000	10,830	(14,685)
Total Assets	1,145,242	1,153,997	1,104,888	1,118,643	1,180,936
Investment Securities	244,867	234,930	205,597	221,374	203,767
Total Loans	81,798	92,740	163,338	150,256	208,041
Total Liablities	810,867	822,973	806,821	804,792	878,659
Total Equity	334,375	331,024	298,067	313,851	302,277
Ratios %					
Profitability					
ROAA -Return on Average Assets %	2%	3%	1%	1%	-1%
ROAE-Return on Average Equity %	7%	9%	5%	4%	-5%
Cost to Gross Income	40%	39%	39%	38%	25%
Capital					
Capital Adequacy Ratio	56%	51%	43%	37%	40%
Equity Assets Ratio	29%	29%	27%	28%	26%
Asset Quality					
Loans to Total Assets	7%	8%	15%	13%	18%
Investment Securities/ Total assets	21%	20%	19%	20%	17%
NPA/Gross loans	49%	50%	38%	34%	30%
Liquidity					
Liquid assets to Total Assets	71%	71%	66%	66%	64%
Liquid assets to Liabilities	100%	99%	90%	91%	86%


Net Profit (Loss) USD '000s
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
(5,000)
(10,000)
(15,000)
(20,000)
2020
2019
2018
2017
2016


Total Assets USD '000s
1,200,000
1,180,000
1,160,000
1,140,000
1,120,000
1,100,000
1,080,000
1,060,000
2020
2019
2018
2017
2016


Total loans USD '000s
250,000
200,000
150,000
100,000
50,000
-
2020
2019
2018
2017
2016


Total equity USD '000s
340,000
330,000
320,000
310,000
300,000
290,000
280,000
270,000
2020
2019
2018
2017
2016


Investment Securities USD '000s
300,000
250,000
200,000
150,000
100,000
50,000
-
2020
2019
2018
2017
2016

Board of Directors

Mr. Moraja Gaith Solaiman
Chairman
Masters in Accounting from University of Hartford, USA. Deputy Finance Minister in Transitional government in Libya since 2011. Director of the Central Bank of Libya (since 2011). Member of the General Commission for Supervision of Insurance Companies (since 2007).Faculty member of Economics in University of Benghazi, Libya since 1982.

Mr. Guima Masaud Salem Kordi
Director
Bachelor of Computer Science, Tripoli University with over 20 years of experience in banking industry. Currently, Information Technology department Manager of Libyan Foreign Bank. Formerly, a Board member of Ares Bank, Spain.

Mr. Anthony Mallis
Vice Chairman
Graduated from the American University of Beirut in 1976 and studied at the Stanford Graduate School of Business.

Retired in 2014, after spending thirteen years as Chief Executive Officer of Securities & Investment Company (SICO) and transforming the company into a highly respected Bahrain-based GCC focused investment bank and asset manager.

Anthony has worked with a number of banks in the commercial, investment banking, asset management and private equity spaces in London, Bahrain and Saudi Arabia with Citibank, GIB, Bankers Trust, CSAM Investment Management and its predecessor, CSFB Investment Management. He served on the boards of Zawya, Pinebridge Middle East and on The Bahrain Bankers' Society. Besides consulting on strategic business matters he serves on the Board of Al Ramz Corporation in the UAE and on the investment committee of a prominent family office.

Mr. Abdulkarim Ahmed Bucheery
Director
Mr. Bucheery is a Bachelor in Economic science from Aleppo University –Syria in 1976, with over 43 years of Banking experience. Currently, he holds a position of Chairman in Bahrain Bourse, Bahrain Clear Company, Vice Chairman of Naseej Company and a member of Bahrain Banks Advisory Board, and EDB's Economic advisory Board.

Formerly, was a Group Chief Executive Officer of Bank of Bahrain and Kuwait from 2002 to 2016, and Executive Vice President of Institutional Banking Group at Gulf International Bank from 1980 to 2002.

Mr. Basel B. El Hini
Director
Mr.Basel holds a B.Sc. in Economics from Cairo University and a Master's degree in Economics from the American University in Cairo. He has more than 35 years of experience in finance and investment and held managerial positions for the last 20 years, with in-depth knowledge of investment, corporate and retail banking, structured finance and syndication, international project finance, financial advisory and macroeconomic policy and reform. Also, currently, Chairman and Managing Director of Misr Insurance Holding Company, Egypt (Egypt's largest non-banking finance group) and Chairman of Financial Sector Investment Fund Company, Egypt.

Mr. Abdulrazaq Belaid Mohamed Tarhuni
Director
Mr. Tarhuni holds a Masters in Economic and Financial Management from Tunisian University of Technology and has more than 30 years of experience in Banking Industry. Currently, he is the General Manager of Jumhouria Bank, Libya, which is a large Retail Bank in Libya. Mr. Tarhuni has held senior position in Retail Bank and his experience spans across various functions that include accounting, marketing and Treasury management. Currently, he is also a Board member of United Insurance Company,Libya, Sahari Insurance Company, Libya and Al Bunia Investment and Services Company, Libya.

Executive Management

Mr. Hassan Khalifa Abulhassan
Chief Executive Officer
Chief Executive Officer since October 2012. He holds a Bachelors degree in Statistics from Libya. Mr. Hassan Abulhassan is deputed from Libyan Foreign Bank, Libya to head Alubaf Arab International Bank, Bahrain. He has held several senior top management position with Libyan Foreign Bank group and the last position held was Assistant General Manager at Libyan Foreign Bank, headquarters. He brings with him strong and extensive experience in Banking sector that spans more than two decades.

Dr. Nasreen Al Qaseer
Chief Risk Officer
Doctor of Philosophy (DBA), Risk Management & Operational Risk from Liverpool John Moores University, UK and MBA in Business Managerial Economics from University of Hull, UK. Member of PRIMA Global Nominated Committee – Since December 2015 and MENA IIF CRO - Institute of International Finance – Since June 2012.Dr. Nasreen has over 30 years of experience in Banking Industry in the region that spans over Conventional, Retail, Islamic and Investment Banks, licensed under Central Bank of Bahrain (CBB) and Central Bank of Kuwait (CBK). She has held various senior positions and held approved person status under CBB & CBK. She has authored two books on Operational risk "Examining the Magnitude of Operational Risk in the Lending Process – Application of Banks" in 2012 and "New Frontiers Explored"- Risk Book 2013. She has been awarded by Supreme Council of Women and Central Bank of Bahrain as Professionals-Women in Banking and Finance in Dec 2015.

Ms. K.R.Usha
Head of Financial control
An Associate member of Institute of Chartered Accountants of India and Institute of Cost and Works Accountants of India, with a strong Finance and Audit experience of more than 20 years and a Post qualification on Information Systems Audit from the Institute of Chartered Accountants of India.

Ms. Fatima Mohammed Bu Ali
Head of Operations
Masters in Business Administration from University College Bahrain, affiliated with McMaster University-Canada with Intermediate Diploma in Banking and Finance. Also, holds an ACI Dealing certificate. She has over ten years of experience in Banking operations, Treasury and customer relationship management.

Mr. Abbas Abdulla Al-Shamma
Head of Internal Audit
A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), he holds a B.Sc. in Accounting from the University of Bahrain. He is a member of the Global Institute of Internal Auditors and the Information Systems Audit and Control Association, USA. He joined Alubaf in December 2009 and has more than 10 years of experience in the banking sector in the field of Internal and External audit, Risk Assessment, and Corporate Governance. Before joining Alubaf, he previously worked with Ernst and Young and BDO - Bahrain.

Ms. Najla Mahmood Qambar
Head of Compliance and MLRO
An MBA degree from University College Bahrain, as well as a holder of Professional international certificate on Compliance – ICA, with over ten years of experience in Banking sector, in Bahrain.

Mr. Kemal El Abyad
Head of Business Development
Bachelor in Business Administration from Anatolian University, Turkey with over 20 years of experience in banking industry in Turkey specializing in Corporate Banking. He served between 2004 to 2014 as an Executive Committee Member in Turkish Libyan Business Council at Foreign Economic Relation Board in Turkey. Formerly, Manager in ALUBAF Turkey Representative Office.

Mr. Anas Mohammed Zawia
Head of Information Technology Department
Over 10 years of experience in Information Technology and Security. Graduate of the Higher Institute of Computer Technology – Libya. Member of the Global Institute of Information Systems Audit and Control Association (ISACA), USA and Member of the Global Institute of Project Management (PMI), USA. Certified Islamic Banker (CIB), General Council for Islamic Banks and Financial Institutions CIBAFI.

Mr. Othman Shwaimat
Head of Treasury & Investments Department
Skilled professional with more than 29 years' experience dedicated to profitable cash and financial management, held executive positions in Treasury and investments with large and international banks. Former board member of ABC Investment , Brokerage firm – Jordan , and former board member of several Companies.

Master degree in finance from Arab academy for Banking and financial sciences, and Bachelor in Business administration , Managerial finance and accounting from Yarmouk University - Jordan.

Mr. Mazen Alghanem
Head of Trade Finance
Mazen joined ALUBAF in 2019. He has over 16 years of experience in the field of Trade Finance with Banks in Bahrain and GCC. Before joining ALUBAF, he was heading the Trade Finance department in Ahli Bank QCS Qatar. Mazen is a Certified Documentary Credit Specialist (CDCS) and holds a Certificate in International Trade and Finance (CITF). He also holds a B.Sc. in Business Management from the University of Bahrain.

Mr. Dawood AlAshhab
Head of Human resources and administration
Dawood has over 15 years of experience in Banking Industry in GCC and held senior leadership roles in Human resources. He holds a degree in Bachelor of Arts, Public administration from Yarmouk University of Jordan and a Digital business global MBA from Zigurat Innovation and Technology Business School, Barcelona. Dawood is also a Certified coach from Marshall Goldsmith stakeholder centred coaching and brings in expertise in strategic human capital management.

CORPRATE GOVERNANCE DISCLOSURES FOR THE YEAR ENDED 31ST DECEMBER 2020

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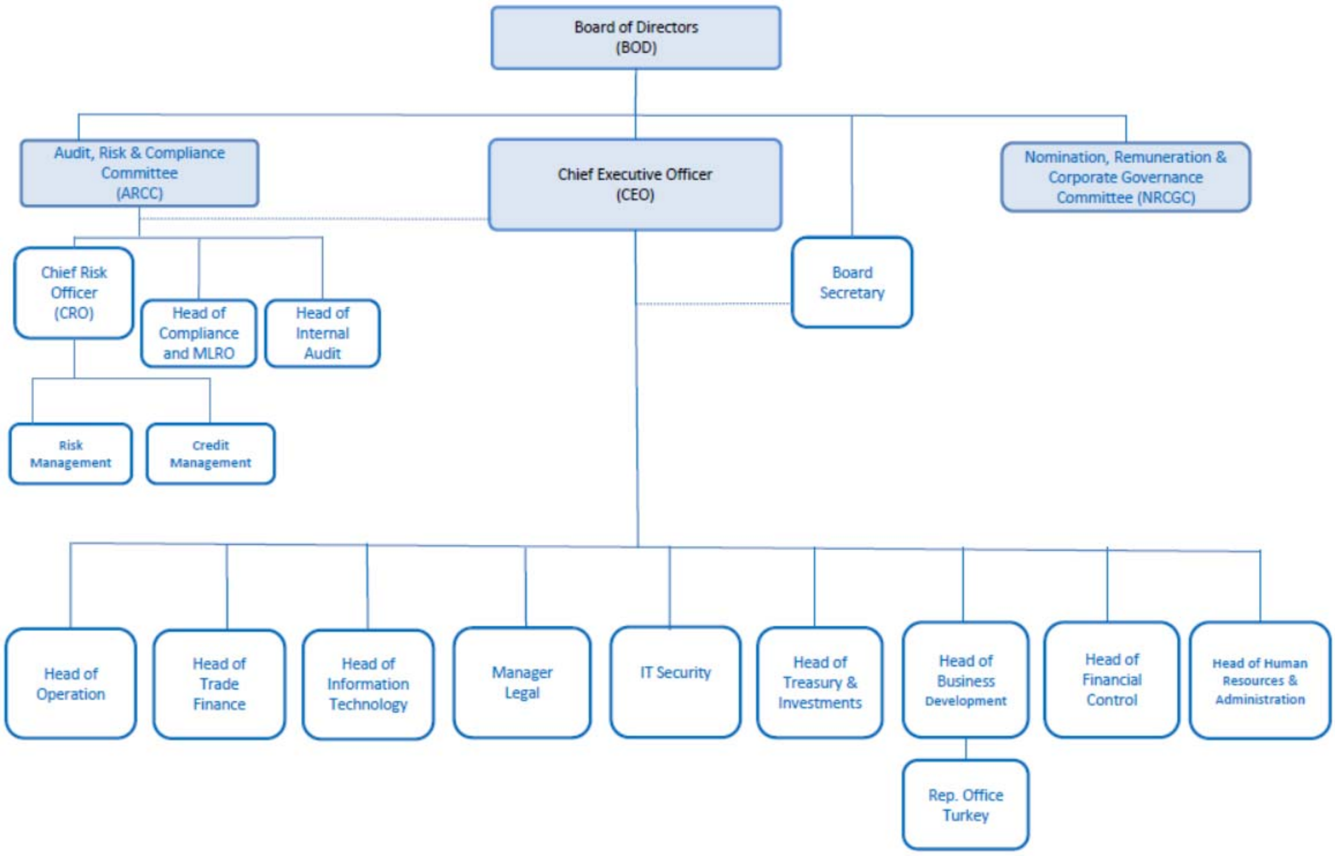
1. ORGANIZATION STRUCTURE OF THE BANK



2. ALUBAF'S CORPORATE GOVERNANCE PHILOSPHY

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 ("MOICT") under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB").

As a Wholesale commercial bank, Alubaf's corporate governance framework is based on the guidelines of the Corporate Governance Code as introduced by the Ministry of Industry, Commerce and Tourism, the Commercial Companies Law and its Implementation Regulations ("CCL") and the regulations of the Central Bank of Bahrain ("CBB") as specified in Volume 1 of its Rulebook - High Level Controls (Module HC).

ALUBAF Arab International Bank B.S.C.(C) ("Bank") is fully committed to meeting its strategic objectives and achieving solid growth while upholding the highest standards of corporate governance. Such commitment is deeply rooted in its dedication to enhancing its compliance with all the applicable laws, regulations and best industry practices to the ultimate benefit of its shareholders, clients, employees and other stakeholders.

3. FRAMEWORK

ALUBAF Arab international Bank has an effective, disciplined and transparent management framework developed on strict adherence to corporate governance principles and statutes of its regulator Central Bank of Bahrain. The Board of Directors is responsible for strategic plans, policies and supervision of business performance/operations, overseeing the functions of executive management and ensures to conduct meetings at least four times annually. At the next level, is the executive management team, which is committed in the daily execution of business in compliance with approved policies, plans and regulatory requirements. The bank's external auditors Ernst & Young, conduct final audit and other statutory reviews and quarterly on financials, prudential information reporting and public disclosure to ensure compliance with regulatory requirements. The review on AML/CFT is conducted by Grant Thornton.

4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK

As part of disclosure requirements indicated in HC module issued by the CBB, Alubaf presents the following facts:

The Bank's authorized share capital is USD 500,000,000 (United States Dollars five hundred million) divided into 10,000,000 (ten million) shares of USD 50 (United States Dollars fifty) nominal value per share. The Bank's issued and paid up capital is USD 250,000,000 (United States Dollars two hundred and fifty million) divided into 5,000,000 (five million) shares of USD 50 (United States Dollars fifty) nominal value per share.

Shareholders:

Name	Nationality	No. of Shares	Nominal Value (USD)	%
Libyan Foreign Bank	Libyan	4,975,008	248,750,400	99.50
National Bank of Yemen	Yemeni	13,768	688,400	0.28
Yemen Bank for Reconstructions and Development	Yemeni	11,224	561,200	0.22

Distribution of Shareholding according to Nationality:

Nationality	No. of Shares	Nominal Value (USD)	%
Libyan	4,975,008	248,750,400	99.50
Yemeni	24,992	1,249,600	0.50

As of 31 December 2020, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2020, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

5. BOARD OF DIRECTORS

BOARD COMPOSITION

The Bank shall be administered by a Board of Directors comprising of at least five (5) directors and not more than nine (9) directors ("Directors"). As of 31 December 2020, the total number of Directors is six (6). The Board of Directors also elects by secret ballot from its Directors a chairman ("Chairman"), and a deputy chairman ("Deputy Chairman") for its tenure.

In accordance with HC 1.5.2 of the CBB Rulebook, in conventional bank licensees with a controller, at least one third of the Board of Directors must be independent.

In compliance with HC 1.4.8, the Chairman is not an executive director. Furthermore, the CBB Rulebook and Corporate Governance Code also require that the Chairman of the Board of Directors must be an independent Director. The Bank's Chairman, Mr. Moraja Gaith Solaiman Buhlaiga, complies with this requirement.

As of 31 December 2020, the Bank is in compliance with the aforementioned independence requirements with the following being its composition:

STATUS/CATEGORY	NO. OF DIRECTORS	%
Non-independent / non-executive	1	16.7
Independent / non-executive	5	83.3
TOTAL	**6**	**100**

For the financial year ending 31 December 2020, the bank's board of directors was as follows:

NAME	POSITION	STATUS	NATIONALITY	DATE OF AGM APPROVAL	TERM
Mr. Moraja Gaith Solaiman Buhlaiga	Chairman	Independent / non-executive	Libyan	21-APR-13	Third
Mr. Anthony Constantine Mallis	Vice Chairman	Independent / non-executive	Australian	18-JUN-17	Second
Mr. Abdulkarim Bucheery	Director	Independent / non-executive	Bahraini	15-MAR-20	First
Mr. Guima Masaud Salem Kordi	Director	Non-independent / non-executive	Libyan	19-APR-16	Second
Mr. Basel El Hini	Director	Independent / non-executive	Egyptian	15-MAR-20	First
Mr. Abdulrazag Tarhuni	Director	Independent / non-executive	Libyan	15-MAR-20	First

The full profiles and the bank's directors, information on other posts that they hold and their biographies are available in the annual report and the website www.alubafbank.com.

