



## Annual Report 2021

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](http://www.alubafbank.com)

# TABLE OF CONTENTS

<b>Vision and Mission</b>	<b><u>2</u></b>
<b>Financial Highlights</b>	<b><u>3</u></b>
<b>Board of Directors</b>	<b><u>5</u></b>
<b>Executive Management</b>	<b><u>7</u></b>
<b>Corporate Governance</b>	<b><u>10</u></b>
<b>Sound Remuneration Disclosure</b>	<b><u>29</u></b>
<b>Report of the Board of Directors, Independent Auditor's Report &amp; Financial Statements 2021</b>	<b><u>40</u></b>
<b>Basel III Pillar III Disclosures</b>	<b><u>96</u></b>

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

### **BANK VISION**

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

### **BANK MISSION**

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

## FINANCIAL HIGHLIGHTS

	2021	2020	2019	2018	2017
<b>FINANCIAL POSITION (USD 000s)</b>					
Net Profit before appropriation	22,732	22,113	28,741	15,000	10,830
Total Assets	1,253,144	1,145,242	1,153,997	1,104,888	1,118,643
Investment Securities	263,511	244,867	234,930	205,597	221,374
Total Loans	149,340	81,798	92,740	163,338	150,256
Total Liabilities	913,243	810,867	822,973	806,821	804,792
Total Equity	339,901	334,375	331,024	298,067	313,851

### PERFORMANCE RATIOS

#### Profitability

Return on Average Assets	2%	2%	3%	1%	1%
Return on Average Equity	7%	7%	9%	5%	4%
Cost to Gross Income	39%	36%	39%	39%	38%

#### Capital

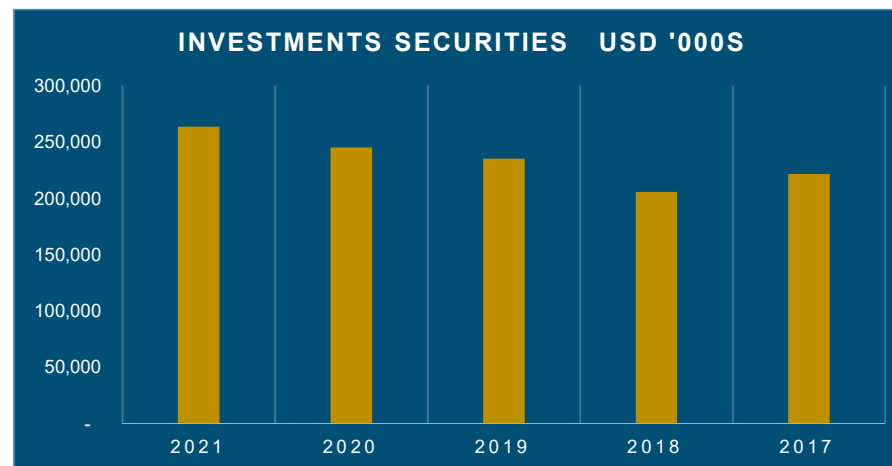
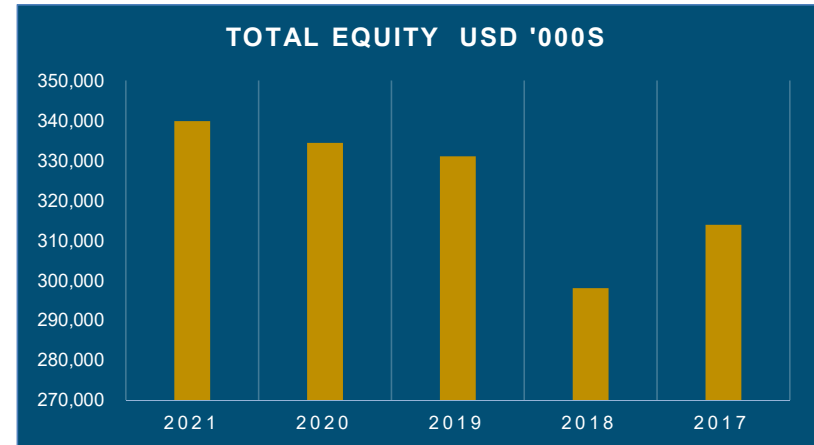
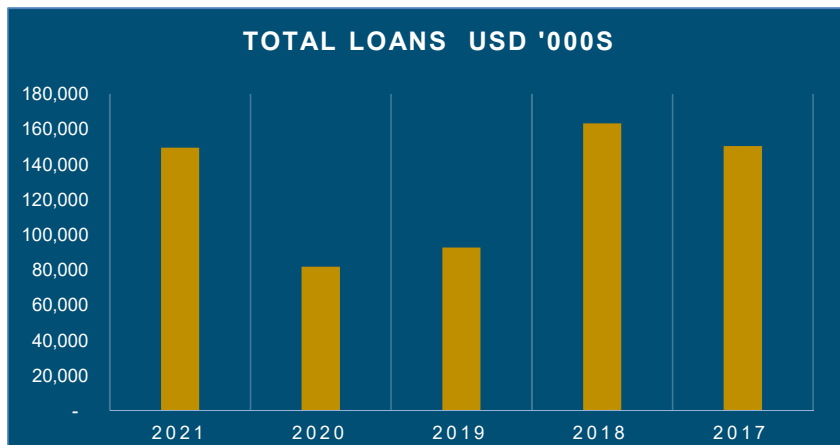
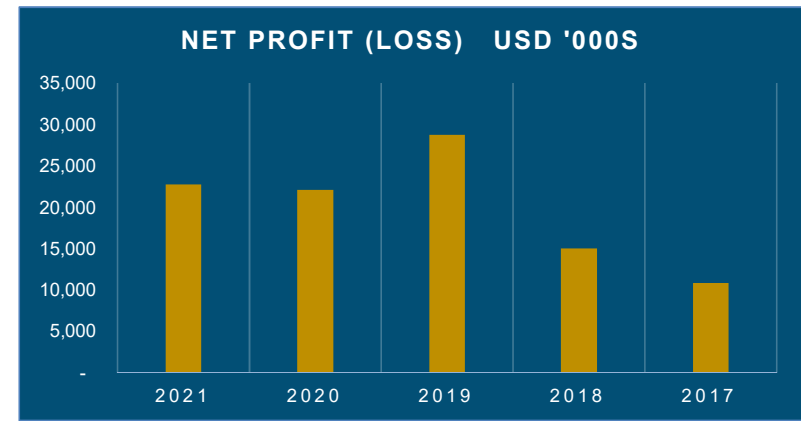
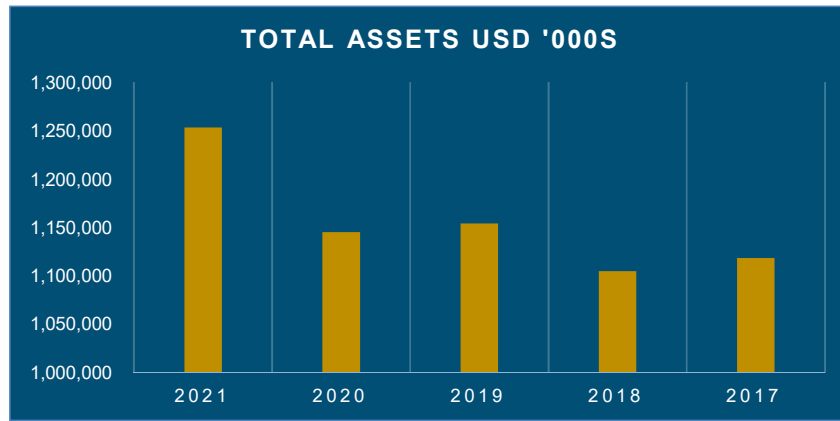
Capital Adequacy Ratio	43%	56%	51%	43%	37%
Equity Assets Ratio	27%	29%	29%	27%	28%

#### Asset Quality

Loans to Total Assets	12%	7%	8%	15%	13%
Investment Securities/Total assets	21%	21%	20%	19%	20%
NPL/Gross loans	21%	49%	50%	38%	34%

#### Liquidity

Liquid assets to Total Assets	65%	70%	70%	65%	65%
Liquid assets to Liabilities	89%	99%	98%	89%	90%



## **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. Anthony Mallis Vice Chairman**

Graduated from the American University of Beirut in 1976 and studied at the Stanford Graduate School of Business.