The Board of Directors is supported by its Board Secretary, who provides it with professional and administrative support. The Board Secretary also acts as secretary at the General Assemblies. The Audit, Risk and Compliance Committee secretary is the Head of Internal Audit and the Nomination, Remuneration and Corporate Governance Secretary is the Head of Human Resources and Administration As per HC 1.6.2, the appointment of the Board Secretary is subject to approval of the Board of Directors.

INDEPENDENCY OF THE BOARD MEMBERS

The majority of the Board's members are independent. To ensure the independency of the members, as per HC-1.4, every director must bring independent judgment to bear in decision-making. No individual or group of directors must dominate the board's decision-making and no one individual should have unfettered powers of decision. The members should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests. Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment.

APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS

The appointment of Directors is subject to obtaining the prior written approval of the CBB and comply at all times with the Company Commercial Law and the CBB regulations. The Board of Directors is appointed for a term of three (3) years by the Annual General Assembly, such term being capable of renewal. Appointments of Directors are also subject to Article 175 of the Company Commercial Law for shareholders holding 10% of the share capital or more having the right to appoint representatives on the Board in proportion to the number of members on the Board. The current term of the Board of Directors started in April 2019 and will end in April 2022.

The Directors are generally required to adhere to the Bank's Articles of Association, Company Commercial Law, the Corporate Governance Code, CBB Rulebook, Code of Ethics and Conduct and all applicable laws and regulations. The Bank has written appointment agreements with each Director, which set out the Directors' roles, duties, responsibilities, accountabilities, in addition to other aspects relating to their appointment such as term, the time commitment required, the committee assignments (if any), their remuneration and expense reimbursement entitlement and access to independent professional advice, as and when required.

The Bank's Articles of Association, which incorporate the relevant Company Commercial Law provisions, and the Board of Directors' Charter list all the grounds for termination of membership of the Board of Directors. The General Assembly, via majority vote, has the authority to terminate the membership of some or all of the Board of Directors. This is without prejudice to the rights of shareholders qualifying under Article 175 of the Company Commercial Law to terminate the appointment of any Director they appointed in accordance with the aforementioned Article. Terminations without proper justification or cause may entitle the Director to seek compensation from the Bank.

INDUCTION OF NEW DIRECTOR

The Board ensures that each new appointed Director receives all information to strengthen and support his contribution from the commencement of his term, via meetings with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting frameworks, risk management issues, compliance programs, in addition to access to its internal and external auditors and legal counsel.

RESPONSIBILITIES OF THE BOARD

The Board of Directors' role and responsibilities include but are not limited to, the following:

- Establishing the objectives of the Bank;
- Determining the overall business performance, plans and strategy of the Bank;
- Monitoring approved persons performance and their implementation of strategic decisions;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;
- Annual approval of budget and monitoring management performance in relation to the same thereof;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Causing financial statements to be prepared which accurately disclose the Bank's financial position;
- Setting the 'tone at the top' of the Bank and overseeing compliance with various laws and regulations, including but not limited to, CBB laws and regulations, Company Commercial Law, Corporate Governance Code, Labor Law and other applicable laws and regulations; and
- Approve term borrowings bond

Further details of the roles and responsibilities of the Board of Directors are set out in the Board Charter and Articles of Association. These roles and responsibilities are in line with the regulatory requirements contained in the Corporate Governance Code.

MEETINGS OF THE BOARD OF DIRECTORS DURING THE YEAR 2020

In accordance with HC-1.3 of Volume 1 of the CBB Rulebook, the Board must meet frequently but in no event less than four (4) times a year. The Bank's Board of Directors has exceeded this requirement by meeting six (6) times in the financial year ending 31 December 2020. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year.
During 2020, six Board meetings were held in the Kingdom of Bahrain, as follows:

DIRECTOR	DATE OF FISRT APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	1/2020 10-Feb-20	2/2020 15-Mar-20	3/2020 08-Jun-20	4/2020 24-Aug-20	5/2020 29-Oct-20	6/2020 28-Dec-20
Moraja Gaith Solaiman Buhlaiga	21-Apr-13	29-Jan-13	✓	✓	✓*	✓*	✓*	✓*
Anthony Mallis	18-Jun-17	09-Jul-17	✓	✓	✓*	✓	✓	✓
Abdulkarim Bucheery	15-Mar-20	11-Nov-19	✓	✓	✓*	✓*	✓	✓
Giuma Masaud Salem Kordi	19-Apr-16	21-Aug-15	✓	✓	✓*	✓*	✓*	✓*
Basel El Hini	15-Mar-20	10-Feb-20	✓	✓*	✓*	✓*	✓*	✓*
Abdulrazag Tarhuni	15-Mar-20	8-Jun-20	**N/A**	**N/A**	✓*	✓*	✓*	✓*

**Participated by phone/Video link*

BOARD ASSESSMENT AND EVALUATION

The Board and its Committees conduct annual assessments and evaluations on an annual basis. Each Director completes an overall Board assessment form, in addition to each Committee member completing a Committee assessment form. The NRCGC is responsible for reporting the results of the assessments to the Board for appropriate action, where and if required.

MATERIALITY AND AUTHORITY LEVELS

The materiality level for transactions that require board approval varies for different activities and is governed by pre-approved exposure levels delegated by the board which are contained in various policy and procedure documents as well as the delegation of authority. Transactions exceeding the approval authorities granted to the CEO or CIC must be approved by the board.

6. BOARD COMMITTEES

In accordance with the bank's constitutional documents, charters and the requirements set forth by the corporate governance code and CBB regulations, the board of directors has delegated specific responsibilities to a number of board committees (each a "**committee**" and collectively, the **"committees**"). Each committee has its own formal written charter that sets out the roles and responsibilities of its members. The main committees are as follows:

- *Audit, risk and compliance committee ("**ARCC**"); and*
- *Nomination, remuneration and corporate governance committee ("**NRCGC**")*

As of 31 December 2020, the composition of the committees are as follows:

Board committee	Members	Position
Audit, Risk and Compliance (ARCC)	Abdulkarim Bucheery Anthony Millis Basel El Hini	Chairman Member Member
Nomination, Remuneration and Corporate Governance (NRCGC)	Moraja Gaith Solaiman Buhlaiga Giuma Masaud Salem Kordi Abdulrazag Tarhuni	Chairman Member Member

ARCC MEETINGS AND ATTENDANCE

The minimum number of meetings required is Four

MEMBERS	1/2020 14-Mar-20	2/2020 07-Jun-20	3/2020 29-Jul-20	4/2020 23-Aug-20	5/2020 24-Oct-20	6/2020 26-Dec-20
Abdulkarim Bucheeery	✓	✓	✓*	✓*	✓	✓
Anthony Millis	✓	✓	✓	✓	✓	✓
Basel El Hini	✓*	✓*	✓*	✓*	✓*	✓*

**Participated by phone/Video link*

NRCGC MEETINGS AND ATTENDANCE

The minimum number of meetings required is Two

MEMBERS	1/2020 10-Feb-20	2/2020 27-Dec-20
Moraja Gaith Solaiman Buhlaiga	✓*	✓*
Giuma Masaud Salem Kordi	✓*	✓*
Abdulrazag Tarhuni	N/A	✓*

**Participated by phone/Video link*

BOARD COMMITTEES RESPONSIBILITIES

BOARD OF DIRECTORS COMMITTEES RESPONSIBILITIES	
ARCC RESPONSIBILITIES	
SUMMARY OF TERMS OF REFERENCE	**SUMMARY OF RESPONSIBILITIES**
➢ The members of the Committee shall be appointed by the Board. The Committee will comprise of at least three independent members*. All members must be non-executive directors and the majority of the members of the committee including the Chairman shall be independent directors. ➢ Members must have no conflict of interest with any other duties they have for the bank. ➢ Appointments to the Committee shall be for a period of up to three years, which may be renewable for similar periods, and shall coincide with the appointment of the board of directors. ➢ A meeting of the Committee will not be valid unless attended by not less than two or half of the members (depending on the number of the members of the committee), whichever is greater. ➢ The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. ➢ The Chairman of the Committee shall attend the shareholder's meeting in order to respond to any shareholders inquiry on the ARCC activities. ➢ The Committee shall conduct an annual self-assessment review and reports conclusions and recommendations to the Board.	➢ The committee's responsibility is to assist the board in discharging its oversight duties mainly relating to the following matters:- ➢ The integrity of the bank's financial statements and financial reporting process and the bank's systems of internal accounting and financial controls; ➢ Recommending appointment, retention of the external auditor, and be directly responsible for the oversight of the external auditor's work. ➢ Review and assess the effectiveness of the bank's internal audit function ➢ Ensure the independence of the internal auditor and external auditor; ➢ Ensure independence of risk and compliance from risk-taking activities and business lines; ➢ Oversee the bank's compliance with laws, regulations and internal policies. Review and supervise the implementation of, enforcement of and adherence to the bank's code of conduct and ensure compliance with corporate governance charter. ➢ Overseeing the management of the bank's compliance risk. Assist the board in establishing a permanent and effective compliance function. ➢ Overseeing the bank's activities in managing credit, market, liquidity, operational, legal, reputational and other risks and to ensure that an effective risk management framework is in place and functioning in the bank. ➢ Review all bank's policies and recommend them for board approval.

	➢ Monitor the responsiveness of management to the committee's recommendations and findings; ➢ Address and review all concerns arising from the whistle blowing policy

NRCGC RESPONSIBILITIES
The NRCGC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. As will responsible of the banks corporate governance practices and recommending any changes from time to time. It is also entrusted to identify and recommend persons occupying senior positions including board members, as will ensure a succession planning for directors and senior management. Succession Planning Succession planning in the Bank is driven by our Business strategy and forward looking approach. The primary objective of the plan is to develop people to meet future demands of the Bank. On an annual basis, the Human Resources Department of the Bank reviews and consults the Board's Nomination & Remuneration Committee to ensure availability of a practical and executable succession plan.

7. MANAGEMENT

SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT

In accordance with CBB regulations, the positions of the chairman and deputy chairman are segregated from those of the chief executive officer ("**CEO**"). Furthermore, there is a clear delineation of responsibilities between the aforementioned positions as defined in the bank's articles of association and board charters.

MANAGEMENT COMMITTEES

COMMITTEE NAME	MEMBER POSITION	COMMITTEE MEMBER POSITION
ASSET AND LIABILITY COMMITTEE (ALCO)	Chief Executive Officer	Head/chairman
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Chief Risk Officer	Member
	Head of Operations	Member
	Head of Risk Management	Member/secretary
MANAGEMENT RISK COMMITTEE (MRC)	Chief Executive Officer	Head/chairman
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury &Investments	Member
	Chief Risk Officer	Member
	Head of Trade Finance	Member
	Head of Operations	Member
	Head of Risk Management	Member/secretary
HUMAN RESOURCE COMMITTEE (HRC)	Chief Executive Officer	Head
	Head of Financial Control	Member
	Head of Human Resources & Administration	Member/secretary
CREDIT AND INVESTMENT COMMITTEE (CIC)	Chief Executive officer	Head
	Head of Financial Control	Member
	Head of Business Development	Member/secretary*
	Head of Risk Management	Non-voting member
	Chief Risk Officer	Member
	Head of Treasury &Investments	Member*

INSURANCE COVERAGE COMMITTEE (ICC)	Head of Financial Control	Head
	Head of Risk Management	Member
	Legal Counsel	Member
	Head of Human Resources & Administration	Member/secretary
TARIFF AND COMMISSION COMMITTEE (TCC)	Chief Executive Officer	Head
	Head of Business Development	Member
	Head of Financial Control	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member/secretary
SPECIAL ASSET MANAGEMENT COMMITTEE (SAMC)	Head of Financial Control	Head/chairman
	Head of Operations	Member
	Chief Risk Officer	Member
	Head of Credit Management	Member/secretary
	Head of Risk Management	Member
	Legal Counsel	Member

** Do not vote/approve their submissions*

MANAGEMENT COMMITTEES RESPONSIBILITIES

<table>
<tr><th colspan="2">MANAGEMENT COMMITTEES RESPONSIBILITIES</th></tr>
<tr><th colspan="2">ALCO RESPONSIBILITIES</th></tr>
<tr><th>SUMMARY OF TERMS OF REFERENCE</th><th>SUMMARY OF RESPONSIBILITIES</th></tr>
<tr><td>➢ The purpose of the ALCO is to prudently direct and manage asset and liability allocations to achieve the Bank's strategic goals.
➢ The ALCO shall meet once in a quarter or more frequently, if required.
➢ A meeting of the committee will not be valid unless attended by half of the voting members.
➢ The Committee's decisions shall be considered by a vote of the majority of the attending members. In case of tied votes, the Head of the Committee shall have the casting vote.</td><td>ALCO's key responsibilities are to:
➢ Monitor the Bank's asset/liability maturity profile taking into account economic developments, fluctuations in asset values and benchmark reference rates
➢ Develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies, within board approved parameters
➢ Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective
➢ Review the Bank's liquidity risk profile, including monitoring liquidity risk metrics, early warning indicators, contingency plans, adequacy of liquidity cushion etc., and ensure that the Bank maintains adequate liquidity to cover stress scenarios
➢ Review the interest rate risk and forex risks of the Bank and devise strategies (including hedging) to minimize the impact of such risks on the Bank's net worth and earnings
➢ Reviewing the portfolio performance, treasury reports, risk management reports and provide guidance to management
➢ Review risk limits and approve or reject breaches of limits within its authority</td></tr>
<tr><th colspan="2">MRC RESPONSIBILITIES</th></tr>
<tr><th>SUMMARY OF TERMS OF REFERENCE</th><th>SUMMARY OF RESPONSIBILITIES</th></tr>
<tr><td>➢ The purpose of the MRC is to assist the Board Audit, Risk and Compliance Committee (ARCC) in overseeing the Bank's risk management framework and manage all areas of risks within the Bank.
➢ The MRC shall meet once in a quarter or more frequently, if required.
➢ A meeting of the committee will not be valid unless attended by half of the voting members.
➢ The Committee's decisions shall be considered by a vote of the majority of the attending members. In case of tied votes, the Head of the Committee shall have the casting vote.</td><td>MRC's key responsibilities are to:
➢ Determine key risk areas and adopt risk management practices that contribute to the Bank's objective
➢ Increase the awareness level of management and staff on business risks in the Bank
➢ Review and recommend for approval the Bank's risk management framework
➢ Evaluate the level and trend of material risks and their impact on capital levels
➢ Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc.
➢ Approve Operational Risk Framework and monitor the operational risk on ongoing basis
➢ Review and approve the stress test scenarios of the Bank and ensure that they cover all material risks faced by the Bank, review stress testing results and recommend action plan to ARCC and Board to manage stress events
➢ Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks, including management of Step-in risks
➢ review other major risk concentration as deemed appropriate</td></tr>
</table>

<table>
<tr><th colspan="2">HRC RESPONSIBILITIES</th></tr>
<tr><td colspan="2">The objective of HRC is to review and recommend new HR policies from time to time, as will create the learning and development agenda of the bank and develop the mechanisms for identifying staff with the skills and abilities required to meet requirements of the bank business plan.</td></tr>
<tr><th colspan="2">CIC RESPONSIBILITIES</th></tr>
<tr><th>SUMMARY OF TERMS OF REFERENCE</th><th>SUMMARY OF RESPONSIBILITIES</th></tr>
<tr><td>

The purpose of the Credit and Investment Committee is to assist the Board of Directors in fulfilling its responsibilities by providing oversight of bank’s credit and investment operations and management activities relating to the identification, assessment, measurement, monitoring, and management of the bank’s credit risk. The committee fulfils the following responsibilities with respect to financing/lending activities, investment activities and trade finance activities.
The Committee shall meet at least once every quarter or more frequently if required. However, the committee shall review monthly reports circulated via email by various departments and may approve actions if required over email.
A meeting of the committee will not be valid unless attended by half of the voting members.
The Committee’s decisions shall be considered by a vote of the majority of the attending members. In case of equality of votes, the Head of the Committee shall have the casting vote.

</td><td>
CIC’s key responsibilities include:

To structure the details of all facilities / facility limits by delegated authority; in line with DOA
Consider approved risk appetite of the Bank, strategic objectives with regards to servicing certain customers and geographies, desirable pricing, country, product, sector and concentration limits, provisioning policy, adequacy of collateral, customer relationships and repayment history;
Monitor on-going risk profile of the Bank in aggregate and by individual business/economic sectors and geographic concentrations and concentration to a single borrowing entity;
Evaluate all new loan proposals, and appraise new Treasury Product, Tradable Instruments,
Assess all guarantee facilities.
Report approved LC refinance/ discount and rejected deals/facilities to management,
The CIC is assigned responsibility by the Board of Directors for the management and oversight of the bank’s credit and investment operations and management activities relating to the identification, assessment, measurement, monitoring, and management of the bank’s credit risk and to make appropriate decision while adhering to the bank’s risk appetite and procedures for credit and investment selection.
Review sales strategy in conjunction with the Head of Treasury and the ALCO in order to identify and satisfy customer needs and to achieve revenue and profit targets;
Reviewing and approving on the renewal and /or amendment of current credit facility agreements and counterparty limits as per the Delegation of Authority Matrix.
Review and approve the investment deal proposals on Amortized Cost and FVOCI portfolios; within its authority;
Recommending action to be taken on customer covenant breaches, restructuring of loans.
Approving the cancellation of Credit facilities (Loan, Treasury and Trade Finance) as per the guidelines and authority provided in the Delegation of Authority Matrix.
Approving the execution of Trade finance products, LC issuance, refinancing LC, Discounting LC, Back to Back LC, transferable LC, Guarantee, Factoring, Risk Participation, Trade loans, Irrevocable Reimbursement undertaking (IRU), avalized Documentary collection and any other trade finance funded or unfunded exposure and their amendments as per Delegation of Authority Matrix.
Approving the Closure of Nostro account.
Reviewing the opening of new Nostro accounts.
Reviewing all write off of facilities/loans/ exposures prior to ARCC and BOD review and approval.