Retiring 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. 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. 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 Bachelor's 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. Fatima Mohammed Bu Ali Head of Operations**

Master's 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 Counsel 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 centered coaching and brings in expertise in strategic human capital management.

**Ms. Juhaina Albahrani – CPA**  
**Head of Financial Control**

Holder of a Certified Public Accountant (CPA) certification and a Bachelor's degree in Accounting (B.S.C.) from the University of Bahrain, Ms. Albahrani joined Alubaf in 2021 and she holds the position of Head of Financial Control. Ms. Albahrani brings with her over 16 years of experience in the field of Accounting and Finance. She has served as Director, Audit and Assurance in a Big Four accounting and professional services firm (Ernst and Young – Middle East).

She specializes in financial reporting under various accounting frameworks (IFRS, AAOIFI and GAAP) and has experience auditing multinational Banks and other specialized financial institutions such as Al Baraka Islamic Bank B.S.C (c), United Gulf Holding Company B.S.C., United Gulf Bank B.S.C. (c), Liquidity Management Center B.S.C. (c), The Arab Investment Company B.S.C. and the Central Bank of Bahrain. She also has vast experience in providing other assurance services and regulatory reporting.

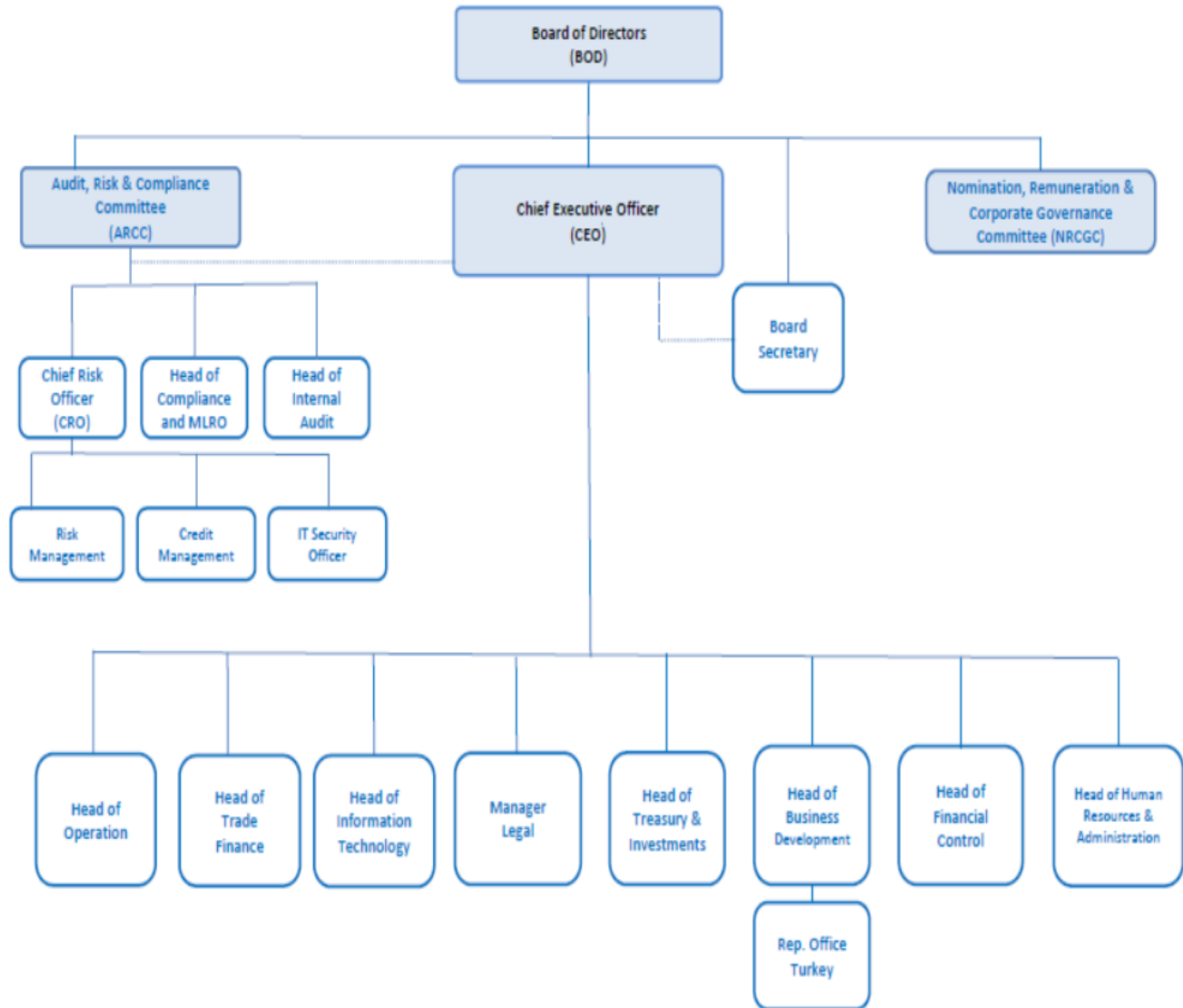


**CORPORATE GOVERNANCE DISCLOSURES**  
**31 DECEMBER 2021**

## Table of Contents

<b>1. ORGANIZATION STRUCTURE OF THE BANK .....</b>	<b>12</b>
<b>2. ALUBAF’S CORPORATE GOVERNANCE PHILOSOPHY .....</b>	<b>13</b>
<b>3. FRAMEWORK.....</b>	<b>13</b>
<b>4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK .....</b>	<b>13</b>
<b>5. BOARD OF DIRECTORS .....</b>	<b>14</b>
<b>BOARD COMPOSITION .....</b>	<b>14</b>
<b>INDEPENDENCY OF THE BOARD MEMBERS.....</b>	<b>15</b>
<b>APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS .....</b>	<b>15</b>
<b>INDUCTION OF NEW DIRECTOR .....</b>	<b>16</b>
<b>RESPONSIBILITIES OF THE BOARD .....</b>	<b>16</b>
<b>BOARD ASSESSMENT AND EVALUATION .....</b>	<b>17</b>
<b>MATERIALITY AND AUTHORITY LEVELS .....</b>	<b>17</b>
<b>6. MANAGEMENT.....</b>	<b>21</b>
<b>SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT ...</b>	<b>21</b>
<b>MANAGEMENT COMMITTEES .....</b>	<b>21</b>
<b>MANAGEMENT COMMITTEES RESPONSIBILITIES.....</b>	<b>23</b>
<b>7. RELATED PARTY TRANSACTIONS .....</b>	<b>26</b>
<b>8. CODE OF CONDUCT AND CONFLICT OF INTEREST .....</b>	<b>26</b>
<b>9. WHISTLEBLOWING POLICY .....</b>	<b>26</b>
<b>10. COMMUNICATIONS AND DISCLOSURE POLICY .....</b>	<b>26</b>
<b>11. RELATIVES RECRUITMENT POLICY .....</b>	<b>27</b>
<b>12. ANTI-MONEY LAUNDERING .....</b>	<b>27</b>
<b>13. 2021 FINANCIAL YEAR COMPLIANCE WITH REGULATIONS .....</b>	<b>28</b>

## 1. ORGANIZATION STRUCTURE OF THE BANK



## 2. ALUBAF'S CORPORATE GOVERNANCE PHILOSOPHY

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, public disclosure and the review on AML/CFT to ensure compliance with regulatory requirements.