</td></tr>
</table>

ICC RESPONSIBILITIES
The objective of this committee is to review, assess and provide recommendation on all types of insurance in the bank to the management.

TCC RESPONSIBILITIES
The mandate of the TCC requires it, among other things, to: ➢ Review the bank's tariffs and commissions and other charges applied by the bank; ➢ Set country pricing limit for LC refinance and discount; and ➢ Ensure the bank maintain completed terms and conditions.

SAMC RESPONSIBILITIES	
SUMMARY OF TERMS OF REFERENCE	**SUMMARY OF RESPONSIBILITIES**
➢ The purpose of the MRC is to assist the Board Audit, Risk and Compliance Committee (ARCC) in overseeing the Bank's risk management framework and manage all areas of risks within the Bank. ➢ The MRC shall meet once in a quarter or more frequently, if required. ➢ A meeting of the committee will not be valid unless attended by half of the voting members. ➢ The Committee's decisions shall be considered by a vote of the majority of the attending members. In case of tied votes, the Head of the Committee shall have the casting vote.	MRC's key responsibilities are to: ➢ Determine key risk areas and adopt risk management practices that contribute to the Bank's objective ➢ Increase the awareness level of management and staff on business risks in the Bank ➢ Review and recommend for approval the Bank's risk management framework ➢ Evaluate the level and trend of material risks and their impact on capital levels ➢ Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc. ➢ Approve Operational Risk Framework and monitor the operational risk on ongoing basis ➢ Review and approve the stress test scenarios of the Bank and ensure that they cover all material risks faced by the Bank, review stress testing results and recommend action plan to ARCC and Board to manage stress events ➢ Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks, including management of Step-in risks ➢ Review other major risk concentration as deemed appropriate

8. RELATED PARTY TRANSACTIONS

In general, the bank has proper credit due diligence procedure for all type of facilities or exposures. Related party transactions relating to directors must be approved by the board. Details of related party transactions are set out in note 25 of the Financial Statements.

The Bank's major related party transactions are generally with its majority shareholder/controller and/or its affiliate companies. The Board of Directors ensures that all related party transactions are entered into on an arm's length basis and are to further the interests of the Bank.

9. CODE OF CONDUCT AND CONFLICT OF INTEREST

The Bank has adopted a code of conduct and ethics ("**Code of Ethics and Conduct**"), in addition to other internal policies and guidelines, which are applicable to directors, management and other staff. These documents are designed to establish best practices and incorporate all regulatory and legal requirements governing the Bank's operations for the aforementioned parties to follow in the fulfillment of their responsibilities and obligations towards the bank's stakeholders.

The code of conduct and ethics contains rules on conduct, ethics and on avoiding conflicts of interest, and is applicable to all employees and directors of the bank. The board approved code of conduct and ethics is published on the bank's website.

The Bank requires its directors and approved persons to issue an annual declaration of conflict of interest statement. Additionally, as per the board appointment agreements, each director has the responsibility to disclose any material interests relating to business transactions and agreements and the privilege of accessing to independent professional advice in this regard if required.

During 2020 there were no materially significant transactions entered into that may have potential conflict of interest with the interest of the Bank and no disclosures in this regard were accordingly made.

10. WHISTLEBLOWING POLICY

The Bank has also set up a whistle-blowing framework to enhance good governance and transparency within the Bank. The Bank is committed in maintaining the highest possible standards of ethical and legal conduct while conducting its operations.

The Bank has a whistle-blowing manual with designated officials whom the employee can approach.

The policy provides adequate protection for the employees for any reports made in good faith. The Bank's Audit, Risk and Compliance Committee oversees this policy.

The whistle-blowing manual is published on the Bank's share drive.

11. COMMUNICATIONS AND DISCLOSURE POLICY

In compliance with CBB regulations under PD Module of Volume 1 of CBB Rulebook, the Bank has a Board approved Public Disclosure Policy ("**Disclosure Policy**") that governs the disclosure of material information relating to its activities to various stakeholders of the Bank.

The Disclosure Policy applies to all modes of communication to the public including written, oral and electronic communication. These disclosures are made on a timely basis and subject always to the requirements stipulated in the applicable laws and regulations. Disclosures include, but are not limited to, the following:

- Annual and quarterly results;
- Annual Report publication and filing;
- Basel II (Pillar 3) related disclosures;
- Chairman and/or Board of Director reports;
- Corporate governance disclosures;
- Communication with regulatory authorities;
- Press releases, announcements and presentations; and
- Matters included on the Bank's website.

The Bank maintains a website at www.alubafbank.com, which includes information of interest to various stakeholders, such as the annual reports and reviewed quarterly financials of the Bank, covering the minimum periods prescribed by the applicable regulations.

12. RELATIVES RECRUITMENT POLICY

The bank has in place policies that govern the recruitment of relatives in the bank and to prevent the potential conflict of interest, the policies are:

1- As a matter of policy, employment of relatives is not allowed however, in case of any exception, the approval of the Board's Nomination & Remuneration Committee is sought.
2- As part of annual reporting requirements, the CEO must confirm to the Board of Directors that no such cases occurred during the year.

13. ANTI-MONEY LAUNDERING

The Bank's anti-money laundering policy ("**AML Policy**") intends to ensure that the Bank has a comprehensive framework of policies and procedures including best practice standards for combating money laundering and terrorist financing. The policies and procedures are established to prevent the Bank's operational activities from being utilized by others for unlawful purposes.

The Bank's AML Policy prohibits and actively prevents money laundering, in addition to any activities that facilitate money laundering or funding of terrorist or criminal activities. This is accomplished by ensuring compliance with the AML laws and regulations of the jurisdiction in which it undertakes business activities and in accordance with its internal compliance framework.

The bank is committed to providing periodic training and information to ensure that all employees are aware of their responsibilities under the CBB and AML laws and regulations in the Kingdom of Bahrain. The Bank provides annual up to date AML training for its staff designed to cater to the Bank's activities and its differing types of customers and jurisdictions.

14. 2020 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module in Volume 1 of CBB Rulebook with reference to the disclosure of the non-compliance events “Comply or Explain Principle”, which stipulates the need to set out the instances of non-compliance and provide clarification on the same, the Bank wishes to clarify the following:

CBB rulebook reference	Rule or guidance	Justification
HC-1.8.2: The board should establish a corporate governance committee of at least three independent members which should be responsible for developing and recommending changes from time to time in the conventional bank licensee’s corporate governance policy framework.	Guidance	The Bank’s Corporate Governance Committee is merged with the Nomination and Remuneration Committee considering the size of the Bank and its limited number of Board Members. Currently the committee comprises of two independent members including the chairman of the committee and one not independent member, due to which the Bank is not in compliance with the guidance.

15. REMUNERATION OF EXTERNAL AUDITORS

In 2020, the bank has paid its external auditors, Messers Ernst & Young, a total of USD 118,691 for audit and other audit related services fees. These services include year-end audit, prudential information return reviews, quarterly reviews, sound remuneration reviews and public disclosures reviews. Messers Ernst & Young have expressed their willingness to continue as the auditors of the bank for the financial year ending 31 December 2021. The ARCC has recommended the appointment of Ernst & Young and a resolution proposing their re-appointment will be presented at the annual general assembly meeting, which will be held in 16 March 2021.

The breakdown of audit and other non-audit related services fee paid to the external auditor is as follows:

TYPE OF SERVICE	2020 USD'000	2019 USD'000
Audit and other audit related service fees	119	141
Non-audit service fees	-	-
TOTAL	**119**	**141**

Sound Remuneration Disclosures

2020

Contents

1. INTRODUCTION

This document has been prepared in accordance with Central Bank of Bahrain ("**CBB**") remuneration disclosure requirements for Wholesale Banks under CBB Rulebook (Volume 1 – Conventional Banks).

2. BANK'S REMUNERATION PHILOSOPHY

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain and a "**Remuneration Policy**" was drafted for the Bank's variable remuneration framework which was approved by shareholders at the Annual General Meeting held on 12 April 2015. Subsequently, in 2017, the Remuneration policy was enhanced and revised to align them with market and best practices. This revised and updated "Remuneration Policy" was reviewed and approved by the Bank's Nomination, Remuneration and Corporate Governance Committee (NRCGC), as well as the Central Bank of Bahrain and shareholders in Annual general meeting held on 8th April, 2018.

The Bank's approach to "Pay and Benefits" incorporates a number of important objectives designed to support the Bank's policy to attract, motivate and retain qualified employees needed to meet its overall long-term business plans. These include rewarding each employee based on individual overall contribution and performance, ensuring the Base Salary, discretionary Bonus and benefits are competitive within the market place, but with costs that are sustainable by the Bank and ensuring that internal equity is always maintained.

The Bank maintains a salary structure which reflects the relationship of job positions to each other and their place in the appropriate financial and business market place. It is the Bank's intention to reward employees in a manner reflecting merit. Merit is defined as how well an individual employee performs in relation to the objectives and requirement of the job. It is a policy of better pay for better performance.

3. NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

In addition to its other duties as specified in its mandate, the NRCGC is responsible for the design, implementation and supervision of the Remuneration Policy. In particular, the NRCGC:

- Designs all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the Bank. In designing the Remuneration Policy, the NRCGC shall consider the Remuneration Policy document of the Bank, its business strategy, the regulatory pronouncements of the CBB and the labor laws of the Kingdom of Bahrain;
- Obtains approval of the Board of Directors and subsequently the Shareholders on the Remuneration Policy adopted by the Bank;

- Approves the Remuneration Policy and remuneration for each Approved Person and Material Risk-taker;

- Approves targets and associated risk parameters, and variable pay for achieving the set target for each performance period;
- Approves total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
- Monitors and review the remuneration system on a regular basis to ensure the system operates as intended;
- Undertakes stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long term objectives and business goals;
- Undertakes back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or malus; and
- Recommends Board Member remuneration based on their attendance and performance and in compliance with Article 188 of the Commercial Companies Law No. 21/2001 and its amendments ("**CCL**").

3.1 Composition

As of 31 December 2020, the composition of the NRCGC is as follows:

Member Name	Position	Status
Mr. Moraja G. Solaiman	Chairman	Independent and Non-executive
Mr. Guima Masaud Kordi	Member	Non -independent and Non-executive.
Mr. Abdulrazaq Tarhoni	Member	Independent and Non-executive.

4. CORE REMUNERATION POLICY

4.1 Overall Approach to Remuneration

The major components of this overall approach are:

- *Base compensation for the individual employee's overall contribution and performance*

  This merit-based approach is particularly applied to the base salary and discretionary bonus elements of total compensation. The level of overall contribution and performance is assessed through setting objectives, performance appraisals and performance ranking processes. Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position.

- *Market environment*

The financial service sector in which the Bank operates in is reviewed periodically to ensure that the Bank's salaries and benefits remain competitive.

- *Operating Costs*

  Market competitiveness must always be balanced by the cost that the Bank can support to ensure that it meets its short and long-term business objectives.

- *Internal Equity*

  Internal equity is maintained through consistent job matching. The objective is to ensure that jobs with similar dimensions, knowledge, complexity and accountability are graded at consistent levels across the Bank.

- *Salary Ranges*

  The Bank uses a structure of salary ranges against which salaries are administrated. Each grade is assigned a salary range within which salaries should be administered. These ranges allow room for different salaries to be paid to employees in the same grade based on experience in the job, and on overall contribution and performance and they also provide a basis for managing within costs limits.

4.2 Variable Pay Scheme

The Bank has a well-defined variable pay scheme in place, to support the NRCGC, should it decide to pay variable pay or bonus in any performance period. Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level. The variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal, performance metrics for applicable business units are risk-adjusted where appropriate and individual award determinations include consideration of adherence to compliance-related goals.

The remuneration package of employees in Control and Support functions are designed in such a way that their function is independent of the business units they support. Remuneration decisions are based on their respective functions and not on the business units they support; Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function; Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.

The variable remuneration of the Business units is primarily determined by key performance objectives set through performance management system of the Bank, which contain both financial and non-financial targets.

Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.

4.3 Salary and Benefit Review

The Bank will review the salaries and benefits once every two (2) years, with an objective of maintaining competitive advantage in the market, based on salary surveys and market information gathered through secondary sources.

4.4 Severance Pay

The Bank does not provide for any form of severance pay, other than as required by the Labor Law for the Private Sector Law No. 36/2012 of the Kingdom of Bahrain, to its employees. Under exceptional circumstances and subject to NRCGC approval, the Bank might offer sign-on bonus or minimum variable pay for any new recruit limited to first year of employment only.

4.5 Prohibition of Approved Person Benefits

The Bank does not allow any of its employees, who are identified as Approved Persons as per CBB regulations, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers. This excludes Board related remuneration linked to the fiduciary duties owed to the investors of the project/investment, which includes those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments.

5. REGULATORY ALIGNMENT

The Bank has reviewed and revised the Bank's Remuneration Policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants, which was approved by the NRCGC, Central Bank of Bahrain and shareholders on 8th April 2018.

5.1 Governance

The composition of the NRCGC as of 31 December 2020, required to be aligned as per the CBB remuneration guidelines and approved NRCGC charter, which required two directors to be nominated to replace directors who resigned and terminated during second half of 2020. This nomination of two directors to NRCGC was resolved and approved by the Board on 14th February 2021. Please refer table of composition in 3.1.

5.2 CBB Remuneration Guidelines

The Bank's variable pay policy includes the following CBB guidelines:

- The pay mix for the CEO, Senior Management in business units and the Material Risk takers has been revised in such a way that their variable pay component is higher than the fixed pay component, subject to achieving the risk adjusted targets both at the business unit and the Bank level.

- For staff in Control and Support functions, the pay mix is structured to consist of a higher fixed pay component than the variable pay. Furthermore, the variable pay for staff in Control and Support functions, is based on their units target and individual performance and not linked directly to the Bank's overall performance.

6. VARIABLE PAY

6.1 CEO, Senior Management and Business Units

The variable pay of the CEO, members of the Senior Management team and the employees in business units is directly linked to the Bank, business unit and individual's performance. The performance measures include both financial and qualitative targets aligned to short term and long-term business strategy of the bank and is set at both the bank and the individual level.

The variable pay pool is determined primarily based on a hybrid approach (i.e. both top down and bottom up approach). The total bonus pool is set at a maximum percentage of the risk-adjusted net profit for the financial year. This is supplemented by bottom up computation i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the Bank level. Additionally, the target setting process considers the variable pay pool as self-funding (i.e. targets are set net of variable pay pool for achieving that target).

An ex ante risk assessment framework has been introduced as part of the target setting process. The risk assessment framework considers all types of risks, including impact on capital adequacy, liquidity and qualitative risk elements such as reputation, compliance, quality of earnings, etc. with each element assigned appropriate weights as deemed necessary by the NRCGC.

In determining the variable pay pool at the performance period end, the NRCGC would consider post risk assessment outcomes and has a well-defined mechanism to re-adjust the target achieved and thereby the total variable pay pool. The design of the variable pay pool computation aligns the interest of the employees to that of the shareholders and it increases or decreases as per the target achieved (i.e. the variable pay pool will be nil or considerably less if the Bank makes a loss or achieves less than the expected target).

The NRCGC, in order to mitigate the risk involved in rewarding for potential revenues, considers the following in the variable pay distribution:

- Target setting process considers the realized versus unrealized profit mix;
- Deferral of variable pay over three (3) years;
- The bonuses for the CEO, his deputies and Material Risk Takers and Approved persons as per CBB, relating to business units and whose total remuneration exceeds the regulatory threshold of BD 100,000 per annum, have a deferral element and share linked payment, i.e., Phantom or shadow shares are being offered to such staff.

The deferral arrangements for CEO, his deputies and approved persons of business units and other material risk takers are as follows:

- 40% of the variable pay will be paid in cash at the end of the performance period; and
- the balance 60% will be deferred over a period of three (3) years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a three (3) year period and the phantom or shadow shares can be encashed after six (6) months from the vesting date.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention
Upfront cash	**40%**	**Immediate**	**Not applicable**
Deferred cash	**10%**	**3 years**	**Up to each Vesting**
Deferred share awards	**50%**	**3 years**	**6 months from each Vesting**

The variable pay is subject to claw back and the unvested portion of deferred pay is subject to malus as explained in 6.3 below.

6.2 Control and Support Units

The variable pay for Control and support functions are designed in such a way that it is independent of the performance of the business units. The unit targets as set out and agreed with the NRCGC in the beginning of each evaluation period will be the base, with their individual performance score for variable pay to be paid except in the case of the Bank making a loss.
In years when the Bank achieves exceptional profits, at the discretion of NRCGC, the base multiples for Control and Support units may be increased as deemed fit by the NRCGC.

Bonuses will be deferred for employees of Control and support units, whose total remuneration exceeds the regulatory threshold currently set at BD 100,000 per annum, are subject to deferral, in the following manner:

- 50% of the variable pay will be paid in cash at the end of the performance period; and
- 10% will be paid in the form of phantom or shadow shares at the end of the performance period, which can be encashed by the employee after six (6) months.
- The balance 40% will be deferred over a period of three (3) years and paid in the form of phantom or shadow shares and vests equally over the three (3) year period.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention
Upfront cash	**50%**	**Immediate**	**Not applicable**

Upfront share awards	**10%**	**Immediate**	**6 months from performance period.**
Deferred share awards	**40%**	**3 years**	**6 months from each Vesting**

The variable pay is subject to claw back and the unvested portion of deferred pay is subject to malus as explained in 6.3 below.