## 4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK

As part of disclosure requirements indicated in HC module issued by the CBB, the Bank 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 Distribution of Shareholding according to Nationality:

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

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

As of 31 December 2021, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2021, 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 2021, 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 2021, 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
<b>TOTAL</b>	<b>6</b>	<b>100</b>

For the financial year ending 31 December 2021, 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](http://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 High-Level Control ("HC") of the CBB Rulebook Volume 1 and the Corporate Governance Code.

### **MEETINGS OF THE BOARD OF DIRECTORS DURING THE YEAR 2021**

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 2021. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year. During 2021, Five Board meetings were held in the Kingdom of Bahrain and was held in Cairo, Egypt on 18 November 2021, as follows:

DIRECTOR	DATE OF FISRT APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	1/2021 15-Feb-21	2/2021 12-Apr-21	3/2021 12-Jul-21	4/2021 14-Oct-21	5/2021 18-Nov-21	6/2021 20-Dec-21
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	✓*	✓*	✓*	✓*	✓	✓*

\*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.

## 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 2021, the composition of the committees are as follows:

Board committee	Members	Position
Audit, Risk and Compliance (ARCC)	Abdulkarim Bucheery Anthony Mallis 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	1/2021 13-Feb-21	2/2021 10-Apr-21	3/2021 10-Jul-21	4/2021 9-Oct-21	5/2021 11-Dec-21
Abdulkarim Bucheery	✓	✓	✓*	✓	✓*
Anthony Mallis	✓	✓	✓	✓	✓
Basel El Hini	✓*	✓*	✓*	✓*	✓*

\*Participated by phone/Video link

## NRCGC MEETINGS AND ATTENDANCE

The minimum number of meetings required is Two

MEMBERS	1/2021 14-Feb-21	2/2021 11-Jul-21	3/2021 7-Dec-21
Moraja Gaith Solaiman Buhlaiga	✓*	✓*	✓*
Giuma Masaud Salem Kordi	✓	✓	✓*
Abdulrazag Tarhuni	✓*	✓*	✓*

\*Participated by phone/Video link

## BOARD COMMITTEES RESPONSIBILITIES

BOARD OF DIRECTORS COMMITTEES RESPONSIBILITIES	
ARCC RESPONSIBILITIES	
SUMMARY OF TERMS OF REFERENCE	SUMMARY OF RESPONSIBILITIES
<ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ Members must have no conflict of interest with any other duties they have for the bank.</li> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.</li> <li>➤ The Chairman of the Committee shall attend the shareholder's meeting in order to respond to any shareholders inquiry on the ARCC activities.</li> <li>➤ The Committee shall conduct an annual self-assessment review and reports conclusions and recommendations to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The committee's responsibility is to assist the board in discharging its oversight duties mainly relating to the following matters:-</li> <li>➤ The integrity of the bank's financial statements and financial reporting process and the bank's systems of internal accounting and financial controls;</li> <li>➤ Recommending appointment, retention of the external auditor, and be directly responsible for the oversight of the external auditor's work.</li> <li>➤ Review and assess the effectiveness of the bank's internal audit function</li> <li>➤ Ensure the independence of the internal auditor and external auditor;</li> <li>➤ Ensure independence of risk and compliance from risk-taking activities and business lines;</li> <li>➤ 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.</li> <li>➤ Overseeing the management of the bank's compliance risk. Assist the board in establishing a permanent and effective compliance function.</li> <li>➤ 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.</li> <li>➤ Review all bank's policies and recommend them for board approval.</li> <li>➤ Monitor the responsiveness of management to the committee's recommendations and findings;</li> <li>➤ Address and review all concerns arising from the whistle blowing policy</li> </ul>

#### **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.

## 6. 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
<b>Asset and Liability Committee (ALCO)</b>	Chief Executive Officer	Head/Chairman
	Chief Risk Officer	Member
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member
<b>Management Risk Committee (MRC)</b>	Head of Risk Management	Member/Secretary
	Chief Executive Officer	Head/Chairman
	Chief Risk Officer	Member
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member
Head of Risk Management	Member/secretary	
<b>Credit and Investment Committee (CIC)</b>	Chief Executive officer	Head/Chairman
	Chief Risk Officer	Member
	Head of Financial Control	Member
	Head of Risk Management	Non-voting member
	Head of Treasury & Investments	Member*
	Head of Business Development	Member/Secretary*
<b>Insurance Coverage Committee (ICC)</b>	Head of Financial Control	Head/Chairman
	Chief Risk Officer	Member
	Legal Manager	Member
	Head of Human Resources & Administration	Member/Secretary

<b>Tariff and Commission Committee (TCC)</b>	Chief Executive Officer	Head/Chairman
	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
<b>Special Asset Management Committee (SAMC)</b>	Head of Financial Control	Head/Chairman
	Head of Operations	Member
	Chief Risk Officer	Member
	Legal Manager	Member
	Head of Risk Management	Member
	Head of Credit Management	Member/Secretary

*\* Do not vote/approve their submissions*

## MANAGEMENT COMMITTEES RESPONSIBILITIES

<b>MANAGEMENT COMMITTEES RESPONSIBILITIES</b>	
<b>ALCO RESPONSIBILITIES</b>	
<b>SUMMARY OF TERMS OF REFERENCE</b>	<b>SUMMARY OF RESPONSIBILITIES</b>
<ul style="list-style-type: none"> <li>➤ The purpose of the ALCO is to prudently direct and manage asset and liability allocations to achieve the Bank's strategic goals.</li> <li>➤ The ALCO shall meet once in a quarter or more frequently, if required.</li> <li>➤ A meeting of the committee will not be valid unless attended by half of the voting members.</li> <li>➤ 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.</li> </ul>	<p>ALCO's key responsibilities are to:</p> <ul style="list-style-type: none"> <li>➤ Monitor the Bank's asset and liability maturity profiles taking into account economic developments, fluctuations in asset values and benchmark reference rates</li> <li>➤ Develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies, within board approved parameters</li> <li>➤ Review the Bank's capital adequacy position and address capital management strategies from an ICAAP perspective</li> <li>➤ 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</li> <li>➤ 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</li> <li>➤ Reviewing the portfolio performance, treasury reports, risk management reports and provide guidance to management</li> <li>➤ Review risk limits and approve or reject breaches of limits within its authority</li> </ul>
<b>MRC RESPONSIBILITIES</b>	
<b>SUMMARY OF TERMS OF REFERENCE</b>	<b>SUMMARY OF RESPONSIBILITIES</b>
<ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ The MRC shall meet once in a quarter or more frequently, if required.</li> <li>➤ A meeting of the committee will not be valid unless attended by half of the voting members.</li> <li>➤ 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.</li> </ul>	<p>MRC's key responsibilities are to:</p> <ul style="list-style-type: none"> <li>➤ Determine key risk areas and adopt risk management practices that contribute to the Bank's objective</li> <li>➤ Increase the awareness level of management and staff on business risks in the Bank</li> <li>➤ Review and recommend for approval the Bank's risk management framework</li> <li>➤ Evaluate the level and trend of material risks and their impact on capital levels</li> <li>➤ Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc.</li> <li>➤ Approve Operational Risk Framework and monitor the operational risk on ongoing basis</li> <li>➤ 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</li> </ul>



	<ul style="list-style-type: none"> <li>➤ Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks, including management of Step-in risks</li> <li>➤ Review other major risk concentration as deemed appropriate</li> </ul>
<b>CIC RESPONSIBILITIES</b>	
<b>SUMMARY OF TERMS OF REFERENCE</b>	<b>SUMMARY OF RESPONSIBILITIES</b>
<ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ 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.</li> <li>➤ A meeting of the committee will not be valid unless attended by half of the voting members.</li> <li>➤ 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.</li> </ul>	<p>CIC's key responsibilities include:</p> <ul style="list-style-type: none"> <li>➤ To structure the details of all facilities / facility limits by delegated authority; in line with DOA</li> <li>➤ 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;</li> <li>➤ 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;</li> <li>➤ Evaluate all new loan proposals, and appraise new Treasury Product, Tradable Instruments,</li> <li>➤ Assess all guarantee facilities.</li> <li>➤ Report approved LC refinance/ discount and rejected deals/facilities to management,</li> <li>➤ 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.</li> <li>➤ 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;</li> <li>➤ Reviewing and approving on the renewal and /or amendment of current credit facility agreements and counterparty limits as per the Delegation of Authority Matrix.</li> <li>➤ Review and approve the investment deal proposals on Amortized Cost and FVOCI portfolios; within its authority;</li> <li>➤ Recommending action to be taken on customer covenant breaches, restructuring of loans.</li> <li>➤ Approving the cancellation of Credit facilities (Loan, Treasury and Trade Finance) as per the guidelines and authority provided in the Delegation of Authority Matrix.</li> <li>➤ 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</li> </ul>

	<p>and their amendments as per Delegation of Authority Matrix.</p> <ul style="list-style-type: none"> <li>➤ Approving the Closure of Nostro account.</li> <li>➤ Reviewing the opening of new Nostro accounts.</li> <li>➤ Reviewing all write off of facilities/loans/ exposures prior to ARCC and BOD review and approval.</li> </ul>
<b>ICC RESPONSIBILITIES</b>	
<p>The objective of this committee is to review, assess and provide recommendation on all types of insurance in the bank to the management.</p>	
<b>TCC RESPONSIBILITIES</b>	
<p>The mandate of the TCC requires it, among other things, to:</p>	
<ul style="list-style-type: none"> <li>➤ Review the bank's tariffs and commissions and other charges applied by the bank;</li> <li>➤ Set country pricing limit for LC refinance and discount; and</li> <li>➤ Ensure the bank maintain completed terms and conditions.</li> </ul>	
<b>SAMC RESPONSIBILITIES</b>	
<b>SUMMARY OF TERMS OF REFERENCE</b>	<b>SUMMARY OF RESPONSIBILITIES</b>
<ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ The MRC shall meet once in a quarter or more frequently, if required.</li> <li>➤ A meeting of the committee will not be valid unless attended by half of the voting members.</li> <li>➤ 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.</li> </ul>	<p>SAMC's key responsibilities are to:</p> <ul style="list-style-type: none"> <li>➤ Determine key risk areas and adopt risk management practices that contribute to the Bank's objective</li> <li>➤ Increase the awareness level of management and staff on business risks in the Bank</li> <li>➤ Review and recommend for approval the Bank's risk management framework</li> <li>➤ Evaluate the level and trend of material risks and their impact on capital levels</li> <li>➤ Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc.</li> <li>➤ Approve Operational Risk Framework and monitor the operational risk on ongoing basis</li> <li>➤ 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</li> <li>➤ Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks, including management of Step-in risks</li> <li>➤ Review other major risk concentration as deemed appropriate</li> </ul>

## 7. 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 Consolidated 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 the pricing policies and terms of these transactions are approved by the Bank's management and are to further the interests of the Bank.

## 8. 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 2021 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.

## 9. WHISTLEBLOWING POLICY

The Bank has a whistle-blowing policy with designated officials that employees can approach. The policy provides protection to employees for any reports made in good faith. The Board's Audit, Risk and Compliance Committee oversees this policy. The whistle- blowing policy is published on the Bank's share drive.

## 10. 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](http://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.

## 11. 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.

## 12. 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.

### 13. 2021 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
<b>HC-1.8.2:</b> 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.

### REMUNERATION OF EXTERNAL AUDITORS

For the year 2021, the Bank has appointed Messers Ernst & Young as their external auditors to provide audit and various other non-audit services. 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 2022. 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 26 June 2022.

The breakdown of the external auditor’s fee in relation to audit and non-audit related services is as follows:

TYPE OF SERVICE	2021	2020
	USD’000	USD’000
Audit and other audit related service fees	70	66
Non-audit service fees	82	74
<b>TOTAL</b>	<b>152</b>	<b>140</b>



## **SOUND REMUNERATION DISCLOSURES 31 DECEMBER 2021**

## Table of Contents

1.	INTRODUCTION .....	31
2.	BANK'S REMUNERATION PHILOSOPHY .....	31
3.	NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC) .....	31
3.1	Composition .....	32
4.	CORE REMUNERATION POLICY .....	32
4.1	Overall Approach to Remuneration .....	32
4.2	Variable Pay Scheme .....	33
4.3	Salary and Benefit Review .....	33
4.4	Severance Pay .....	33
4.5	Prohibition of Approved Person Benefits .....	33
5.	REGULATORY ALIGNMENT .....	34
5.1	Governance .....	34
5.2	CBB Remuneration Guidelines .....	34
6.	VARIABLE PAY .....	34
6.1	CEO, Senior Management and Business Units .....	34
6.2	Control and Support Units .....	35
6.3	Malus and Claw Back Framework .....	36
6.4	Summary of Variable Pay .....	36
7.	BOARD REMUNERATION .....	37
8.	DETAILS OF REMUNERATION PAID .....	37
8.1	Board Remuneration .....	37
8.2	Employee Remuneration .....	37

## 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 8<sup>th</sup> 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 2021, 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 administered. 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 8<sup>th</sup> April 2018.

### 5.1 Governance

The composition of the NRCGC as of 31 December 2021, 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 pays. 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 pays 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 realization 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 21<sup>st</sup> February, 2022, approved the variable pay for the year ended 2021, in line with approved "Remuneration policy". This provisional variable pays for the year 2021, which is computed and recorded, will be disbursed in the year 2022.

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	2021	2020
	USD '000	USD '000
Sitting fee and other allowance	362	324
Bonus provision	600	540
<b>Total</b>	<b>962</b>	<b>864</b>

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 equities 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 31.12.2021

To be completed in accordance with BR-1.3.1

(USD in '000)

Categories	No.	Fixed Remuneration			Variable Remuneration								Total	
		Salaries and Wages	Other Benefits/ Allowance	Total	Performance Bonuses (in cash - cash and deferred cash)	Performance Bonuses (in shares)	Vested and release of Deferred Cash and Shares for 2018, 2019 and 2020 in 2021	Deferred cash compensation paid - related to 2020 (Release of vested 2020)	Deferred shares Compensation paid (Release last Portion 2017)	Deferred shares Compensation paid (Release second Portion 2018)	Deferred shares compensation paid (Release First Portion 2019)	Deferred cash compensation paid (Release in 2021)		Total
1. Members of the Board	6		362	362	600							600	962	
2. Approved persons - Business Lines: (not incl in 1,3 to 7.)	3	949	521	1,470	447	447	412	-	(93)	(114)	(138)	(66)	893	2,364
3. Approved persons - Control and Support: Risk management, Internal audit, Operations, Financial controls, AML, Compliance functions	15	1,431	455	1,885	643	35	96	(19)	(32)	(21)	(24)	-	678	2,563
4. Employees engaged in risk taking activities - Business Lines.	10	673	348	1,021	245	19	-	-	-	-	-	-	263	1,284
5. Employees, other than approved persons, engaged in functions under 3 - Control & Support	22	1,170	481	1,651	452	-	-	-	-	-	-	-	452	2,103
6. Other employees	6	274	72	346	85	-	-	-	-	-	-	-	85	431
7. Outsourced: Empl./Service providers: engaged in risk taking activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>62</b>	<b>4,496</b>	<b>2,239</b>	<b>6,735</b>	<b>1,872</b>	<b>500</b>	<b>508</b>	<b>(19)</b>	<b>(125)</b>	<b>(136)</b>	<b>(162)</b>	<b>(66)</b>	<b>2,372</b>	<b>9,707</b>

Note: Amounts of outstanding deferred remuneration (split into vested and unvested), new sign-on and severance payments made during the period and number of beneficiaries of such payments should be given by way of footnote.