6.3 Malus and Claw Back Framework

The Bank's claw back and malus clauses can be invoked by the NRC under certain pre-defined circumstances, wherein the Bank can claw back the vested as well as the unvested bonus paid or payable to an employee. The main pre-defined circumstances are:

- Where there is reasonable evidence of material error or culpability for a breach of Bank policy by the employee(s);
- The Bank or the business unit suffers material losses or significant loss of business which could be attributed to the actions of the employee(s);
- Where the employee(s) could be held responsible for material failure of risk management; and
- Where there is evidence of fraud or collusion amongst employees or by employee(s) with third parties and which is prosecutable in a court of law.

Based on ex-post risk assessment, if the Bank and/or a relevant line of business or an employee is found to have been paid a bonus for a result which was much higher than actually realized, the NRCGC may invoke the malus clause by which any unvested portion payable during that year will be reduced in proportion to the reduction in the actual results versus expected results.

6.4 Summary of Variable Pay

- The NRCGC has the overall responsibility for computation and approval of the variable pay across the Bank;
- Links reward to Bank, business unit and individual performance;
- Target setting process considers risk parameters which are both quantitative and qualitative;
- Aligned to time horizon of risk, the bonus has a deferral element and a share linkage to align the employees interest with that of the shareholders;
- Bonus can be reduced or nil if the Bank or business units do not achieve the risk adjusted targets or make losses; and
- Post risk assessment is carried out to ensure that, in case of material losses or realisation of less than expected income which can be attributed to employees actions, the claw back or malus as appropriate is invoked.

7. BOARD REMUNERATION

The Bank determines the Board of Directors' remuneration in line with the provisions of Article 188 of the Commercial Companies Law No. 21/2001 and its amendments. The Board of Directors' remuneration will be capped so that it does not exceed 10% of the Bank's net profit after all required deductions in any given financial year and is subject to the approval of the shareholders in the Annual General Assembly. The aforementioned remuneration does not include the sitting fees and allowances paid to the Directors for attending Board meetings.

8. DETAILS OF REMUNERATION PAID

The NRCGC meeting held on 14th February, 2021, approved the variable pay for the year ended 2020, in line with approved "Remuneration policy". This provisional variable pay for the year 2020, which is computed and recorded, will be disbursed in the year 2021.

The deferred element of variable remuneration relating to earlier years for certain eligible employees has, however, been paid during the year.

8.1 Board Remuneration

Elements of Remuneration	2020 USD '000	2019 USD '000
Sitting fee and other allowance	324	296
Remuneration	540	540
Total	**864**	**836**

Note: Remuneration to the members of the Board includes Sitting fee, other allowances and provision for bonus, which is subject to shareholders and regulatory approval.

8.2 Employee Remuneration

All deferred and long-term awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's share incentive scheme.

DETAILS OF REMUNERATION PAID FOR THE FINANCIAL YEAR ENDED 31.12.2020														(USD in '000)
Categories	**Nos.**	**Fixed Remuneration**					**Variable Remuneration**							
		Salaries and Wages	Other Benefits/ Allowance	Total	Performance Bonuses (in cash)	Performance Bonuses (in shares)[Refer Note 2]	Vested and release of Deferred Cash and Shares for 2017, 2018 and 2019 in 2020	Deferred cash compensation paid -related to 2019 (Release of vested 2019)	Deferred shares Compensation paid (Release second Portion 2017)	Deferred shares Compensation paid (Release second Portion 2018)	Deferred cash compensation paid (Release second Portion 2017)	Deferred cash compensation paid (Release first Portion 2018)	**Total**	**Total**
2. Approved persons (Business Lines) (not incl in 1,3 to 7.)	**4**	**1,045**	**558**	**1,603**	**335**	**503**	**247**	**-**	**(19)**	**(114)**	**(93)**	**(21)**	**838**	**2,441**
3. Approved persons (Control & Support) in risk management, internal audit, operations, financial controls, AML and Compliance Functions	**12**	**1,311**	**471**	**1,782**	**569**	**90**	**51**	**(19)**	**(19)**	**(13)**	**-**	**-**	**659**	**2,441**
4. Employees engaged in risk taking activities (Business Lines)	**9**	**569**	**269**	**838**	**223**	**-**							**223**	**1,061**
5. Employees, other Than approved persons, engaged in functions under 3. (Control & Support)	**22**	**1,040**	**561**	**1,601**	**399**	**-**							**399**	**2,000**
6. Other employees	**5**	**261**	**77**	**338**	**80**	**-**							**80**	**418**
7. Outsourced Empl./Service providers (engaged in risk taking	**1**	**45**	**-**	**45**	**-**	**-**							**-**	**45**
TOTAL	**53**	**4,271**	**1,936**	**6,207**	**1,606**	**593**	**298**	**(19)**	**(38)**	**(127)**	**(93)**	**(21)**	**2,199**	**8,406**

Note 1: Deferred remuneration in cash on fully vested phantom shares for 2020, amounts to USD 101 thousand , relates to five approved persons.

Note 2: Deferred remuneration (phantom shares) for 2020, amounts to USD 503 thousand , fully unvested as of 31.12.2020, relates to five approved persons.

Total Outstanding deferred remuneration (Cash and Shares) at 31.12.2020

Amounts in USD'000s

	2017			2018			2019			
Category	**10% deferred cash**	**50% deferred shares**	**40% deferred shares**	**10% deferred cash**	**50% deferred shares**	**40% deferred shares**	**10% deferred cash**	**50% deferred shares**	**40% deferred shares**	**Final Total**
Approved persons in Business line	18	89	-	40	204	-	82	411	-	844
Approved persons in Control & support	-	-	30	-	-	39	-	-	72	141
Total	**18**	**89**	**30**	**40**	**204**	**39**	**82**	**411**	**72**	**985**

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

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

31 DECEMBER 2020

Board of Directors' Report

On behalf of the Board of Directors', I am delighted to present the audited consolidated financial statements for the year ended 31 December 2020.

The year 2020, disrupted global economy due to COVID 19 pandemic, which spiked uncertainties across businesses and challenged the business model of banking industry. Amid the challenging and uncertain macro -economic factors and increasing regulatory requirements, the Group emerged resilient and achieved a Consolidated Net profit of US$ 22.1 million for the year ended 31 December 2020 and exceeded management estimates, although the results decreased by 23.1% as compared to US$ 28.7 million last year 2019. This was mainly due to unusual write back of provision for credit losses in 2019, following recovery of dues, from a non-performing facility.

Interest income was US$ 31.8 million for the year ended 31 December 2020, however, the interest expenses for 2020 was US$ 7.7 million, therefore, the net interest income for the year 2020 was US$ 24 million.

Total non-interest income was US$ 9.8 million in 2020 was mainly driven by other income amounting to US$ 5.8 million, which comprised mainly recovery from written off facilities and fee and commission income of US$ 3.8 from Trade finance activity.

Despite the COVID-19 pandemic, the Bank's management ensured continuous uninterrupted operations and services to its customers, which resulted in generating substantial fee and commission income from its core business activity of trade finance.

Therefore, total operating income achieved for 2020 was US$ 33.9 million, as compared to US$ 33.0 million in 2019, resulting in an overall increase of 2.8% in current year.

The Bank performed phenomenally well, in collection of past dues, which enabled reversal of US$ 1.9 million, net provision of credit losses after maintaining 100% provision coverage for other non-performing facilities and creating adequate levels of provision for expected credit loss under IFRS.

On the expenses front, the staff costs for the year 2020 was reduced to US$ 8.3 million, mainly due to receipt of government grant of subsidizing salaries for Bahraini staff amounting to US$ 428 thousand. The other operating expenses of US$ 4.5 million, mainly attributed to expenses related to enhanced technology support and professional fee Thus, resulting in increased Cost to income ratio from 38.5 % in 2019 to 40.3% in 2020.

Alubaf Balance sheet remains strong, with total assets marginal change of 0.8% year on year. Loans portfolio contracted in 2020 to 7.1% of total assets, due its cautious approach with the prevailing uncertainties in the market. Investment securities increased marginally in 2020 and stood at 21.4% of total assets.

The Bank achieved a Return on average equity of 6.7% for the year ended 2020 and its Capital adequacy and liquidity (liquid assets to total assets) ratios remained strong at 56% and 70.7% respectively.

Alubaf Bank's achievement in 2020, is commendable, as the outbreak of COVID-19 pandemic had slowed credit growth and businesses in general globally. This proved the Bank's resilience to challenging business environment.

Furthermore, the Bank had invested in enhancing its information technology infrastructure and related information security to enable seamless and continuous uninterrupted operations despite pandemic, to work from remote location or home. This facilitated access to information, communication and services to customers, alongside meeting regulatory requirements.
Besides the above, the Bank has evolved and inculcated a strong risk management culture and strengthened its governance framework, thus, continually aligning with changes in regulatory norms.

With the remarkable financial performance of the Bank in 2020 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 2020, after due appropriation of US$ 2.2 million from Net profit for the year 2020, towards transfer to Statutory reserve. This Proposed dividend for the year 2020, is subject to regulatory and shareholders' approval in Annual general meeting.

Outlook for 2021, is positive and encouraging, given our strong capital and dynamic management efforts to address market challenges and changing regulatory requirements, in order, to better position and sustain a year on year growth to our shareholders. Nevertheless, we expect a gradual growth year on year, due to continued COVID 19 uncertainties, however, the Group will continue to manage risks, capital and liquidity well.

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

I extend my special appreciation and thanks to all the employees for their professionalism and commitment for the Bank's continued growth and progress.

Moraja G. Solaiman
Chairman

Building a better working world

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

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

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 2020, 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as modified by 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.

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 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

Ernst & Young

Partner's registration number. 244
15 February 2021
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 US$ '000	2019 US$ '000
ASSETS			
Cash and balances with central bank and other banks	4	**333,194**	428,235
Deposits with banks and other financial institutions	5	**470,893**	378,891
Investments classified as fair value through profit or loss (FVTPL)	6	**-**	3,028
Investment securities	7	**244,867**	234,930
Loans and advances	8	**81,798**	92,740
Property, equipment and software	9	**8,326**	8,987
Interest receivable		**5,354**	6,237
Other assets		**810**	949
TOTAL ASSETS		**1,145,242**	1,153,997
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	10	**662,254**	646,770
Due to banks and other financial institutions	10	**64,897**	89,196
Due to customers	11	**72,752**	75,504
Interest payable		**444**	2,188
Other liabilities	12	**10,520**	9,315
Total liabilities		**810,867**	822,973
Equity			
Share capital	13	**250,000**	250,000
Statutory reserve	13	**27,842**	25,631
Retained earnings		**44,621**	37,219
Fair value reserve		**(588)**	3,174
Proposed dividend	14	**12,500**	15,000
Total equity		**334,375**	331,024
TOTAL LIABILITIES AND EQUITY		**1,145,242**	1,153,997

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairman

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Notes	**2020 US$ '000**	2019 US$ '000
Interest and similar income	15	**31,837**	44,226
Interest expense	16	**(7,740)**	(17,386)
Net interest and similar income		**24,097**	26,840
Fee and commission income	17	**3,828**	3,569
Gain on investments classified as FVTPL	18	**20**	535
(Loss) gain on investment securities - net		**(34)**	481
Foreign exchange gain - net		**181**	1,421
Other income		**5,786**	119
OPERATING INCOME		**33,878**	32,965
Reversal of provision for expected credit losses	19	**1,901**	8,469
NET OPERATING INCOME		**35,779**	41,434
Staff costs		**8,260**	8,736
Depreciation	9	**870**	881
Other operating expenses	21	**4,536**	3,076
OPERATING EXPENSES		**13,666**	12,693
NET PROFIT FOR THE YEAR		**22,113**	28,741

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairman

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	*2019*
	US$ '000	*US$ '000*
NET PROFIT FOR THE YEAR	**22,113**	28,741
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Fair value change in cash flow hedge	**442**	(442)
Unrealised fair value (loss) gain on investments classified as fair value through other comprehensive income (FVOCI)	**(3,828)**	8,455
(Reversal) charge for expected credit loss on FVOCI investments	**(376)**	1,203
Other comprehensive (loss) income for the year	**(3,762)**	9,216
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**18,351**	37,957

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	**2020 US$ '000**	*2019 US$ '000*
OPERATING ACTIVITIES			
Net profit for the year		**22,113**	28,741
Adjustments for:			
Reversal of provision for expected credit losses	19	**(1,901)**	(8,469)
Depreciation	9	**870**	881
Amortisation of investments carried at amortised cost		**373**	326
Loss (gain) on investment securities - net		**34**	(481)
Unrealised gain on investments classified as FVTPL		**-**	(488)
Amortisation of assets classified as loans and advances		**(1,105)**	(924)
Operating profit before changes in operating assets and liabilities		**20,384**	19,586
Changes in operating assets and liabilities:			
Balances with central bank		**235**	(127,002)
Deposits with banks and other financial institutions		**78,790**	(126,884)
Investments classified as fair value through profit or loss (FVTPL)		**3,028**	11,977
Investment securities		**489**	(220)
Loans and advances		**14,687**	82,234
Interest receivable		**883**	391
Other assets		**139**	227
Deposits from banks and other financial institutions		**15,484**	2,200
Due to banks and other financial institutions		**(24,299)**	1,413
Due to customers		**(2,752)**	9,862
Interest payable		**(1,744)**	554
Other liabilities		**1,297**	2,174
Net cash flows from (used in) operating activities		**106,621**	(123,488)
INVESTING ACTIVITIES			
Purchase of investment securities		**(64,642)**	(54,190)
Proceeds from disposal/redemption of investment securities		**49,435**	32,190
Purchase of property, equipment and software	9	**(209)**	(110)
Net cash flows used in investing activities		**(15,416)**	(22,110)
FINANCING ACTIVITY			
Dividends paid		**(15,000)**	(5,000)
Cash flows used in financing activity		**(15,000)**	(5,000)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**76,205**	(150,598)
Cash and cash equivalents at 1 January		**538,756**	689,354
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	**614,961**	538,756

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Notes	*Share capital US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Fair value reserve US$'000*	*Proposed dividend US$'000*	*Total US$ '000*
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 income		-	-	-	(3,762)	-	(3,762)
Total comprehensive income		-	-	22,113	(3,762)	-	18,351
Dividends paid	14	-	-	-	-	(15,000)	(15,000)
Proposed dividend for 2020 (note 14)	14	-	-	(12,500)	-	12,500	-
Transfer to statutory reserve (note 13)	13	-	2,211	(2,211)	-	-	-
Balance as of 31 December 2020		**250,000**	**27,842**	**44,621**	**(588)**	**12,500**	**334,375**
Balance as of 1 January 2019		250,000	22,757	26,352	(6,042)	5,000	298,067
Net profit for the year		-	-	28,741	-	-	28,741
Other comprehensive income		-	-	-	9,216	-	9,216
Total comprehensive income		-	-	28,741	9,216	-	37,957
Dividends paid	14	-	-	-	-	(5,000)	(5,000)
Proposed dividend for 2019 (note 14)	14	-	-	(15,000)	-	15,000	-
Transfer to statutory reserve (note 13)	13	-	2,874	(2,874)	-	-	-
Balance as of 31 December 2019		250,000	25,631	37,219	3,174	15,000	331,024

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 13 for more details).

The Bank has incorporated a special purpose vehicle (the "SPV") namely 'Bahrain Real Estate Development Company' in Jordan on 11 August 2020 for the purpose of registration of land on behalf of the Bank. These consolidated financial statements include the operating results of the Bank and its wholly owned SPV (together "the Group").

Impact of COVID-19
During the year ended 31 December 2020, there was an outbreak of coronavirus (COVID-19). The existing and anticipated effects of the outbreak on the global economy is expected to continue to evolve. While these developments continue to impact the Group's operations, the scale and duration of further developments remain uncertain at this stage and could potentially further impact the Group's financial position, financial performance and cash flows in the future, the extent of which is presently undeterminable.

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 15 February 2021.

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 recently issued CBB 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 issued by the International Accounting Standards Board (IASB) (IFRS), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments'. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Refer note 20 for further details; 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. Refer note 20 for further details.

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 International Financial Reporting Standards ("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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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.

2.2 Significant accounting policies

Basis of consolidation
The consolidated financial statements include the financial statements of the Bank and its SPV as at 31 December 2020. 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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Basis of consolidation (continued)

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.

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 Bank 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, as described in notes 2.2 and 2.3.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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.

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:

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 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.

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.

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)

SPPI test (continued)
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:

- 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 forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on 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 forborne 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.

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

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial liabilities (continued)

Classification and subsequent measurement (continued)

- 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).

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial liabilities (continued)

Impairment (continued)

Measurement of ECL (continued)

- financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For the purposes of calculation of ECL, the Group categorises its FVOCI 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 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 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	*Estimated useful life in years*
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.

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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.

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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Fair value measurement (continued)

- 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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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 2020
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 2020. The adoption of these standards and interpretations did not have any effect on the Group's financial position, financial performance or disclosures.

Amendments to IFRS 3: Definition of a Business
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Interest Rate Benchmark Reform ("IBOR") – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)
IBOR reform phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether an economic relationship exists and whether prospectively the hedging relationship is expected to be effective.

The Group has no hedging instruments as of the reporting date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

i) New and amended standards and interpretations effective as of 1 January 2020 (continued)

2.3 Changes in accounting policies and disclosures (continued)

Amendments to IAS 1 and IAS 8 Definition of Material
The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. This had no impact on the consolidated financial statements of the Group.

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.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the consolidated financial statements of the Group.

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 (continued)

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

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 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 by 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 will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the amendment is applied.