Total outstanding deferred remuneration (cash and shares) at 31.12.2021:

<i>Amount USD' 000s</i>	2021		2020 - First (1/3)		2019 - Second (2/3)		2018 - Last 3/3		
Category	10% deferred cash	50% deferred shares (6,846)	10% deferred cash	50% deferred shares (6,263)	10% deferred cash	50% deferred shares (4,127)	10% deferred cash	50% deferred shares (1,714)	Final Total
Approved persons in Business line	93	465	48	426	13	281	-	117	1,443
<i>Amount USD' 000s</i>	2021		2020 - First (1/3)		2019 - Second (2/3)		2018 - Last 3/3		
Category	10% Phantom Shares	40% deferred shares (396)	40% deferred shares (1,073)		40% deferred shares (726)		40% deferred shares (326)		Final Total
Approved persons in Control & support	7	27	73		49		22		178



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

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

**31 DECEMBER 2021**

## Board of Directors' Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


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

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

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



**Chairman**  
**Moraja G. Solaiman**



**Vice Chairman**  
**Anthony Mallis**

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

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the accompanying consolidated financial statements of ALUBAF Arab International Bank B.S.C. (c) (“the Bank”) and its subsidiary (together “the Group”), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as modified by Central Bank of Bahrain (“CBB”).

#### *Basis for opinion*

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

#### *Other information*

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

#### *Responsibilities of the Board of Directors for the financial statements*

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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

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

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

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

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

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

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

**Report on Other Legal and Regulatory Requirements (continued)**

- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.





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



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

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

  
Anthony C. Mallis  
Vice Chairman


  
Moraja G. Solaiman  
Chairman

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

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

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

  
Anthony C. Mallis  
Vice Chairman

  
Moraja G. Solaiman  
Chairman

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

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

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

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

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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

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

## 1 ACTIVITIES

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

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

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

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

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

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

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

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

#### *Basis of measurement*

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

#### *Functional and presentation currency*

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Significant accounting policies**

**Basis of consolidation**

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.2 Significant accounting policies (continued)****Financial instruments***Date of recognition*

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

*Initial measurement*

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

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

*Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

**Financial assets****2.2.1 Debt instruments - Classification and subsequent measurement**

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

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

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

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



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

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

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

**Business model**

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Significant accounting policies (continued)**

**Financial assets (continued)**

*2.2.1 Debt instruments - Classification and subsequent measurement (continued)*

*Business model (continued)*

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

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

*SPPI test*

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

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

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

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

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

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

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

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

*Modified or forbearance of loans*

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

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

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

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate (EIR) for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk ("SICR") has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forbore loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on assessment as to whether SICR or default has occurred. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forbore asset until it is collected or written off or is transferred back to Stage 2.

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

*Derecognition other than on a modification*

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Significant accounting policies (continued)**

**Financial assets (continued)**

*2.2.1 Debt instruments - Classification and subsequent measurement (continued)*

*Derecognition other than on a modification (continued)*

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

*2.2.2 Equity instruments - classification and subsequent measurement*

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

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

Gains and losses on equity investments at FVTPL are included within operating income as 'Gain (loss) on investments classified as FVTPL' in the consolidated statement of profit or loss.

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

**Financial liabilities**

*Classification and subsequent measurement*

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

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

*Derecognition*

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

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

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

**Impairment**

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

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

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

*Measurement of ECL*

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Significant accounting policies (continued)**

**Impairment (continued)**

*Measurement of ECL (continued)*

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

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

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

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

*Stage 1*

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

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

*Stage 2*

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

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

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Significant accounting policies (continued)**

**Impairment (continued)**

*Measurement of ECL (continued)*

*Stage 3*

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of an impaired loan or advance by the Group will be continue to be classified as Stage 3;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

*Forward looking information*

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

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

The Group uses published external information from International Monetary Fund (IMF) website, government and private economic forecasting services. These forward looking assumptions undergo an internal governance process before they are applied for different scenarios.

*Presentation of allowance for ECL in the statement of financial position*

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities; and

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Significant accounting policies (continued)

#### Impairment (continued)

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

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

##### *Limitation of estimation techniques*

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

##### *Experienced credit adjustment*

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

#### Financial guarantee contracts and loan commitments

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

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

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

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

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

#### Derivative financial instruments

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

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

#### Cash and cash equivalents

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



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

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

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

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

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

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

**Investment property**

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

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

**Impairment of non-financial assets**

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

**Renegotiated loans**

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

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Significant accounting policies (continued)

#### Provisions

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

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

#### Employees' end of service benefits

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

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

#### Contingent liabilities

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

#### Share capital, statutory reserve and dividend

##### *Share capital*

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

##### *Statutory reserve*

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

##### *Dividend*

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

#### Fair value measurement

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

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

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

## 2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Significant accounting policies (continued)

#### Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

#### Revenue recognition

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

##### *Interest income*

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

##### *Fee and commission income*

Fee and commission income are recognised when earned.

##### *Foreign exchange gain*

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into the Group's functional currency at the rates of exchange ruling at the reporting date. Any gains or losses are taken to the consolidated statement of profit or loss.

##### *Dividend income*

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)****2.2 Significant accounting policies (continued)****Share based payments***Cash-settled share based payments*

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

**Foreign currencies**

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

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

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

**2.3 Changes in accounting policies and disclosures****i) New and amended standards and interpretations effective as of 1 January 2021**

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

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

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

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

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

**2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Changes in accounting policies and disclosures (continued)**

**ii) Standards issued but not yet effective**

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

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

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

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

*Definition of Accounting Estimates - Amendments to IAS 8*

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

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

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

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

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

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

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

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

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

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

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

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

*Business Model*

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

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

As at 31 December 2021

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

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

*Impairment losses on financial assets*

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

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

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

**4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

Movement in provision for expected credit losses were as follows:

	<i>31 December 2021</i>			
	<i>Stage 1:</i>	<i>Stage 2:</i>	<i>Stage 3:</i>	<i>Total</i>
	<i>12-month</i>	<i>Lifetime ECL</i>	<i>Lifetime ECL</i>	
	<i>ECL</i>	<i>not credit-</i>	<i>credit-</i>	
<i>US\$ '000</i>	<i>impaired</i>	<i>impaired</i>		
Balance at 1 January	6	-	-	6
Provided during the year	4	-	3,803	3,807
Reversals during the year	(4)	-	-	(4)
	-	-	3,803	3,803
Exchange differences	-	-	(68)	(68)
<b>At 31 December</b>	<b>6</b>	<b>-</b>	<b>3,735</b>	<b>3,741</b>
	<i>31 December 2020</i>			
	<i>Stage 1:</i>	<i>Stage 2:</i>	<i>Stage 3:</i>	<i>Total</i>
	<i>12-month</i>	<i>Lifetime ECL</i>	<i>Lifetime ECL</i>	
	<i>ECL</i>	<i>not credit-</i>	<i>credit-</i>	
	<i>US\$ '000</i>	<i>impaired</i>	<i>impaired</i>	
Balance at 1 January	3	2	-	5
Transfer to stage 1	2	(2)	-	-
Provided during the year	5	-	-	5
Reversals during the year	(4)	-	-	(4)
	1	-	-	1
<b>At 31 December</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>