The amendments are expected to have an impact on the Group’s consolidated financial statements which the management will consider upon initial application of the standard.

Interest Rate Benchmark Reform (Phase 2)
On 27 August 2020 the IASB published ‘Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16’ (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an IBOR with an alternative nearly risk-free profit rate. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The impact of the replacement of interbank offered rates with alternative risk-free rates on the Group’s products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending beyond FY2021, when it is likely that these IBORs will cease being published or any subsequent timeline as determined by the relevant bodies. The Group is currently assessing the impact of the transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

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.

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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment losses on financial assets (continued)
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

	2020	*2019*
	US$ '000	*US$ '000*
Cash and balance with bank	**20**	9
Money at call and short notice with other banks	**41,602**	76,584
Treasury bills - balances with Central Bank	**291,578**	351,647
Provision for expected credit losses (note 4.1)	**(6)**	(5)
Cash and balances with central bank and other banks	**333,194**	428,235
Treasury bills - balances with Central Bank with original maturities of more than 3 months	**(126,766)**	(127,002)
Deposits with banks and other financial institutions with original maturities of 3 months or less (note 5)	**408,533**	237,523
Cash and cash equivalents	**614,961**	538,756

Note 4.1
Movement in provision for expected credit losses were as follows:

	31 December 2020			*31 December 2019*		
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Total ECL***	*Stage 1: 12-month ECL*	*Stage 2: Lifetime ECL not credit-impaired*	*Total ECL*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January	**3**	**2**	**5**	10	-	10
Transfer to stage 2	**-**	**-**	**-**	(1)	1	-
Transfer to stage 1	**2**	**(2)**	**-**	-	-	-
Provided during the year	**5**	**-**	**5**	-	1	1
Write-backs	**(4)**	**-**	**(4)**	(6)	-	(6)
At 31 December	**6**	**-**	**6**	3	2	5

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:

	2020 **US$ '000**	2019 US$ '000
Deposits with original maturities of 3 months or less (note 4)	**408,533**	237,523
Deposits with original maturities of over 3 months	**62,813**	141,603
	471,346	379,126
Provision for expected credit losses (note 5.1)	**(453)**	(235)
	470,893	378,891

Note 5.1
Movement in provision for expected credit losses were as follows:

	2020 **Stage 1** **12-month** **ECL** **US$ '000**	2019 Stage 1 12-month ECL US$ '000
Balance at 1 January	**235**	194
Provided during the year	**443**	41
Write-backs	**(225)**	-
At 31 December	**453**	235

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

	2020 **US$ '000**	2019 US$ '000
Quoted debt securities	**-**	3,028

7 INVESTMENT SECURITIES

	31 December 2020 (Audited)			*31 December 2019 (Audited)*		
	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	**116,388**	**71,418**	**187,806**	112,885	51,028	163,913
- Banks and Corporate debt securities	**37,717**	**23,153**	**60,870**	45,511	28,328	73,839
Total quoted investments	**154,105**	**94,571**	**248,676**	158,396	79,356	237,752
Provision for expected credit losses (note 7.1)	**(1,453)**	**(3,809)**	**(5,262)**	(1,829)	(2,822)	(4,651)
Reclassifying provision relating to FVOCI to OCI	**1,453**	**-**	**1,453**	1,829	-	1,829
Total investment securities	**154,105**	**90,762**	**244,867**	158,396	76,534	234,930

As at 31 December 2020, investments classified in stage 2 amounted to US$ 25,199 thousand (2019: US$ 48,448 thousand) for FVOCI and US$ 27,154 thousand (2019: US$ 45,573 thousand) for amortised cost respectively. All remaining investments are classified in stage 1.

7 INVESTMENT SECURITIES (continued)

Note 7.1
Movements in provision for expected credit losses of 'FVOCI' investments were as follows:

	31 December 2020 (FVOCI)			*31 December 2019 (FVOCI)*		
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Total ECL***	*Stage 1: 12-month ECL*	*Stage 2: Lifetime ECL not credit-impaired*	
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January	**291**	**1,538**	**1,829**	318	308	626
Transfer to stage 2	**-**	**-**	**-**	(54)	54	-
Provided during the year	**370**	**462**	**832**	232	1,447	1,679
Write-backs	**(93)**	**(1,115)**	**(1,208)**	(205)	(271)	(476)
At 31 December	**568**	**885**	**1,453**	291	1,538	1,829

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

	31 December 2020 (Amortised cost)			*31 December 2019 (Amortised cost)*		
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Total ECL***	*Stage 1: 12-month ECL*	*Stage 2: Lifetime ECL not credit-impaired*	*Total ECL*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January	**28**	**2,794**	**2,822**	145	1,180	1,325
Provided during the year	**396**	**2,020**	**2,416**	1	1,794	1,795
Write-backs	**(18)**	**(1,411)**	**(1,429)**	(118)	(180)	(298)
At 31 December	**406**	**3,403**	**3,809**	28	2,794	2,822

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$ 32,775 thousand as of 31 December 2020 (2019: US$ 30,361 thousand).

	31 December 2020			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***
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**

8 LOANS AND ADVANCES (continued)

	31 December 2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
Letters of credit - financing and discounting	5,839	-	63,459	69,298
Sovereign loans	47,166	-	2,804	49,970
Commercial loans	41,670	-	6,326	47,996
Factoring	-	-	20,418	20,418
	94,675	-	93,007	187,682
Provision for expected credit losses (note 8.1)	(1,935)	-	(93,007)	(94,942)
	92,740	-	-	92,740

Note 8.1
Movements in provision for expected credit losses were as follows:

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

	31 December 2019			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2019	3,651	2,636	99,471	105,758
Transfer to stage 1 from stage 2	1	(1)	-	-
Transfer to stage 3 from stage 2	-	(2,635)	2,635	-
Provided during the year	303	-	18,133	18,436
Recoveries / write-backs	(2,020)	-	(27,128)	(29,148)
Exchange differences	-	-	(104)	(104)
At 31 December 2019	1,935	-	93,007	94,942

The total value of collateral held by the Group against its loans and advances exposure amounts to US$ 1,277 thousand as at 31 December 2020 (31 December 2019: US$ 1,343 thousand) with no cash collateral.

Facilities renegotiated during the year
During the year, no facilities were renegotiated by the Group (2019: same).

Write off during the year
During the year, facility amounting to US$ 11,517 thousands were written off by the Group (2019: Nil).

9 PROPERTY, EQUIPMENT AND SOFTWARE

	Land US$ '000	***Building US$ '000***	***Furniture, equipment and motor vehicles US$ '000***	***Software US$ '000***	***Total US$ '000***
Cost:					
At 1 January 2020	4,243	7,652	3,775	1,464	17,134
Additions	-	-	165	44	209
At 31 December 2020	**4,243**	**7,652**	**3,940**	**1,508**	**17,343**
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	**-**	**4,053**	**3,663**	**1,301**	**9,017**
Net book value:					
At 31 December 2020	**4,243**	**3,599**	**277**	**207**	**8,326**

	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 2019	4,233	7,652	3,675	1,454	30	17,044
Additions	-	-	100	10	-	110
Transfer / write off	-	-	-	-	(30)	(30)
Exchange difference	10	-	-	-	-	10
At 31 December 2019	4,243	7,652	3,775	1,464	-	17,134
Accumulated depreciation:						
At 1 January 2019	-	3,037	3,240	1,009	-	7,286
Depreciation charge for the year	-	508	201	152	20	881
Related to disposal / write off	-	-	-	-	(20)	(20)
At 31 December 2019	-	3,545	3,441	1,161	-	8,147
Net book value:						
At 31 December 2019	4,243	4,107	334	303	-	8,987

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

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

10.1 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.

10 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

10.2 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:

	2020	*2019*
	US$ '000	*US$ '000*
Current account balances	**34,547**	56,186
Cash collateral held	**30,350**	33,010
	64,897	89,196

11 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.

	2020	*2019*
	US$ '000	*US$ '000*
Current account balances and deposits	**66,248**	75,504
Cash collateral held	**6,504**	-
	72,752	75,504

12 OTHER LIABILITIES

	2020	*2019*
	US$ '000	*US$ '000*
Accrued expenses and payables	**9,728**	8,803
Due to directors and employees	**641**	335
Provision for expected credit losses for off balance sheet exposures (note 12.1)	**19**	111
Unearned fee income	**121**	24
Agency fee payable	**-**	3
Others	**11**	39
	10,520	9,315

Accrued expenses include US$ 985 thousand (2019: US$ 692 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.

12 OTHER LIABILITIES (continued)

Note 12.1
Movement in provision for expected credit losses for off balance sheet exposures was as follows:

	2020 Stage 1 12-month ECL US$ '000	*2019 Stage 1 12-month ECL US$ '000*
Balance at 1 January	**111**	604
Provided during the year	**17**	107
Write-backs	**(109)**	(600)
At 31 December	**19**	111

13 SHARE CAPITAL

	2020 US$ '000	*2019 US$ '000*
Authorised:		
10,000,000 (2019: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

	2020 US$ '000	*2019 US$ '000*
Issued and fully paid up :		
5,000,000 (2019: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

Shareholders

	2020		*2019*	
	Percentage holding (%)	***US$ '000***	*Percentage holding (%)*	*US$ '000*
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$ 2,211 thousand (2019: US$ 2,874 thousand) to statutory reserve in the current year.

14 PROPOSED DIVIDEND

The dividend for the year ended 31 December 2020 amounting to US$ 12.5 million i.e. US$ 2.5 per share (31 December 2019: US$ 15 million i.e. US$ 3 per share), is proposed subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting.

15 INTEREST AND SIMILAR INCOME

	2020 US$ '000	2019 US$ '000
Interest on:		
- Deposits with banks, other financial institutions and balance with central bank	**12,880**	20,713
- Loans and advances	**6,787**	11,802
- Investments classified as fair value through profit or loss	**115**	389
- Investment securities	**12,055**	11,322
	31,837	44,226

16 INTEREST EXPENSE

	2020 US$ '000	2019 US$ '000
Interest on:		
- Deposits from and due to banks and other financial institutions	**7,574**	16,866
- Due to customers	**166**	520
	7,740	17,386

17 FEE AND COMMISSION INCOME

	2020 US$ '000	2019 US$ '000
Commission income on letters of credit	**3,804**	2,680
Agency and factoring income	**-**	845
Commission income on letters of guarantee	**2**	7
Bank charges and other income	**22**	37
	3,828	3,569

18 GAIN ON INVESTMENTS CLASSIFIED AS FVTPL

	2020 US$ '000	2019 US$ '000
Changes in fair value of investments classified as FVTPL	**-**	488
Realised gain during the year - net	**20**	47
	20	535

19 REVERSAL OF PROVISION FOR EXPECTED CREDIT LOSSES

	2020 US$'000	2019 US$'000
Expected credit loss:		
- Charge (reversal) against balances with central bank and other banks (note 4.1)	**1**	(5)
- Charge against deposits with banks and other financial institutions (note 5.1)	**218**	41
- Charge against investment securities (note 7.1)	**611**	2,700
- Reversal against loans and advances (note 8.1)	**(2,639)**	(10,712)
- Reversal against off balance sheet (note 12.1)	**(92)**	(493)
	(1,901)	(8,469)

20 GOVERNMENT GRANT

Based on the regulatory directive issued by the CBB, financial assistance amounting to BD 468 thousand (2019: nil) (representing specified reimbursement of part of staff costs and waiver of utilities) received from the government, in response to its COVID-19 support measures is recorded in profit or loss as the Group had no modification losses to be recorded in equity (in line with note 2.1(a) and 2.1(b)). The amount was recorded as a deduction from related expenses in the consolidated statement of profit or loss.

21 OTHER OPERATING EXPENSES

	2020 US$ '000	2019 US$ '000
Professional services	**1,696**	384
Administration and marketing expenses	**1,487**	1,592
Board of Directors' remuneration and expenses (note 25)	**900**	836
Fees and other charges	**453**	264
	4,536	3,076

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2020 US$ '000	2019 US$ '000
Credit related contingencies		
Letters of credit	**51,065**	78,694
Letters of guarantee	**118**	177
Provision for expected credit losses (note 12)	**(19)**	(111)
	51,164	78,760
Other (note 24)		
Interest rate swap (cash flow hedge)	**-**	125,000
Forward foreign exchange contracts	**-**	362
	51,164	204,122

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 his or her responsibilities. The main risks to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk.

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 principles.

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 has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental 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.

23 RISK MANAGEMENT (continued)

23.1 Introduction (continued)

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, with additional emphasis on selected industries. 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.

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 delegated lending authorities, and procedures. The Group manages its credit risk by monitoring concentration of exposures by geographic location and adhering to approved limits. The Group limits its risk on off balance sheet items with adequate collateral.

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 maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements. The net exposure represents gross exposure net of cash collateral against letters of credit.

	Gross maximum exposure 2020 US$ '000	***Net maximum exposure 2020 US$ '000***	*Gross maximum exposure 2019 US$ '000*	*Net maximum exposure 2019 US$ '000*
Balances with banks	**333,181**	**333,181**	428,226	428,226
Deposits with banks and other financial institutions	**470,893**	**470,893**	378,891	378,891
Investments classified as fair value through profit or loss	**-**	**-**	3,028	3,028
Investment securities	**244,867**	**244,867**	234,930	234,930
Loans and advances	**81,798**	**81,798**	92,740	92,740
Interest receivable	**5,354**	**5,354**	6,237	6,237
Other assets	**418**	**418**	499	499
Total funded credit risk exposure	**1,136,511**	**1,136,511**	1,144,551	1,144,551
Unfunded exposure on credit related contingencies	**51,164**	**29,502**	78,760	54,748
Total funded and unfunded credit risk exposures	**1,187,675**	**1,166,013**	1,223,311	1,199,299

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

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 2020 and 31 December 2019. 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.

	Neither past due nor impaired				
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due and individually impaired US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
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**
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 exposures	**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 here as it does not affect the carrying value of investments.

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

	Neither past due nor impaired				
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 2019					
Balances with banks	67,453	360,778	-	(5)	428,226
Deposits with banks and other financial institutions	86,812	292,314	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	3,028
Investment securities*	11,007	226,745	-	(2,822)	234,930
Loans and advances	-	94,675	93,007	(94,942)	92,740
Interest receivable	205	6,032	-	-	6,237
Other assets	-	499	-	-	499
Funded exposure	165,477	984,071	93,007	(98,004)	1,144,551
Credit related contingencies	2,552	76,319	-	(111)	78,760
Unfunded exposures	2,552	76,319	-	(111)	78,760
Funded and unfunded exposures	168,029	1,060,390	93,007	(98,115)	1,223,311

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

As of 31 December 2020, the Group did not have any financial assets that were past due but not impaired (2019: same).

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures (net of provision for ECL) is presented below:

At 31 December 2020

	Bahrain	***Other GCC countries***	***Other Middle-East and African countries***	***Europe***	***Rest of the world***	***Provision for expected credit losses***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***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**
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 here as it does not affect the carrying value of investments.

At 31 December 2019

	Bahrain	*Other GCC countries*	*Other Middle-East and African countries*	*Europe*	*Rest of the world*	*Provision for expected credit losses*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balances with banks	351,924	8,809	749	14,404	52,345	(5)	428,226
Deposits with banks and other financial institutions	133,806	136,074	27,000	82,246	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	-	-	3,028
Investment securities *	104,611	80,032	20,272	32,837	-	(2,822)	234,930
Loans and advances	-	4,774	128,355	50,888	3,665	(94,942)	92,740
Interest receivable	2,649	1,112	1,890	565	21	-	6,237
Other assets	499	-	-	-	-	-	499
Gross funded exposures	593,489	233,829	178,266	180,940	56,031	(98,004)	1,144,551
Credit related contingencies	-	2,434	54,811	20,910	716	(111)	78,760
Gross unfunded exposures	-	2,434	54,811	20,910	716	(111)	78,760
Gross funded and unfunded exposures	593,489	236,263	233,077	201,850	56,747	(98,115)	1,223,311

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

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:

At 31 December 2020	***Sovereign US$ '000***	***Banks and financial institutions US$ '000***	***Commercial, business and others US$ '000***	***Provision expected credit losses US$ '000***	***Total US$ '000***
Balances with banks	**291,578**	**41,609**	**-**	**(6)**	**333,181**
Deposits with banks and other financial institutions	**-**	**471,346**	**-**	**(453)**	**470,893**
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 funded and unfunded exposures	**528,457**	**654,918**	**90,472**	**(86,172)**	**1,187,675**

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

At 31 December 2019	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision expected credit losses US$ '000*	*Total US$ '000*
Balances with banks	351,647	76,584	-	(5)	428,226
Deposits with banks and other financial institutions	-	379,126	-	(235)	378,891
Investments classified as fair value through profit and loss	-	3,028	-	-	3,028
Investment securities *	163,913	43,046	30,793	(2,822)	234,930
Loans and advances	49,970	55,708	82,004	(94,942)	92,740
Interest receivable	4,322	1,445	470	-	6,237
Other assets	-	-	499	-	499
Gross funded exposures	569,852	558,937	113,766	(98,004)	1,144,551
Credit related contingencies	-	78,871	-	(111)	78,760
Gross unfunded exposures	-	78,871	-	(111)	78,760
Gross of funded and unfunded exposures	569,852	637,808	113,766	(98,115)	1,223,311

* ECL held against FVOCI investments have not been included here 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.

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

23.3.1 Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. 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 manages this risk by matching the repricing of assets and liabilities through a number of means. The Group's major interest rate sensitivity position as of 31 December, is as follows:

Sensitivity analysis - interest rate risk

	Impact on consolidated statement of profit or loss	
	2020	*2019*
	US$ '000	*US$ '000*
25 bps increase in interest rate		
US Dollar	**+ 337**	+ 403
Euro	**+ 60**	+ 1
AED	**+ 75**	+ 83

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

23.3.2 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:

	Increase in exchange rate	*Effect on consolidated statement of profit or loss for the year*	
		2020	*2019*
		US$ '000	*US$ '000*
Euro	5%	**4**	66

* 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.