**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:

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

**Note 5.1**

Movement in provision for expected credit losses were as follows:

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

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

**7 INVESTMENT SECURITIES**

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

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

**Note 7.1**

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**8 LOANS AND ADVANCES**

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

	<b>31 December 2021</b>			
	<b>Stage 1:</b>	<b>Stage 2:</b>	<b>Stage 3:</b>	<b>Total</b>
	<b>12-month</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	
	<b>ECL</b>	<b>not credit-</b>	<b>credit-</b>	
<b>US\$ '000</b>	<b>impaired</b>	<b>impaired</b>		
Letters of credit - financing and discounting	35,418	-	41,303	76,721
Sovereign loans	46,315	-	-	46,315
Commercial loans	69,874	-	-	69,874
	<b>151,607</b>	<b>-</b>	<b>41,303</b>	<b>192,910</b>
Provision for expected credit losses (note 8.1)	<b>(2,267)</b>	<b>-</b>	<b>(41,303)</b>	<b>(43,570)</b>
	<b>149,340</b>	<b>-</b>	<b>-</b>	<b>149,340</b>
	<b>31 December 2020</b>			
	<b>Stage 1:</b>	<b>Stage 2:</b>	<b>Stage 3:</b>	<b>Total</b>
	<b>12-month</b>	<b>Lifetime ECL</b>	<b>Lifetime ECL</b>	
	<b>ECL</b>	<b>not credit-</b>	<b>credit-</b>	
	<b>US\$ '000</b>	<b>impaired</b>	<b>impaired</b>	
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
	<b>83,922</b>	<b>-</b>	<b>79,761</b>	<b>163,683</b>
Provision for expected credit losses (note 8.1)	<b>(2,124)</b>	<b>-</b>	<b>(79,761)</b>	<b>(81,885)</b>
	<b>81,798</b>	<b>-</b>	<b>-</b>	<b>81,798</b>

**Note 8.1**

Movements in provision for expected credit losses were as follows:

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

As at 31 December 2021

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

	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
Reversals during the year	(223)	-	(2,870)	(3,093)
	189	-	(2,828)	(2,639)
Write-offs	-	-	(11,517)	(11,517)
Exchange differences	-	-	1,099	1,099
At 31 December 2020	2,124	-	79,761	81,885

**Write off during the year**

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

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

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

**9 INVESTMENT PROPERTY**

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

**10 PROPERTY, EQUIPMENT AND SOFTWARE**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**10 PROPERTY, EQUIPMENT AND SOFTWARE (continued)**

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

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

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

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

**11.2 Due to banks and other financial institutions**

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

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

**12 DUE TO CUSTOMERS**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**13 OTHER LIABILITIES**

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

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

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

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

**Note 13.1**

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

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

**14 SHARE CAPITAL**

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

As at 31 December 2021

**14 SHARE CAPITAL (continued)****Shareholders**

	2021		2020	
	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
	<b>100.00</b>	<b>250,000</b>	<b>100.00</b>	<b>250,000</b>

**Statutory reserve**

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

**15 PROPOSED DIVIDEND**

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

**16 INTEREST AND SIMILAR INCOME**

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

**17 INTEREST EXPENSE**

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

**18 FEE AND COMMISSION INCOME**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**19 (LOSS) GAIN ON INVESTMENTS CLASSIFIED AS FVTPL**

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

**20 REVERSAL OF PROVISION FOR EXPECTED CREDIT LOSSES**

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

**21 OTHER OPERATING EXPENSES**

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

**22 COMMITMENTS AND CONTINGENT LIABILITIES**

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

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

**23 RISK MANAGEMENT****23.1 Introduction**

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities. The main risks to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk.

**23 RISK MANAGEMENT (continued)**

**23.1 Introduction (continued)**

**a) Risk management structure**

***Board of Directors***

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

***Audit Risk and Compliance Committee***

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

***Management Risk Committee***

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

***Asset Liability Management Committee***

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

***Internal Audit***

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

**b) Risk measurement and reporting systems**

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

**c) Credit concentration risk**

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

In order to manage credit concentration risk, the Group's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.



As at 31 December 2021

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

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

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

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

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

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

**b. Credit quality per class of financial assets**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

## 23 RISK MANAGEMENT (continued)

## 23.2 Credit risk (continued)

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

The geographical distribution of gross credit exposures is presented below:

At 31 December 2021

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

At 31 December 2020

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

Sectoral classification of gross credit exposures is presented below:

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

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

**23.3 Market risk**

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

As at 31 December 2021

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

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

**23.3.1 IBOR reform**

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

**23.3.2 Interest rate risk**

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

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

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

**Sensitivity analysis - interest rate risk**

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

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

**23.3.3 Currency risk**

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

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

As at 31 December 2021

**23 RISK MANAGEMENT (continued)**

**23.3 Market risk (continued)**

**23.3.3 Currency risk (continued)**

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

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

**23.3.4 Equity price risk**

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

**23.4 Liquidity risk**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

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

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

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

As at 31 December 2021

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

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

**At 31 December 2021**

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

**At 31 December 2020**

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

**Transfers between level 1, level 2 and level 3**

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

*Fair value hierarchy - financial instruments not measured at fair value*

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

**At 31 December 2021**

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

**At 31 December 2020**

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

As at 31 December 2021

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

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

**24 DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2021

**25 RELATED PARTY BALANCES AND TRANSACTIONS**

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

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

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

As at 31 December 2021

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

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

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

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

**26 CAPITAL ADEQUACY, NET STABLE FUNDING AND LIQUIDITY COVERAGE RATIOS**

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

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

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

**27 LIQUIDITY RATIOS****Liquidity Coverage Ratio**

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

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

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

As at 31 December 2021

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

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

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

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

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

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

As at 31 December 2021

### FINANCIAL IMPACT OF COVID-19

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

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

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

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

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

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

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

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

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

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

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





**BASEL III PILLAR 3 DISCLOSURES  
At 31 DECEMBER 2021**

## Table of Contents

<b>1. Executive Summary .....</b>	<b>98</b>
<b>2. Basel III Framework.....</b>	<b>99</b>
2.1 Pillar 1 .....	99
2.2 Pillar 2 .....	100
2.3 Pillar 3 .....	101
<b>3. Organizational structure, Risk and Capital Management .....</b>	<b>101</b>
3.1 Organization structure .....	101
3.2 Risk and Capital Management.....	102
3.2 Risk and Capital Management (continued).....	103
3.3 Risk Types.....	103
3.4 Risks in Pillar I .....	103
3.5 Risk in Pillar II .....	106
<b>4. Regulatory capital requirements and the capital base.....</b>	<b>108</b>
4.1 Capital base .....	108
4.1 Capital base (continued).....	109
4.2 Regulatory capital requirements .....	109
<b>5. Credit Risk-Pillar 3 disclosures .....</b>	<b>110</b>
5.1 Definition of exposure classes per Standard Portfolio.....	110
5.2 Credit exposure and risk weighted assets.....	111
5.3 Exposure by external credit rating .....	112
5.4 Geographical distribution of exposures.....	113
5.5 Industry sector analysis of exposures .....	113
5.6 Maturity analysis of funded exposures.....	114
5.7 Maturity analysis of unfunded exposures .....	114
5.8 Off- Balance sheet exposures .....	115
5.9 Collateral.....	115
5.10 Impairment of assets .....	116
5.11 Restructured facilities .....	117
<b>6. Market risk - Pillar 3 disclosures .....</b>	<b>117</b>
<b>7. Operational risk- Pillar 3 disclosures.....</b>	<b>118</b>
<b>8. Pillar 2 Risk Disclosures.....</b>	<b>119</b>
<b>9. Other disclosures:.....</b>	<b>122</b>

## 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”) and its wholly owned subsidiary, Bahrain Real Estate Development Company (together the “Group”) as of 31 December 2021. 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 2021 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 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 2021 amounted to US\$ 789 million (2020: US\$ 606 million), comprising 92.03% of credit risk, 0.01% of market risk and 7.96% of operational risk weighted assets. The total consolidated capital adequacy ratio stood at 43.34% (2020: 55.95%), compared to the minimum regulatory requirement of 12.50%.