23.3.3 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 2020, there is no effect on the Group's consolidated profit and equity as the investment portfolio does not contain any equity investments (2019: 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, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. This incorporates an assessment of expected cash flow and the availability of high grade collateral which would be used to secure additional funding if required.

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at reporting date given below reflects the management's best estimates of the maturities of assets and liabilities that have been determined on the basis of the remaining period at the date of the consolidated statement of financial position.

	Up to 1 year						*Provision for*	
At 31 December 2020	*Up to 1 month US$ '000*	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No maturity US$ '000*	*expected credit losses US$ '000*	*Total 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
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	-

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

At 31 December 2019	*Up to 1 year*							
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*Total*	*More than 1 year*	*No specific maturity*	*Provision for expected credit losses*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
ASSETS								
Cash, balances with banks and Central Bank	150,642	194,383	83,215	428,240	-	-	(5)	428,235
Deposits with banks and other financial institutions	257,513	86,613	35,000	379,126	-	-	(235)	378,891
Investments classified as fair value through profit or loss	3,028	-	-	3,028	-	-	-	3,028
Investment securities	5,008	-	28,364	33,372	204,380	-	(2,822)	234,930
Loans and advances	270	5,150	14,981	20,401	167,281	-	(94,942)	92,740
Property, equipment and software	-	-	-	-	-	8,987	-	8,987
Interest receivable	4,047	1,667	523	6,237	-	-	-	6,237
Other assets	46	501	10	557	392	-	-	949
Total assets	420,554	288,314	162,093	870,961	372,053	8,987	(98,004)	1,153,997
LIABILITIES								
Deposits from banks and other financial institutions	196,246	93,672	356,852	646,770	-	-	-	646,770
Due to banks and other financial institutions	89,196	-	-	89,196	-	-	-	89,196
Due to customers	75,504	-	-	75,504	-	-	-	75,504
Interest payable	1,077	247	864	2,188	-	-	-	2,188
Other liabilities	336	7,081	8	7,425	1,779	-	111	9,315
Total liabilities	362,359	101,000	357,724	821,083	1,779	-	111	822,973
Net liquidity gap	58,195	187,314	(195,631)	49,878	370,274	8,987	(98,115)	331,024
Cumulative liquidity gap	58,195	245,509	49,878	-	420,152	429,139	331,024	-

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:

At 31 December 2020	*Up to 1 year*							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Liabilities								
Deposits from banks and financial institutions	193,336	112,372	-	305,708	358,710	-	-	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	316,685	123,177	-	439,862	362,210	-	-	802,072
Commitments and contingent liabilities								
Letters of credit	39,661	2,104	8,200	49,965	1,100	-	(18)	51,047
Letters of guarantee	118	-	-	118	-	-	(1)	117
	39,779	2,104	8,200	50,083	1,100	-	(19)	51,164

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

At 31 December 2019	*Up to 1 year*							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Liabilities								
Deposits from banks and financial institutions	196,990	94,199	363,801	654,990	-	-	-	654,990
Due to banks and other financial institutions	89,200	-	-	89,200	-	-	-	89,200
Due to customers	75,630	-	-	75,630	-	-	-	75,630
Total undiscounted liabilities	361,820	94,199	363,801	819,820	-	-	-	819,820
Derivatives:								
Interest rate swap (cash flow hedge)	446	-	-	446	-	-	-	446
Forward foreign exchange contracts	362	-	-	362	-	-	-	362
Commitments and contingent liabilities								
Letters of credit	468	20,721	57,505	78,694	-	-	(110)	78,584
Letters of guarantee	117	-	60	177	-	-	(1)	176
	585	20,721	57,565	78,871	-	-	(111)	78,760

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 2020

	Level 1 US$ '000	***Level 2 US$ '000***	***Total US$ '000***
Investments classified as fair value through other comprehensive income	**154,105**	**-**	**154,105**
	154,105	**-**	**154,105**

At 31 December 2019

	Level 1 US$ '000	*Level 2 US$ '000*	*Total US$ '000*
Investments classified as fair value through profit and loss	3,028	-	3,028
Investments classified as fair value through other comprehensive income	158,396	-	158,396
Derivative financial instruments	-	(442)	(442)
	161,424	(442)	160,982

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2020, 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 (2019: 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 2020

	Fair value US$ '000	***Carrying value US$ '000***
Amortised cost investments	**99,171**	**90,762**
Loans and advances	**48,275**	**44,838**
	147,446	**135,600**

At 31 December 2019

	Fair value US$ '000	*Carrying value US$ '000*
Amortised cost investments	81,772	76,534
Loans and advances	53,991	47,166
	135,763	123,700

23 RISK MANAGEMENT (continued)

23.5 Fair value of financial instruments (continued)

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 are generally short term in nature. Management has assessed that the fair values of these approximate their carrying values as of 31 December 2020 and 31 December 2019.

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 material outstanding contracts as at 31 December:

	2020		*2019*	
	Notional amount US$ '000	***Gain / (loss) US$ '000***	*Notional amount US$ '000*	*Gain / (loss) US$ '000*
Interest rate swap (cash flow hedge)	**-**	**-**	125,000	(442)
Forward foreign exchange contracts	**-**	**-**	362	-
	-	**-**	125,362	(442)

The fair values of derivative instruments are set out below:

31 December 2019	*Negative fair value US$ '000*	*Notional amount total US$ '000*	*Notional amounts by term to maturity within 3 months US$ '000*
Derivatives held as hedges			
Interest rate swap	(442)	125,000	125,000
	(442)	125,000	125,000

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 2020				*31 December 2019*			
	Shareholders	***Key management personnel/ Board members***	***Other related parties***	***Total***	*Shareholders*	*Key management personnel/ Board members*	*Other related parties*	*Total*
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Consolidated statement of profit or loss								
Interest income	**4**	**-**	**136**	**140**	4	-	168	172
Interest expense	**7,128**	**-**	**145**	**7,273**	15,138	-	682	15,820
Fee and commission income	**1**	**-**	**268**	**269**	912	-	142	1,054
Consolidated statement of financial position								
Assets								
Cash and balances with banks	**60**	**-**	**1,187**	**1,247**	746	-	6,645	7,391
Loans and advances	**-**	**-**	**-**	**-**	-	-	4,561	4,561
Interest receivable	**-**	**-**	**-**	**-**	-	-	38	38
Other assets	**-**	**65**	**-**	**65**	-	45	-	45
Liabilities								
Deposits from banks and other financial institutions	**501,766**	**-**	**25,000**	**526,766**	494,918	-	25,000	519,918
Due to banks and other financial institutions	**20,043**	**-**	**885**	**20,928**	19,572	-	1,063	20,635
Interest payable	**425**	**-**	**4**	**429**	1,649	-	43	1,692
Other liabilities	**-**	**493**	**-**	**493**	3	333	-	336
Assets under management	**-**	**-**	**-**	**-**	21,535	-	-	21,535
Contingent liabilities								
Letters of credit and letters of guarantee	**1,123**	**-**	**2,830**	**3,953**	115	-	23,288	23,403

25 TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation paid to the Board of Directors and key management personnel:

	2020	*2019*
	US$ 000	*US$ 000*
Short term benefits	**4,892**	4,499
End of term benefits	**303**	303
Total compensation	**5,195**	4,802

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US$ 847 thousand (2019: US$ 726 thousand) and reimbursement of travel, accommodation and other expenses amounting to US$ 53 thousand (2019: US$ 110 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:

	2020	*2019*
	US$ 000	*US$ 000*
Capital base:		
Tier 1 capital	**333,361**	328,615
Tier 2 capital	**5,917**	6,937
Total capital base (a)	**339,278**	335,552
Risk weighted assets (b)	**606,397**	658,036
Capital adequacy (a/b * 100)	**55.95%**	50.99%
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 2020, the Group's LCR was 512% (2019: 572%), which is well above the required level.

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 177% as at 31 December 2020 (31 December 2019: 196%). The main drivers for robust Available Stable Funding (ASF) is its sizeable capital base, which contributes about 69% of total ASF and the remaining 31% 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 49.5% of total RSF. High quality liquid assets (that comprised mainly of Bahrain government securities and other highly rated debt issuances) accounted for about 11.2% of the total RSF, while non-HQLA securities accounted for 33.2% of the total RSF.

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

	Unweighted Values (i.e. before applying relevant factors)				*USD 000s*
Item	***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	339,278	-	-	-	339,278
Wholesale funding:					
Other wholesale funding	-	568,146	231,757	-	152,255
Other liabilities:					
All other liabilities not included in the above categories	-	10,945	-	-	-
Total ASF					**491,533**
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)					30,991
Performing loans and securities:					
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	520,563	13,913	-	85,041
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities	-	1,246	931	60,223	52,278
Performing residential mortgages, of which:					
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	5,003	-	105,229	91,946
Other assets:					
All other assets not included in the above categories	14,490	-	-	-	14,490
Off balance sheet items	-	51,183	-	-	2,559
Total RSF					**277,305**
NSFR (%)					**177%**

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

FINANCIAL IMPACT OF COVID-19

Amidst COVID-19 pandemic, which affected economies globally and spiked uncertainty across businesses, the Bank emerged resilient and recorded a consolidated net profit of US$ 22.1 million for the year ended 31 December 2020, as compared to US$ 28.7 million last year, recording a decrease of 23.1%. This decrease was mainly due to exceptional reversal of expected credit loss provision in 2019, on account of recovery of past dues.

However, the Bank's overall performance for 2020 exceeded Budget estimates. This outcome is attributed mainly to Bank's efforts exercised prior to the outbreak of COVID-19 to recover in full a non performing facility, which enabled the Bank to write back a significant amount of (US$ 2.9 million) ECL provision. Additionally, the Bank was also able to recover a written off facility amounting to US$ 5.7 million, which constitutes part of other income.

Although, there was exceptional income, the performance of the Bank was affected by volatile markets and uncertainties that challenged the banking industry, which affected interest margins due to fall in interest rates since the beginning of 2020 and fair valuation of securities.

Interest income recorded for the year ended 31 December 2020 was US$ 31.8 million, as compared to US$ 44.2 million for last year, reflecting a decrease of 28%, however, the net interest income, after interest expenses, resulted in a decrease of 10.2%, as interest expense, also decreased with the fall in LIBOR and interest rates.

Income from fee and commission was US$ 3.8 million for 2020, as compared to US$ 3.6 million in 2019, signifying an increase of 7.3% year on year. Trading income decreased in current year compared to last year, from US$ 535 thousand to US$ 20 thousand, a fall of 96.3%, on Investment held under fair value through profit or loss.

During the year, the Bank earned a foreign exchange gain of US$ 181 thousand as compared to gain of US$ 1.4 million in previous year, resulting in a decrease of 87.3%.

On the expenses front, staff costs decreased compared to the last year, from US$ 8.7 million to US$ 8.3 million, a decrease of US$ 476 thousand or 5.4%, primarily due to government grant received due to COVID -19. On the other hand, other operating expenses, increased by US$ 1.5 million (from US$ 3.1 million to US$ 4.5million), an increase of 47.5% compared to the last year, which is mainly attributed to expenses incurred related to enhanced technology support and professional fee.

The total receipt of government grant on account of subsidising Bahraini employee salaries, electricity and utility expenses and other fees for the months of April, May and June 2020, amounted to US$ 468 thousand. Therefore, the total operating expenses amounted to US$13.7 million for the year ended 31 December 2020, which was an increase of US$ 974 thousand over last year US$ 12.7 million, an increase of 7.7% year on year.

The Bank's Capital adequacy ratio (CAR), continues to be strong at 56% at 31 December 2020 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 512% and 177% at 31 December 2020, respectively. The minimum required by regulator is 100% for LCR and NSFR, which is currently revised to 80%, due to COVID-19 measures.

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

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.

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.

BASEL III PILLAR 3 DISCLOSURES

At 31 DECEMBER 2020

Table of Contents

1. Executive Summary

This document provides the disclosures pertaining to risk and capital management for Alubaf Arab International Bank B.S.C. (c) ("the Bank") as of 31 December 2020. The purpose of the document is to enhance the financial transparency through better public disclosure (as required by CBB public disclosure module) and facilitate the market discipline to align with Basel III accord.

Central Bank of Bahrain ("CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain has issued the directives relating to public disclosures. The disclosure requirements in PD module of CBB rulebook follow the requirements of Basel III Pillar 3 and are in addition to, or in some cases serve to clarify, the disclosure requirements of International Financial Reporting Standards ("IFRS"). This document gathers all the elements of the disclosures required under Pillar III and complies with the public disclosure module of CBB (including companies law), in order to enhance corporate governance and financial transparency. The Pillar 3 disclosures are to be read in conjunction with the consolidated financial statements of the Bank presented in accordance with IFRS as of 31 December 2020 as well as the capital disclosures and liquidity disclosures published separately on the Bank's website.

For regulatory reporting purposes, the Bank has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk to determine the capital requirements under Pillar 1.

The Bank's total risk-weighted assets as of 31 December 2020 amounted to US$ 606 million (2019: US$ 658 million), comprising 89.59% credit risk, 0.01% market risk and 10.40% operational risk. The total capital adequacy ratio was 55.95% (2019: 50.99%), compared to the minimum regulatory requirement of 12.50%.

Figures in $ 000s	FYE 2020	FYE 2019
Tier 1 capital	333,361	328,615
Tier 2 capital	5,917	6,937
Total Capital	**339,278**	**335,552**
Credit risk weighted assets	543,214	589,831
Market risk weighted assets	88	1,675
Operational risk weighted assets	63,095	66,528
Total Risk Weighted assets	**606,397**	**658,034**
Tier 1 Capital Ratio	**54.97%**	**49.94%**
Total Capital Ratio	**55.95%**	**50.99%**

2. Basel III Framework

The CBB's Basel III framework is based on three pillars, consistent with framework developed by the Basel Committee, as follows:-

- Pillar 1: the calculation of risk-weighted assets ("RWAs") and capital requirements for credit, market and operational risks.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process ("ICAAP").
- Pillar 3: the disclosure of risk management and capital adequacy information.

2.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs. As at 31st December 2020, all banks incorporated in Bahrain are required to maintain a minimum capital adequacy ratio of 12.50 per cent and a tier 1 ratio of 10.50 per cent. In the event that the capital adequacy ratio falls below 12.50 per cent, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarizes the Bank's approach for calculating RWAs and capital requirements for each risk type in accordance with the CBB's Basel 3 capital adequacy framework:-

Approaches for determining regulatory capital requirements		
Credit risk	Market risk	Operational risk
Standardized approach	Standardized approach	Basic indicator approach

a) Credit Risk

For regulatory reporting purposes, the Bank applies the standardized approach for credit risk. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

b) Market Risk

For the regulatory market risk capital requirement, the Bank applies the standardized approach based on net open position of foreign currencies as per CA module of the CBB rule book.

c) Operational Risk

Under the CBB's Basel 3 capital adequacy framework, all banks incorporated in Bahrain are required to apply the basic indicator approach for operational risk unless approval is granted by the CBB to use the standardized approach. Currently, the Bank uses the Basic Indicator Approach for calculating its capital requirement for operational risk.

2.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk and capital management framework and, ultimately, its capital adequacy. Under the Pillar 2 guidelines, each Bank is required to internally assess its capital requirements taking into consideration all material risks through the ICAAP assessment process and establish internal minimum capital limits.

Pillar 2 comprises of two processes:-
- An ICAAP review; and
- A supervisory review and evaluation process.

Internal Capital Adequacy Assessment Process:

The Bank has a capital management and planning framework which ensures adequate capital is available for any expected/unexpected loss and to support its strategic growth opportunities. The capital planning of the Bank is carried out through ICAAP which covers inter-alia:

- Forecast of the strategic and business growth plan of the Bank over the next 3 years
- Quantitative and qualitative assessment of various external and internal risk factors
- Assessment of capital adequacy under normal and stress scenarios
- Planning of capital action, if any, required to accomplish the strategic and financial objectives of the Bank.

The Bank has a comprehensive ICAAP that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book, reputational risk and strategic risks. The ICAAP also keeps in perspective the Bank's strategic plans, credit and investment growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine the capital requirement and planning to ensure that the Bank is adequately capitalized in line with the overall risk profile.

The Bank has complied with regulatory capital requirements throughout the year. The Bank's capital adequacy ratio of 55.95% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process:

The supervisory review and evaluation process represents the CBB's review of the Bank's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that Banks identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar 1 framework. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include:-

- Liquidity risk
- Concentration risk
- Interest rate risk in the banking book (IRRBB)
- Reputational risk
- Strategic risk

These are covered either by capital, or risk management and mitigation processes under Pillar 2.

2.3 Pillar 3

In the CBB's Basel 3 framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management. Under the current regulations, partial disclosures consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting. In this report, the Bank disclosures are beyond the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on- and off-balance sheet. The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements presented in accordance with IFRS and accordingly these disclosures should be read in conjunction with the Bank's audited consolidated financial statements for the year ended 31 December 2020.

3. Organizational structure, Risk and Capital Management

3.1 Organization structure

The Bank operates under a wholesale banking license issued by Central Bank of Bahrain, to provide Treasury, Loan and Trade finance banking solutions. The Bank's customer base includes primarily Corporate, Banks, Investment Companies, Governments and Semi-government Entities, Public Sector Companies in the GCC and MENA markets as well select other countries across the world.

The Bank's largest single shareholder is Libyan Foreign Bank (99.50%); other shareholders comprise of National Bank of Yemen (0.28%) and Yemen Bank for Reconstruction and Development (0.22%). Libyan Foreign Bank (LFB) is 100% owned by the Central Bank of Libya.