Figures in \$ 000s	FYE 2021	FYE 2020
Tier 1 capital	336,105	333,361
Tier 2 capital	5,917	5,917
<b>Total Capital</b>	<b>342,022</b>	<b>339,278</b>
Credit risk weighted assets	726,325	543,214
Market risk weighted assets	74	88
Operational risk weighted assets	62,816	63,095
<b>Total Risk Weighted assets</b>	<b>789,215</b>	<b>606,397</b>
<b>Tier 1 Capital Ratio</b>	<b>42.59%</b>	<b>54.97%</b>
<b>Total Capital Ratio</b>	<b>43.34%</b>	<b>55.95%</b>

There are no restrictions on the transfer of funds or regulatory capital within the Group and there are no differences in the basis of consolidation for accounting and regulatory purposes for the subsidiary within the Group.

## 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 31 December 2021, all Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio of 12.50 percent and a tier 1 ratio of 10.50 percent. In the event that the capital adequacy ratio falls below 12.50 percent, 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 with prior notification to CBB 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 consolidated capital adequacy ratio of 43.34% 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 represent 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 are 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 encourage 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 2021.

## **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, Financial Institutions, Governments and Semi-government Entities, Public Sector Companies in the GCC, MENA & European markets as well as 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 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 (the "CRO") is independent of the business units of the Bank, reporting to the Board Audit, Risk and Compliance Committee (the "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 ARCC.

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

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

### 3.2 Risk and Capital Management (continued)

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

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

\* 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 in banking book, 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



**a) Credit risk (continued)**

- The exposure should be reasonable in relation to the customer's creditworthiness, capital position or net worth 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 considers 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.

## b) Market Risk (continued)

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 (the "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 (the "RCSA")

### c) Operational Risk (continued)

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.

The 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

#### **a) Liquidity Risk (continued)**

The Bank utilizes the liquidity management tools in line with Basel 3 and 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.

#### **c) Interest rate risk in the Banking book (continued)**

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 interest 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 for investments fair valued through other comprehensive income ("FVOCI") and Tier II capital, which includes provision for expected credit loss ("ECL") for stage 1 and 2 exposures.

The Bank's issued and paid up capital amounted to US\$ 250 million as at 31 December 2021, comprising of 5 million equity shares of US\$ 50 each.

#### **4.1 Capital base (continued)**

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	30,115	-
Retained earnings	65,080	-
Cumulative fair value changes on FVOCI Investments (Debt)	(6,526)	-
<b>Total CET I capital prior to regulatory adjustments</b>	<b>338,669</b>	-
<b>Less: intangibles other than mortgage rights</b>	<b>(1,562)</b>	-
<b>Add: Expected Credit Loss, 1 and 2 part of CET 1</b>	<b>(1,002)</b>	-
<b>Total CET I capital after regulatory adjustment</b>	<b>336,105</b>	-
<b>Add: Expected credit loss, Stage 1 and 2 in Tier 2</b>	-	5,917
<b>Total</b>	<b>336,105</b>	<b>5,917</b>
<b>Total available capital</b>		<b>342,022</b>

Common equity tier 1 (CET 1) comprises of share capital, statutory reserve, retained earnings, and unrealized gains or losses arising on the measurement to fair value of investment securities adjusted with regulatory adjustment for intangible assets and the provision for expected credit losses in line with CBB circular No. OG/106/2020 dated 17<sup>th</sup> March 2020. The Bank does not maintain any additional-Tier 1 (AT1) capital.

Tier II capital includes provision for expected credit loss on stage 1 and 2 exposures.

#### **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 consolidated capital adequacy ratio of 43.34% is well above the minimum regulatory requirement of 12.50%.

	US\$ '000
Credit risk weighted assets	726,325
Market risk weighted assets	74
Operational risk weighted assets	62,816
<b>Total Risk weighted assets (RWA)</b>	<b>789,215</b>
<b>Total Eligible Capital Base</b>	<b>342,022</b>
<b>CET I ratio</b>	<b>42.59%</b>
<b>Capital adequacy ratio</b>	<b>43.34%</b>

## **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 percent 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 Bahraini 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 150%. Unrated claims on banks are assigned a risk weight of 50%.

**(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 include investment property risk weighted at 200% and other assets 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 is 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	577,972	2,955	580,927	-	144,471	18,059
Claims on banks	592,032	110,414	702,446	16,061	473,757	59,220
Claims on corporate	65,775	2,975	68,750	587	75,392	9,424
Other exposures	20,974	-	20,974	-	32,705	4,088
<b>Total</b>	<b>1,256,753</b>	<b>116,344</b>	<b>1,373,097</b>	<b>16,648</b>	<b>726,325</b>	<b>90,791</b>

\*Balances are gross of provision for stage 1 and 2 expected credit losses.



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

US\$ '000	Funded credit exposure	Average monthly gross exposure*
Claims from Sovereigns	577,972	595,611
Claims from Banks	592,032	521,608
Claims on Corporate	65,775	54,715
Other exposures	20,974	10,463
Past dues	-	187
<b>Total funded exposure</b>	<b>1,256,753</b>	<b>1,182,584</b>
<b>Unfunded exposures</b>	<b>116,344</b>	<b>80,241</b>
<b>Gross credit exposures</b>	<b>1,373,097</b>	<b>1,262,825</b>

\* Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2021.

### 5.3 Exposure by external credit rating

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 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	577,972	2,955	18,785	562,142	-	-	144,471	18,059
Claims on Banks	592,032	110,414	109,929	456,589	135,928	16,061	473,757	59,220
Claims on Corporate	65,775	2,975	-	42,873	25,877	587	75,392	9,424
Other exposures	20,974	-	-	-	20,974	-	32,705	4,088
<b>Total</b>	<b>1,256,753</b>	<b>116,344</b>	<b>128,714</b>	<b>1,061,604</b>	<b>182,779</b>	<b>16,648</b>	<b>726,325</b>	<b>90,791</b>

#### 5.4 Geographical distribution of exposures

Geographical distribution of exposures based on residence of the counterparties is summarized below:

US\$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	547,295	547,295	-
Other GCC Countries	264,574	263,474	1,100
Other Middle east & Africa	281,177	168,702	112,475
Europe	237,945	237,904	41
Rest of the world	42,106	39,378	2,728
<b>Total</b>	<b>1,373,097</b>	<b>1,256,753</b>	<b>116,344</b>

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	384,812	22,953	60,753	91,513	17,941	<b>577,972</b>
Claims from Banks	153,738	163,086	188,811	64,960	21,437	<b>592,032</b>
Claims on Corporate	-	51,865	13,910	-	-	<b>65,775</b>
Other exposures	8,745	-	-	12,229	-	<b>20,974</b>
<b>Total funded exposure</b>	<b>547,295</b>	<b>237,904</b>	<b>263,474</b>	<b>168,702</b>	<b>39,378</b>	<b>1,256,753</b>
<b>Unfunded exposures</b>	<b>-</b>	<b>41</b>	<b>1,100</b>	<b>112,475</b>	<b>2,728</b>	<b>116,344</b>
<b>Gross credit exposures</b>	<b>547,295</b>	<b>237,945</b>	<b>264,574</b>	<b>281,177</b>	<b>42,106</b>	<b>1,373,097</b>