The Bank's consolidated financial statements are prepared and published in accordance with IFRS. Regulatory capital is reported to the CBB on a regular basis (at least on quarterly basis by way of submitting the Prudential Information Return report) in accordance with CBB capital adequacy guidelines.

3.2 Risk and Capital Management

The Bank maintains a prudent and disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Bank's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risk it faces.

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board defines the risk appetite and risk tolerance standards and oversees that adequate risk management standards are in place. The Board also approves appropriate risk policies that form part of its risk management framework, based on the recommendation of management. The Board is supported by the Audit, Risk and Compliance Committee ("ARCC") which oversees the risk management, compliance and internal audit activities as well as ensuring integrity of the consolidated financial statements.

At the second level, executive management is responsible for the identification and evaluation on a continuous basis of all significant risks to the business and implementation of appropriate internal controls to minimize them. Senior management is responsible for monitoring credit lending portfolio, country limits, interbank limits, and general credit policy matters, which are reviewed and approved by the Board of Directors. The Bank has established various management committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk and the same is codified in the Delegations of Authority (DOA) document approved by the Board.

The Risk Management Department of the Bank provides the necessary support to senior management and the business units in all areas of risk management. The risk management function under the Chief Risk Officer is independent of the business units of the Bank, reporting to the Board ARCC and administratively to the Chief Executive Officer (CEO). The Financial Control Department is responsible for the capital planning process.

Independent internal audit of the risk management process is conducted and its findings are presented to the Audit, Risk and Compliance Committee.

Following is the governance structure for Risk and Capital Management in the Bank:

Board of Directors			
Board Audit Risk and Compliance Committee (ARCC)			
Chief Executive Officer (CEO)			
Assets and Liabilities Committee (ALCO)	**Management Risk Committee (MRC)**	**Credit Investment Committee (CIC)**	**Special Asset Management Committee (SAMC)**

The risk, liquidity and capital management responsibilities are set out in the table below:-

Chief Executive Officer	
Head of Financial Control	Chief Risk Officer (CRO)*
Capital management framework Regulatory Reporting	Risk management framework and policies Credit Management Credit risk Market risk Operational risk Liquidity and Other risks

* Chief Risk Officer (CRO) is an independent function which reports to the ARCC, and administratively to the CEO.

The Bank's capital management policies aim to ensure that the Bank complies with regulatory capital requirements as well as to ensure adequate availability of capital to meet the Bank's strategic growth requirements and maximize shareholder value.

3.3 Risk Types

The major risks associated with the Bank's business activities are credit, market and operational risks. Additionally, other material risks that the Bank is exposed to include – liquidity risk, concentration risk, interest rate risk, reputational risk and strategic risk. These risks are continuously monitored and mitigated through effective process of ongoing identification, measurement, controlling and monitoring throughout the year. The following section provides the way these risks are managed and controlled.

3.4 Risks in Pillar I

Basel 3 Pillar 1, which forms the basis for the calculation of the regulatory capital requirement, addresses three specific risk types: credit risk, market risk and operational risk:

a) Credit risk

The credit risk is the main financial risk relative to the other risks for the Bank because of its nature of business to finance and invest. Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank measures and manages Credit Risk by adhering to the following principles:

- Consistent standards are applied across all customers in the risk-evaluation process using a rating system. The Bank has in place a systematic credit rating system which provides a framework for objective risk assessment.
- The exposure should be reasonable in relation to the customer's creditworthiness, capital position or Networth components, and the customer should be able to substantiate its repayment ability
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level
- The Bank regularly follows up on developments in the customer's financial position in order to assess whether the basis for the granting of credit has changed.
- The Bank assumes risks within the limits guided under its risk management framework and other rules prescribed by the CBB from time to time.

The Bank has in place a credit risk management framework comprising of detailed credit risk management policies and procedures, regular credit assessments and monitoring, internal rating grades, credit administration activities, collateral management and early warning indicator monitoring. Regular reviews are carried out for each exposure and risks identified are mitigated in a number of ways, which include obtaining collaterals or guarantees. The counterparty credit risks are continuously monitored for changes in external environments and other economic challenges that may impact the counterparty's credit profile as part of early warning indicator monitoring. Similarly, prudent norms have been implemented to govern the Bank's investment activities, which specify to the Bank's Treasury and Investment department, the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features and other relevant factors.

The business units of the Bank are responsible for business generation and initial credit review of proposals in accordance with the stipulated policy requirements. The Bank has an independent Credit Management unit which is responsible to perform a rigorous independent credit analysis for the counterparty and assign an internal credit rating reflecting the level of credit risk. In addition, the independent credit administration unit ensures that adherence to the terms and conditions of all credit facilities are strictly implemented and collateral coverage is monitored. The Bank has an internal grading system and review process ensures identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 20-point scale (AAA to Loss), which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Risk ratings assigned to each borrower are reviewed on at least an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile.

b) Market Risk

Market risk is the potential impact of adverse price movements such as benchmark interest rates, foreign exchange prices, equity prices and commodity prices on the Bank's earnings and capital. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and value of an asset.

The categories of market risk to which the Bank is exposed are as follows:

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads.

Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. The principal foreign exchange risk arises from the Bank's foreign exchange positions in the banking book including its proprietary positions as well as positions arising from client servicing.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices. The Bank does not maintain any equity exposures as at reporting date and therefore is not exposed to equity price risks.

The Bank does not have material exposure to market risk on account of its limited trading activities. The Bank's market risk management framework comprises of a various concentration limits to diversify its market risk exposures as well as stop loss limits to minimize losses. The main market risk exposures arise from its forex risk exposures, wherein the Bank maintains net open position limits for each active currency which are monitored on a daily basis.

c) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely, however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk.

The operational risk management framework ("ORMF") is codified in the Bank's Operational risk management policy and broadly comprises of the following:

- Well defined governance framework and delegation of authorities
- Detailed policies and procedures for all activities of the Bank
- Segregation of duties and internal controls
- Risk and Controls Self-assessments
- Identifying and monitoring of Key Risk Indicators
- Incident reporting and collection of losses from operational incidents, including near misses.

Qualitative and quantitative methodologies are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These include a database of operational risk incidents; monitoring of key risk indicators, which can provide an early warning of possible risk; and a Risk and Control self-assessment (RCSA) process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

Risk and Control Self-Assessment (RCSA) is performed on a periodic basis, by obtaining senior management inputs to enhance the control environment of the Bank. The Bank's risk management department coordinates with the Heads of departments and the respective Risk Champions in each department, to conduct the RCSA assessments. As part of such assessments, the key operational risks within each department's activities are evaluated along with the controls available to mitigate or minimize such risks. Based on these assessments, each department maintains a risk register for its risks, which is reviewed and updated on an ongoing basis.

Heads of departments and functions throughout the Bank are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data. Operational incidents are monitored on an ongoing basis through the Bank's operational risk management system, and the same are reported to management on a monthly basis and to the Board on a quarterly basis. Moreover, the operational incident reports are reviewed jointly by risk management and the respective department for root cause analysis and to introduce additional controls to minimize chances of similar incident recurring.

Operational functions of booking, recording and monitoring of transactions are performed by staff that are independent of the individuals initiating the transactions. Each business line as well support line is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the Bank policy, and to develop internal procedures that comply with these policies. Operational risk is also managed through effective staff training and frequent review and enhancement of internal controls of the various activities of the Bank. Further, the Bank has in place the Business Continuity and Disaster Recovery Policy (BCP/DRP) to ensure that the Bank is prepared and has contingency plans in place in the event of a disaster so that business is minimally impacted in such situations.

3.5 Risk in Pillar II

a) Liquidity Risk

Liquidity risk is defined as the risk to the Bank's earnings and capital arising from its inability to meet timely obligations as and when they come due without incurring unacceptable losses. The Bank follows a conservative liquidity risk management strategy aligned with its business model. The strategy aims to address:

- Funding liquidity risk and
- Market liquidity risk

The Bank utilizes the liquidity management tools in line with Basel 3 and revised CBB guidelines on liquidity risk management. The Liquidity Coverage Ratio (LCR) addresses the sufficiency of a stock of high quality liquid assets to meet short-term liquidity needs under specified scenarios. Under LCR, the objective is to ensure that Bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs, under specific prescribed cash inflows and outflows scenarios, for a 30 day time horizon.

The Net Stable Funding Ratio (NSFR) addresses longer-term structural liquidity mismatches. Under NSFR, the objective is to promote more medium and long-term funding of assets through the establishment of a minimum acceptable amount of stable funding over a one year horizon. The Bank maintains its liquidity standards with stable long term and short term liquidity ratios (NSFR, LCR, Liquidity Ratio etc.) above the regulatory limits.

The Bank has in place a liquidity risk management framework comprising of liquidity and funding strategy, liquidity risk limits, procedures for monitoring and reporting liquidity risks, liquidity stress testing and contingency planning. The liquidity risk management framework is codified in the Bank's Liquidity Risk Management Policy approved by the Board.

The Bank performs periodic stress testing of its liquidity risk profile to assess its impact on capital and liquidity position.

b) Credit concentration risk

Credit Concentration Risk is the risk that the Bank’s exposures are concentrated to a sector/industry, geography, product, single party and customer groups, or countries which impacts the Bank’s capital position. It is the risk of exposure to a single counterparty and group of related counterparties, as well as the exposure to selected economic sectors that has the potential to produce losses large enough (relative to the Bank’s size) to undermine the health of the Bank. The existence of exposure concentration can lead to underestimation of Pillar I risks. The Bank monitors counterparty, sector and geographic concentration risks and manages them through limits on the same. Regular reports are prepared and analysed to ensure that undesired concentrations are avoided.

Concentration risk is captured in the Bank’s Pillar 2 capital framework which considers single-name concentrations, Geographical and Industry concentrations in the credit portfolio and capital requirements to cover concentration risks are assessed.

c) Interest rate risk in the Banking book

Interest rate risk is the exposure of a bank's financial condition to adverse movements in Interest rates. Changes in Interest rates affect a bank's earnings by changing its net Interest income and the level of other Interest-sensitive income and operating expenses. Changes in Interest rates also affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows change when Interest rates change.

The Bank monitors the re-pricing gap and the market value of Asset and Liabilities as part of Interest Rate Risk management and also assesses the impact of a shift in market Interest rates on the expected net profit income of the Bank as well as the impact on the Bank’s economic value of Equity.

The Bank assesses the Earnings at Risk due to a shift of 200 bps in benchmark interest rates for allocating capital to cover its interest rate risk in the banking book.

d) Reputational Risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Bank, its brand and relationship by its various stakeholders that is caused by a variety of internal and external factors. The Bank has developed a reputational risk management framework that ensures reputational risk is managed and mitigated and the same is codified in the Reputational risk management policy of the Bank.

e) Strategic Risk

Strategic risks refer to the risk that the Bank would be exposed in the event of business strategy and plan not materializing. It is the risk to earnings and profitability arising from strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, a strategic risk arises due to adopting wrong strategies and choices that can cause loss to the bank in the form of a reduction in shareholder value and loss of earnings.

The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Bank's performance and alignment with the strategic plan.

4. Regulatory capital requirements and the capital base

4.1 Capital base

The Bank's Capital base comprise of Tier I capital, which includes share capital, statutory reserve, retained earnings and fair value changes in FVOCI investments and Tier II capital, which includes expected credit loss, stage 1 and 2 (ECL Stage 1 & 2) provision.

The Bank's issued and paid up capital was US$ 250 million as at 31 December 2020, comprising of 5 million equity shares of US$ 50 each.

The regulatory capital base is set out in the table below:-

Break down of Capital Base	US$ '000s	US$ '000s
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	27,842	-
Retained earnings	57,121	-
Cumulative fair value changes on FVOCI Investments (Debt)	(2,041)	-
Total CET I capital prior to regulatory adjustments	**332,922**	-
Less: intangibles other than mortgage rights	**(1,508)**	-
Add: Expected Credit Loss 1&2 part of CET 1	**1,947**	-
Total CET I capital after regulatory adjustment	**333,361**	-
Add: Expected credit loss (ECL) Stage 1&2 in Tier 2	**-**	5,917
Total	**333,361**	**5,917**
Total available capital		**339,278**

Common equity tier 1 (CET 1) comprises of share capital, statutory reserve and retained earnings, adjusted with regulatory adjustments of revaluation gain or loss arising on the measurement to fair value of derivative cash flow hedging amortization and includes unrealized gains or losses arising on the measurement to fair value of investment securities. The Bank does not maintain any additional-Tier 1 (AT1) capital.

Tier II capital includes expected credit loss, stage 1 and 2 (ECL Stage 1 & 2) provision.

4.2 Regulatory capital requirements

For regulatory reporting purposes, the Bank calculates the capital requirements as per follows:

- **Credit Risk -** Credit risk capital requirements are based on the standardized approach. Under the standardized approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel 3 capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk-weightings. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. The Bank uses ratings assigned by Standard & Poor's, Moody's and Fitch.

- **Market Risk –** The Bank uses a Standardized approach to calculate the regulatory capital requirements relating to market risk.

- **Operational Risk -** The capital requirement for operational risk is calculated in accordance with the basic indicator approach. Under this approach, the Bank's average gross income over the preceding three financial years is multiplied by alpha coefficient of 15% as prescribed in the CBB's Basel 3 capital adequacy framework.

- **Capital adequacy ratio calculation:**

The Bank's capital adequacy ratio of 55.95% is well above the minimum regulatory requirement of 12.50%.

	US$ '000
Credit risk weighted assets	543,214
Market risk weighted assets	88
Operational risk weighted assets	63,095
Total Risk weighted assets (RWA)	**606,397**
Total Eligible Capital Base	**339,278**
CET I ratio	**54.97%**
Capital adequacy ratio	**55.95%**

5. Credit risk-Pillar 3 disclosures

This section describes the Group's exposure to credit risk and provides detailed disclosures on credit risk in accordance with the CBB's Basel 3 framework in relation to Pillar 3 disclosure requirements.

5.1 Definition of exposure classes per Standard Portfolio

The Bank has a diversified on- and off-balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel 3 capital adequacy framework for the standardized approach for credit risk. A high-level description of the counterparty exposure classes and the risk weights used to derive the risk weighted assets are as follows:

(a) Claims on sovereigns

These pertain to exposures to governments and their respective central banks. Claims on Bahrain and GCC governments are risk weighted at 0%. Foreign currency claims on other sovereign exposures are risk-weighted based on their external credit ratings or if unrated at 100%.

(b) Claims on PSE

Public sector entities (PSEs) are risk-weighted according to their external ratings with the exception of Bahrain PSEs, and domestic currency claims on other PSEs which are assigned a 0 per cent risk weight by their respective country regulator.

(c) Claims on banks

Claims on Banks are risk weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks and claims maturing within three months and denominated in Bahrain Dinars or US Dollars are risk weighted at 20%. Other claims on banks, which are in foreign currency, are risk weighted using standard risk weights ranging from 20% to 100%. Unrated claims on banks are assigned a risk weight of 20% & 50% respectively.

(d) Claims on corporate portfolio

Claims on corporate portfolio are risk weighted based on external credit ratings and are assigned a risk weight of 100% for unrated corporate portfolio.

(e) Equity portfolios

Investments in listed equities are risk weighted at 100%.

(f) Any exposure exceeding 15% of Total capital: Claims on Banks or Corporate and other sovereigns or equity exposure that exceed 15% of total capital are risk weighted at 800%.

(g) Other exposures: These are risk weighted at 100%.

(h) Past due exposure

Past due exposures include Loans and advances of which interest or repayment of principal are due for more than 90 days; Past due exposures, net of specific provisions are risk weighted as follows:

(a) 150% risk weight, when specific provisions are less than 20% of the outstanding amount.

(b) 100% risk weight, when specific provisions are greater than 20% of the outstanding amount of the loan.

5.2 Credit exposure and risk weighted assets

US$ '000	Funded exposures	Unfunded exposures	Gross credit exposures*	Eligible collateral	Risk weighted assets	Capital charge
Claims on sovereigns	528,459	-	**528,459**	**-**	**114,856**	**14,357**
Claims on banks	570,851	22,549	**593,400**	**3,032**	**373,106**	**46,638**
Claims on corporate	43,176	28,634	**71,810**	**5,300**	**46,117**	**5,765**
Other exposures	9,136	-	**9,136**	**-**	**9,136**	**1,142**
Total	**1,151,622**	**51,183**	**1,202,805**	**8,332**	**543,215**	**67,902**

*Balances are gross up of ECL

5.2 (a). Gross credit exposure before credit risk mitigation

US$ '000	Funded credit exposure	Average monthly gross exposure*
Claims from Sovereigns	528,459	585,668
Claims from Banks	570,851	476,477
Claims on Corporate	43,176	56,439
Other exposures	9,136	9,624
Total funded exposure	**1,151,622**	**1,128,215**
Unfunded exposures	**51,183**	**78,557**
Gross credit exposures	**1,202,805**	**1,206,772**

* Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2020.

<u>5.3 Exposure by external credit rating</u>

The Bank uses external credit ratings from Standard & Poor's, Moody's and Fitch, which are accredited External Credit Assessment Institutions (ECAI). The Bank assigns risk weights through the mapping process provided by CBB to the rating grades. The Bank uses the highest risk weight associated, in case of two or more eligible ECAI are chosen.

The breakdown of the Bank's exposure into rated and unrated categories is as follows:

US$ '000	Funded exposure	Unfunded exposure	Rated High standard grade exposure	Rated Standard grade exposure	Unrated exposure	Eligible collateral	Risk weighted assets	Capital charge
Claims on Sovereigns	528,459	-	11,163	504,414	12,881	-	114,856	14,357
Claims on Banks	570,851	22,549	141,076	358,748	93,576	3,032	373,106	46,638
Claims on Corporate	43,176	28,634	-	25,566	46,244	5300	46,117	5,765
Other exposures	9,136	-	-	-	9,137	-	9,136	1,142
Total	**1,151,622**	**51,183**	**152,239**	**888,728**	**161,838**	**8,332**	**543,215**	**67,902**

5.4 Geographical distribution of exposures

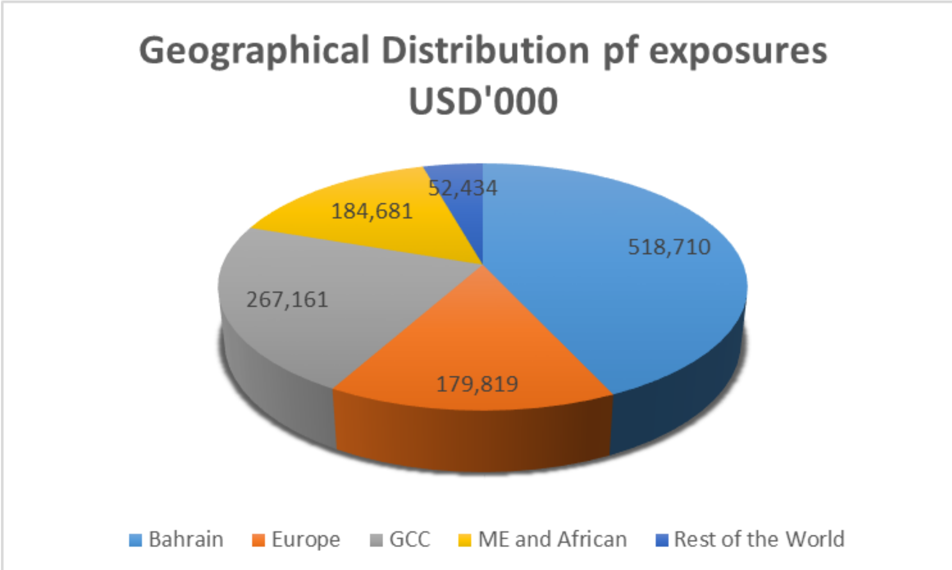
Geographical distribution of exposures based on residence is summarized below:

US$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	518,710	518,710	-
Other GCC Countries	267,161	240,662	26,499
Other Middle east & Africa	184,681	163,841	20,840
Europe	179,819	177,684	2,135
Rest of the world	52,434	50,725	1,709
Total	**1,202,805**	**1,151,622**	**51,183**

The geographical distribution of gross credit exposures by major type of credit exposures can be analysed as follows:

US$ '000	Bahrain	Europe	Other GCC Countries	Other Middle East and Africa	Rest of the world	Total
Claims from Sovereigns	367,837	15,603	54,313	82,303	8,403	**528,459**
Claims from Banks	141,737	134,331	170,923	81,538	42,322	**570,851**
Claims on Corporate	-	27,750	15,426	-	-	**43,176**
Other exposures	9,136	-	-	-	-	**9,136**
Total funded exposure	**518,710**	**177,684**	**240,662**	**163,841**	**50,725**	**1,151,622**
Unfunded exposures	-	**2,135**	**26,499**	**20,840**	**1,709**	**51,183**

Gross credit exposures	**518,710**	**179,819**	**267,161**	**184,681**	**52,434**	**1,202,805**



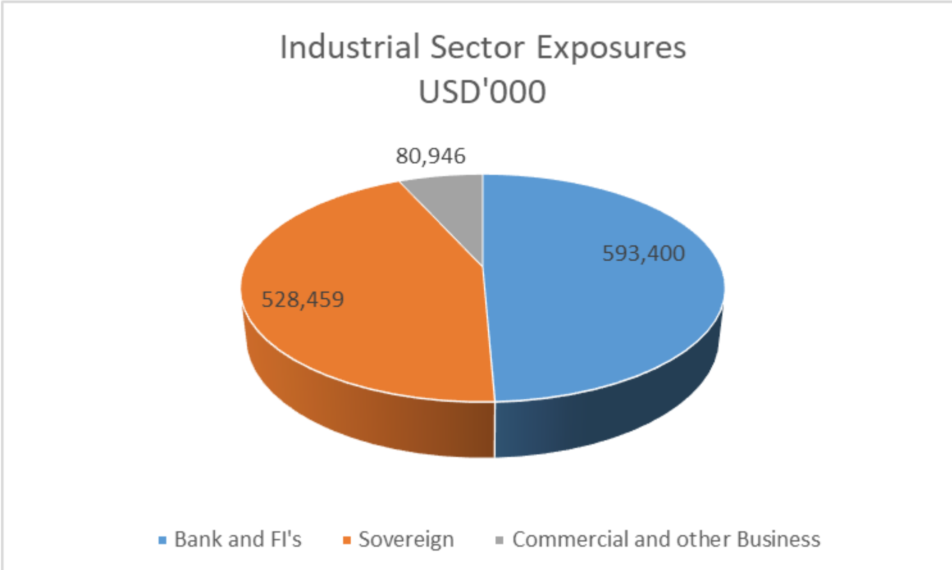
5.5 Industry sector analysis of exposures

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	528,459	528,459	-
Banks & financial institutions	593,400	570,851	22,549
Commercial & other business	80,946	52,312	28,634
Total	**1,202,805**	**1,151,622**	**51,183**

The industry sector analysis of gross credit exposures by major types of credit exposures can be analysed as follows:

USD '000s	Banks & financial institutions	Commercial & other businesses	Sovereign	Total
Claims from Sovereigns	-	-	528,459	**528,459**
Claims from Banks	570,851	-	-	**570,851**
Claims on Corporate	-	43,176	-	**43,176**
Other exposures	-	9,136	-	**9,136**
Total funded exposure	**570,851**	**52,312**	**528,459**	**1,151,622**
Unfunded exposures	**22,549**	**28,634**	**-**	**51,183**
Gross credit	**593,400**	**80,946**	**528,459**	**1,202,805**

exposures				



5.6 Maturity analysis of funded exposures

Residual contractual maturities of the Bank's funded exposures are as follows:

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 years	Total
Claims on Sovereigns	116,375	133,401	72,941	**322,717**	205,742	**528,459**
Claims on Banks	386,012	102,793	46,241	**535,046**	35,805	**570,851**
Claims on Corporate	-	5,643	6,911	**12,554**	30,622	**43,176**
Other exposures	113	471	65	**649**	8,487	**9,136**
Total	**502,500**	**242,308**	**126,158**	**870,966**	**280,656**	**1,151,622**

5.7 Maturity analysis of unfunded exposures

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 Years	Total
Claims on Banks	14,380	1,015	7,154	**22,549**	**0**	**22,549**
Claims on Corporates	25,399	1,089	1,046	**27,534**	**1,100**	**28,634**
Total	**39,779**	**2,104**	**8,200**	**50,083**	**1,100**	**51,183**

5.8 Off- Balance sheet exposures

i. Credit related contingent items

Credit related contingent items comprise letters of credit confirmations, acceptance and guarantees. For credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF factors range from 20 per cent to 100 per cent depending on the type of contingent item, and is intended to convert off-balance sheet notional amounts into equivalent on balance sheet exposures.

Credit commitments and unutilized approved credit facilities represent commitments that have not been drawn down or utilized. The notional amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0 per cent and 100 per cent depending on the approach, product type and whether the unutilized amounts are unconditionally cancellable or irrevocable. The Bank has no obligation toward unutilized credit facilities as of 31 December 2020.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities.

At 31 December 2020, the Bank held credit-related contingent items amounting to US$ 51.2 million.

ii. Derivatives and Foreign exchange instruments:

Derivatives including futures, forwards, swaps and options in the interest rate and foreign exchange. The Bank’s derivative and foreign exchange activities are predominantly short-term in nature.

Derivatives and foreign exchanges exposures are exposed to market risk and settled on net basis. Due currency movement or interest rate changes, the contract may result into net asset or liability. Refer to audited consolidated financial statements for the year ended 31 December 2020, Note 24 for material outstanding contracts.

5.9 Risk mitigation –collateral

The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date.

For further details on refer note 23.2 of the annual audited consolidated financial statements for the year ended 31 December 2020.

5.10 Impairment of assets

The Bank had adopted IFRS 9 methodology of recording impairment of assets, effective 1 January 2018. IFRS 9 adoption fundamentally changes to a forward looking and expected credit loss (ECL) approach. The Bank records an allowance for expected losses for all loans and other debt type financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Refer Disclosures made under note 8 of the audited consolidated financial statement for the year ended December 2020, for details of impaired loans and relative specific provision made during 2020.

i. Impaired loans and related provisions (stage 3):

USD'000s	1 to 3 year	over 3 years	Total
Gross impaired loans (stage 3)	20,418	59,343	**79,761**
Less: Specific Provision (stage 3)	(20,418)	(59,343)	**(79,761)**
Net outstanding 31 December 2020	**-**	**-**	**-**

ii. Movement in impairment provision including Expected credit losses - Loans and advances

USD'000s	Stage 1	Stage 3	Total
Loans:			
At beginning of the year	1,935	93,007	**94,942**
Net re-measurement loss allowance	412	42	**454**
(Write back)/(Recoveries)/Write off	(223)	(14,387)	**(14,610)**
Exchange difference	-	1,099	**1,099**
Balance as at 31 December 2020	**2,124**	**79,761**	**81,885**

iii. Movement in expected credit losses – Investments

USD'000s	Stage 1	Stage 2	Total
Investments			
At beginning of the year	319	4,332	**4,651**
Net re-measurement loss allowance	766	2,482	**3,248**
(Write back)/(Recoveries)/Write off	(111)	(2,566)	**(2,677)**
Balance as at 31 December 2020	**974**	**4,248**	**5,222**

iv. Movement in expected credit losses - Other Financial Assets and Off-Balance Sheet Items:

USD'000s	Stage 1	Stage 2	Total
At beginning of the year	349	2	**351**
Transfer to Stage 1	2	-	**-**
Net re-measurement loss allowance	127	(2)	**125**
(Write back)/(Recoveries)/Write off	-	-	**-**
Balance as at 31 December 2020	**478**	**-**	**478**

v. **Specific Provision by Geographic and Sector (Stage 3):**

USD '000s	Europe	Other Middle East and Africa
Banks & Financial Institutions	-	41,772
Corporate	20,418	17,571
Total	**20.418**	**59,343**

Expected Credit loss (Stage 1 & 2) provision of US$ 7,864 thousand as at 31 December 2020 is not for any specific geographic region.

5.11 Restructured facilities

During the year ended 31 December 2020, no loans were restructured. The facilities restructured prior to year 2020 have been categorized as per IFRS -9 requirement and required Expected credit loss provision (ECL) has been considered during the year under IFRS 9.

6. Market risk - Pillar 3 disclosures

For allocating capital to market risks, the Bank uses the Standardized Measurement Method (SMM) for the measurement of market risk and capital allocation based on net open position of foreign currencies as defined under the CA module of CBB Rulebook:

US$ '000	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign Exchange Risk	88	11	2,150	75

Currency risk arises from the movement of the rate of exchange over a period of time. The Bank's currency risk is mainly towards assets and liabilities denominated in GBP and Euro, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Bank manages this risk through net open position limits established for each currency and monitoring net open currency positions on a daily basis. Refer to audited consolidated financial statements for year ended 31 December 2020, note 23.3.2 for further details.

7. Operational risk- Pillar 3 disclosures

Whilst operational risk cannot be eliminated in its entirety, the Bank endeavours to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

The Bank has in place an ORMF to manage and control its operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Bank's risk appetite. The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal controls.

`The Bank adopted the Basic indicator approach in line with CBB regulation to compute total capital charge in respect of operational risk was US$ 7,887 thousand on operational risk weighted exposure of US$ 63,095 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous of three years' annual gross income, is multiplied by 12.50 operational capital charge; years with positive gross income are counted for computation of capital charge.

8. Pillar 2 Risk Disclosures

a. Credit concentration risk

Concentration risk is the credit risk stemming from not having a well-diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. The Bank has calculated the exposure concentration risk under Bank Pillar 2 capital framework using Herfindahl–Hirschman Index (HHI).

Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any exposure to a single counterparty or group of connected counterparties exceeding 15% of the regulatory capital base.

As at 31 December 2020, the Bank's exposure in excess of 15% of the obligor limits to individual counterparties is shown below:

US$ '000	On Balance sheet exposure	Off-Balance sheet exposure	Total
Counterparty A *	352,704	-	352,704

* Comprises of exempted large exposure to sovereign.

The Bank has already put in place credit risk management policies as well as and monitoring tools to proactively assess Exposure Concentration risk. The Bank has internal limits to monitor and control concentration in sectors, geography and counterparty. Regular reports are prepared and analysed to ensure that undesired concentrations are avoided.

b. Liquidity Risk

The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Bank monitors the maturity profile of its assets and liabilities so that adequate liquidity is maintained at all times. The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in maintaining a stable funding base. The Bank monitors the stability of its funding base on an ongoing basis by ensuring maintaining strong relationship with its key depositors. The Asset Liability Committee (ALCO) reviews the liquidity gap profile and the liquidity scenario and addresses strategic issues concerning liquidity risk.

Refer Liquidity risk disclosures made under Section 23.4 of audited consolidated financial statement for the year ended December 2020. In accordance with Liquidity Risk Management module of CBB, the Bank computes the Net Stable Funding ratio (NSFR) and Liquidity Coverage ratio (LCR) and maintain these ratio greater than 100% respectively.
As of December 31, 2020, the Bank's NSFR is 177% and LCR is 512% (Refer Leverage and Liquidity Disclosures in the audited consolidated financial statements as of 31 December 2020).

c. Interest rate risk in Banking Book

The Bank is exposed to interest rate risk because of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates. The Bank measures its interest rate sensitivity by measuring the earnings at risk due to a 200 bps parallel shock in interest rates. The ALCO regularly reviews the interest rate gap and sensitivity profile and takes decisions to ensure stability of interest income stream over time.

The following table demonstrates the sensitivity to 200 basis points increase in interest rates, with all other variables held constant, of the Bank's statement of income for the year ended 31 December 2020.

US$ '000	31-Dec-20
impact	Sensitivity of net Interest income
+/-	5,780

The details of interest rate sensitive assets and liabilities are as follows:

Interest Rate Risk Gap Report							
Balance Sheet Item	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over one year	Total Non-Interest rate sensitive	Total Assets and Liabilities
ASSETS							
Balances &Deposits with Banks and financial institutions	439,181	230,157	89,674	3,913	-	41,162	804,087
Investment Securities	15,038	5,007	10,003	-	218,628	(3,809)	244,867
Loans and advances	3,792	20,464	17,329	4,364	44,627	(8,778)	81,798
Interest Receivable	2,949	1,594	725	86	-	-	5,354
Other asset and Property, Equipment &Software	-	-	-	-	-	9,136	9,136
TOTAL (A)	**460,960**	**257,222**	**117,731**	**8,363**	**263.255**	**37,711**	**1,145,242**
LIABILITIES							
Deposit from Bank and other financial institutions	218,189	162,308	50,000	231,757	-	-	662,254
Due to banks and other financial institutions	-	-	-	-	-	64,897	64,897
Due to customers	-	10,800	-	-	-	61,952	72,752
Interest payable	124	35	89	196	-	-	444
Other liabilities	-	-	-	-	-	10,520	10,520
TOTAL (B)	**218,313**	**173,143**	**50,089**	**231,953**	**-**	**137,369**	**810,867**
Interest Rate Gap (A-B)	**242,647**	**84,079**	**67,642**	**(223,590)**	**263,255**	**(99,658)**	**334,391**
Cumulative Gap	**242,647**	**326,726**	**394,368**	**170,778**	**434,033**	**334,375**	

d. Reputational Risk

Bank relies upon a reputation for integrity in order to maintain its existing business and to pursue its strategies for growth and new business. The Bank has no risk appetite for reputational risk and a number of initiatives are dedicated to the avoidance of reputational damage, including controls relating to maintaining regulatory compliance, anti-money laundering controls and data security.

Bank has prepared a scorecard to evaluate Reputational risk score based on guidance provided by CBB and bank's internal as well external operating environment. The score derived from the scorecard is used to assess the capital requirements for reputational risk.

e. Strategic risk

Business / strategic risk primarily arises out of either wrong strategic direction and or wrong strategy/ business plan implementation that could have an adverse impact on the Bank's profitability and capital

Positions. The Bank has various monitoring mechanism including Key Performance Indicator, Performance Reports etc. and on a periodic basis to assess any deviation from the approved business plans that could impact the bank's performance in terms of its profitability, asset growth, financial health etc. The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Bank's performance and alignment with the strategic plan.

The Bank quantifies the Strategic and business risk based on earning volatility approach, comparing the volatility in budgeted vs actual gross income and gross cost of the bank, over a period of last 5 years. The earnings volatility is adjusted based on application of sustainability and contribution factors. The final adjusted volatility (value at risk) at a confidence level is annualized to estimate the pillar 2 strategic risk capital

9. Other disclosures:

a. Related Party transactions

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

	31 December 2020
	US$'000
Assets	
Cash and balances with banks	1,247
Other assets	65
Liabilities	
Deposits from banks and other financial institutions	526,766
Due to banks and other financial institutions	20,928
Interest payable	429
Other liabilities	493
Contingent liabilities	
Letters of credit & guarantee	3,953
Interest & similar income	140
Interest expenses	7,273
Fee and commission income	269

b. Assets sold under recourse agreements: The Bank did not enter into any recourse agreement during the year ended 31 December 2020.

c. Equity positions in the banking book : Nil

d. Leverage Ratio

US$ '000	31 December 2020
Total exposure on-balance sheet (all unweighted)	1,141,011
Total Off Balance Sheet items - with relevant Credit Conversion Factors	10,272
Total	**1,151,283**
Tier One Capital	**333,361**
Leverage Ratio	**29.22%**