#### 5.5 Industry sector analysis of exposures

US\$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	580,927	577,972	2,955
Banks & financial institutions	702,446	592,032	110,414
Commercial & other business	89,724	86,749	2,975
<b>Total</b>	<b>1,373,097</b>	<b>1,256,753</b>	<b>116,344</b>

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	-	-	577,972	577,972
Claims from Banks	592,032	-	-	592,032
Claims on Corporate	-	65,775	-	65,775
Other exposures	-	20,974	-	20,974
<b>Total funded exposure</b>	<b>592,032</b>	<b>86,749</b>	<b>577,972</b>	<b>1,256,753</b>
<b>Unfunded exposures</b>	<b>110,414</b>	<b>2,975</b>	<b>2,955</b>	<b>116,344</b>
<b>Gross credit exposures</b>	<b>702,446</b>	<b>89,724</b>	<b>580,927</b>	<b>1,373,097</b>

#### 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	148,261	149,911	49,899	348,071	229,901	577,972
Claims on Banks	477,918	44,606	35,457	557,981	34,051	592,032
Claims on Corporate	14,281	1,685	3,106	19,072	46,703	65,775
Other exposures	3	3	47	53	20,921	20,974
<b>Total</b>	<b>640,463</b>	<b>196,205</b>	<b>88,509</b>	<b>925,177</b>	<b>331,576</b>	<b>1,256,753</b>

#### 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	11,039	38,339	49,700	99,078	11,337	110,415
Claims on Corporates	1,140	1,834	-	2,974	-	2,974
Claims on Sovereign	-	-	-	-	2,955	2,955
<b>Total</b>	<b>12,179</b>	<b>40,173</b>	<b>49,700</b>	<b>102,052</b>	<b>14,292</b>	<b>116,344</b>

## **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 percent 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 percent and 100 percent depending on the approach, product type and whether the unutilized amounts are unconditionally cancellable or irrevocable.

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 2021, the Bank held credit-related contingent items & commitment amounting to US\$ 116.3 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 2021, Note 24 for outstanding contracts.

## **5.9 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, residential and commercial real estate and securities for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. For capital adequacy ratio calculation purposes mainly cash collateral are considered as risk mitigent.

For further details refer note 23.2 of the annual audited consolidated financial statements for the year ended 31 December 2021.

### 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 changed 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.

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

USD'000s	1 to 3 year	over 3 years	Total
Gross impaired loans (stage 3)	-	41,303	<b>41,303</b>
Less: Specific Provision (stage 3)	-	(41,303)	<b>(41,303)</b>
<b>Net outstanding 31 December 2021</b>	-	-	-

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

USD'000s	Stage 1	Stage 3	Total
<b>Loans:</b>			
At beginning of the year	2,124	79,761	<b>81,885</b>
Provided during the year	1,539	20	<b>1,559</b>
Reversals and write backs	(1,396)	(11,734)	<b>(13,130)</b>
Write-offs	-	(26,744)	<b>(26,744)</b>
<b>Balance as at 31 December 2021</b>	<b>2,267</b>	<b>41,303</b>	<b>43,570</b>

#### iii. Movement in expected credit losses – Investments

USD'000s	Stage 1	Stage 2	Total
<b>Investments</b>			
At beginning of the year	974	4,288	<b>5,262</b>
Provided during the year	479	61	<b>540</b>
Reversals during the year	(579)	(2,849)	<b>(3,428)</b>
Transfer to stage 2	(17)	17	-
<b>Balance as at 31 December 2021</b>	<b>857</b>	<b>1,517</b>	<b>2,374</b>

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

USD'000s	Stage 1	Stage 3	Total
At beginning of the year	478	-	478
Provided during the year	252	3,803	4,055
Reversals during the year	(455)	-	(455)
Exchange difference		(68)	(68)
<b>Balance as at 31 December 2021</b>	<b>275</b>	<b>3,735</b>	<b>4,010</b>

v. **Specific provision for impaired assets by geography and sector (Stage 3):**

USD '000s	Other Middle East and Africa
Banks & Financial Institutions	33,773
Corporate	11,265
<b>Total</b>	<b>45,038</b>

**5.11 Restructured facilities**

During the year ended 31 December 2021, no facilities were restructured.

**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	74	9	138	74

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 2021, note 23.3.3 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 amounted to US\$ 7,852 thousand on operational risk weighted exposure of US\$ 62,816 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 2021, 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 *	384,812	-	384,812

\* 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 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 stress testing results 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 2021. 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 ratios greater than 100% respectively.

As of December 31, 2021, the Bank's NSFR stood at 136% and LCR is 362% (Refer Leverage and Liquidity Disclosures in the audited consolidated financial statements as of 31 December 2021).



### 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 and monitoring the interest rate repricing gap by buckets. The Bank measures its interest rate sensitivity by measuring the earnings at risk and change in economic value of equity 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 2021:

US\$ '000	31-Dec-21
impact	Sensitivity of net Interest income
+/-	4,168

### c. Interest rate risk in Banking Book (continued)

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

Interest Rate Risk Gap Report							
Balance Sheet Items (Figures in USD 000s)	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
<b>ASSETS</b>							
Balances & Deposits with Banks and financial institutions	567,011	179,634	18,475	-	-	45,548	810,668
Investment Securities	5,018	5,019	5,031	30,185	223,061	-1,142	267,172
Loans and advances	19,729	10,121	14,384	19,284	93,446	-7,624	149,340
Interest Receivable	2,957	1,428	992	111	-	-	5,488
Other asset and Property, Equipment & Software	-	-	-	-	-	20,476	20,476
<b>TOTAL (A)</b>	<b>594,715</b>	<b>196,202</b>	<b>38,882</b>	<b>49,580</b>	<b>316,507</b>	<b>57,258</b>	<b>1,253,144</b>
<b>LIABILITIES</b>							
Deposits from Bank and other financial institutions	433,621	30,000	100,000	197,513	-	-	761,134
Due to banks and other financial institutions	-	-	-	-	-	104,854	104,854
Due to customers	-	10,800	-	-	-	26,021	36,821
Interest payable	115	8	166	321	-	-	610
Other liabilities	-	-	-	-	-	9,824	9,824
<b>TOTAL (B)</b>	<b>433,736</b>	<b>40,808</b>	<b>100,166</b>	<b>197,834</b>	<b>-</b>	<b>140,699</b>	<b>913,243</b>
<b>Interest Rate Gap (A-B)</b>	<b>160,979</b>	<b>155,394</b>	<b>(61,284)</b>	<b>(148,254)</b>	<b>316,507</b>	<b>(83,441)</b>	<b>339,901</b>
<b>Cumulative Gap</b>	<b>160,979</b>	<b>316,373</b>	<b>255,089</b>	<b>106,835</b>	<b>423,342</b>	<b>339,901</b>	

### 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 6 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. The balances and transactions with the related parties are disclosed in note 25 of the consolidated financial statements for the year ended 31 December 2021

**b. Assets sold under recourse agreements:** The Bank did not enter into any recourse agreement during the year ended 31 December 2021.

**c. Equity positions in the banking book:** Nil

#### d. Leverage Ratio

US\$ '000	31 December 2021
Total exposure on-balance sheet (all unweighted)	1,253,144
Total off-balance sheet items - with relevant Credit Conversion Factors	23,860
<b>Total</b>	<b>1,277,004</b>
<b>Tier One Capital</b>	<b>336,105</b>
<b>Leverage Ratio</b>	<b>26.32%</b>