البنك الأهلي المتحد

ahli united bank

REDEFINING THE FUTURE

Annual Report 2020

BAHRAIN
KUWAIT
UAE
UK
EGYPT
IRAQ
OMAN
LIBYA

Redefining the future of banking through **digital transformation**, embracing **state-of-the-art technology**, providing **performance excellence** in every part of the customer journey.

Contents

Group Mission Statement

To create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value.

OBJECTIVES

- to maximise shareholder value on a sustainable basis.
- to maintain the highest international standards of corporate governance and regulatory compliance.
- to maintain solid capital adequacy and liquidity ratios.
- to entrench a disciplined risk and cost management culture.
- to develop a cross-cultural meritocratic management structure.
- to optimise staff development through business driven training and profit related incentive.
- to contribute to the social and economic advancement of the communities in which the Group operates.

AUB VISION & STRATEGY

- Develop an integrated pan regional financial services group model centered on commercial & retail banking, private banking, asset management and life insurance with an enhanced Shari'a compliant business contribution.
- Acquire banks and related regulated financial institutions in the Gulf countries (core markets) with minimum targeted 10% market share to be achieved through mergers, acquisitions and organic growth.
- Acquire complementary banking platforms in secondary markets enjoying strong cross border business flows with Gulf countries or with economic structures similar to the Gulf countries.

AUB Operating Divisons

CORPORATE BANKING

This division covers all the Bank's capital-intensive activities in risk asset generation and funding regionally and internationally.

- Corporate and Trade Finance
- Commercial Property Finance
- Residential Property Finance
- Acquisition and Structured Finance
- Correspondent Banking
- Shari'a Compliant Banking

PRIVATE BANKING & WEALTH MANAGEMENT

This division generally includes all the low capital-intensive sectors of the business, offering wealth management services to individuals and institutions based on performance and a balanced product mix.

- Private Banking and Asset Management
- Real Estate Fund Management
- Shari'a Compliant Banking

RETAIL BANKING

This division covers both conventional and Shari'a Compliant individual customers' deposits, loans, overdrafts, credit cards and residential mortgages.

TREASURY AND INVESTMENTS

This division provides money market, trading and treasury services and is also responsible for the management of the Group's funding.

- Money Market Services
- Foreign Exchange Services
- Hedging and Trading Solutions
- Structured Products
- Investment Management
- Shari'a Compliant Treasury Products

RISK MANAGEMENT

This division is responsible for the identification, assessment and ongoing control of all material risks that could affect the Group's business & operations.

- Risk Management
- Legal
- Compliance

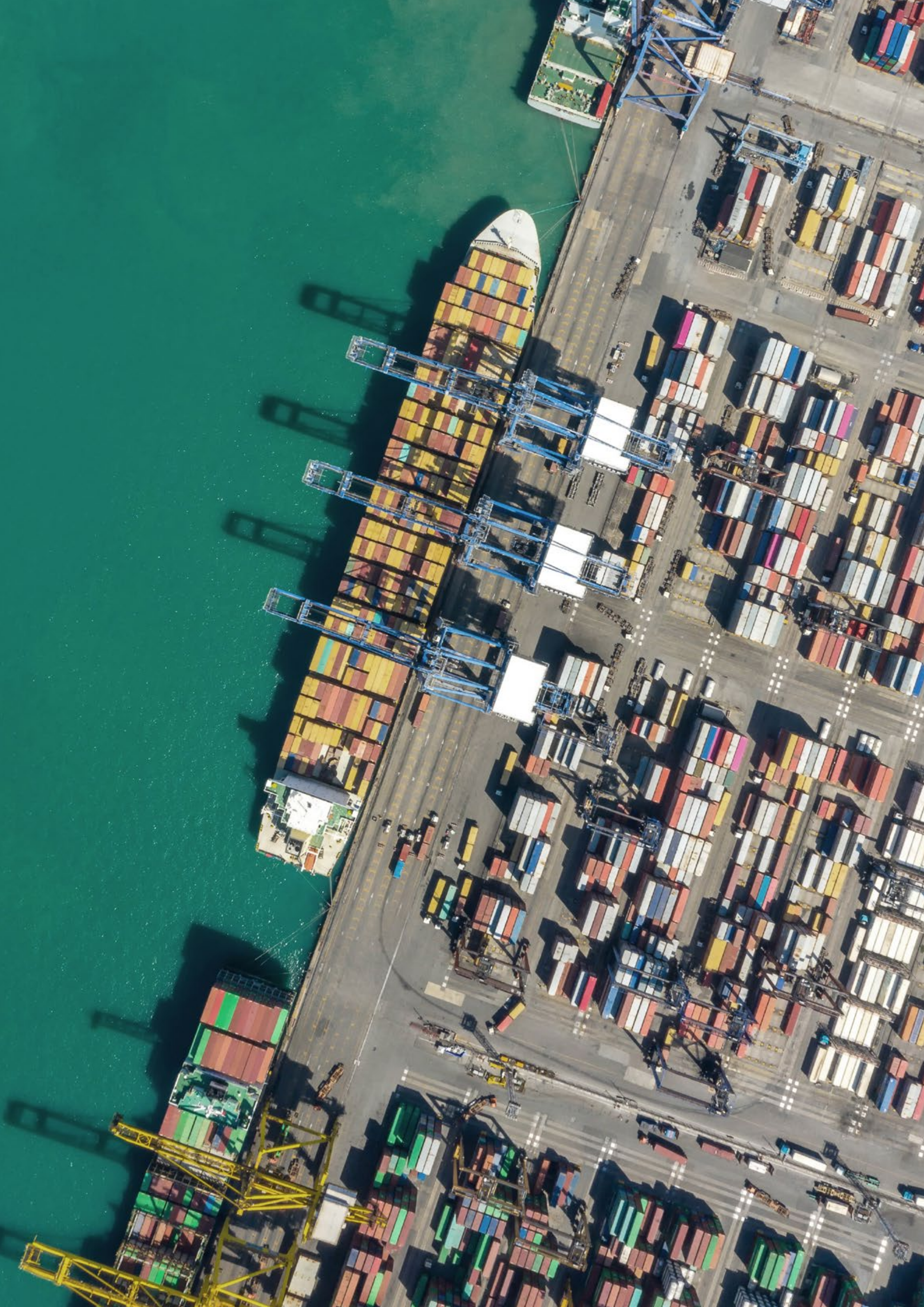
AUDIT

This division is an integral part of the control environment of the Group. The role of audit is to understand the key risks of the Bank and examine and evaluate the adequacy and effectiveness of the system of risk management and internal control in order to identify legal, regulatory or policy shortcomings.

SUPPORT SERVICES

These divisions provide back end banking services to support ongoing business activities of the Group, as well as supporting the Group's expansion through mergers and acquisitions.

- Finance
- Strategic Development
- Information Technology
- Operations
- Services
- Human Resources



Financial Highlights

8
Countries

151
Branches

3,227
Employees

AUB
United
Kingdom
100%

NET PROFIT US$' 000s
452,244

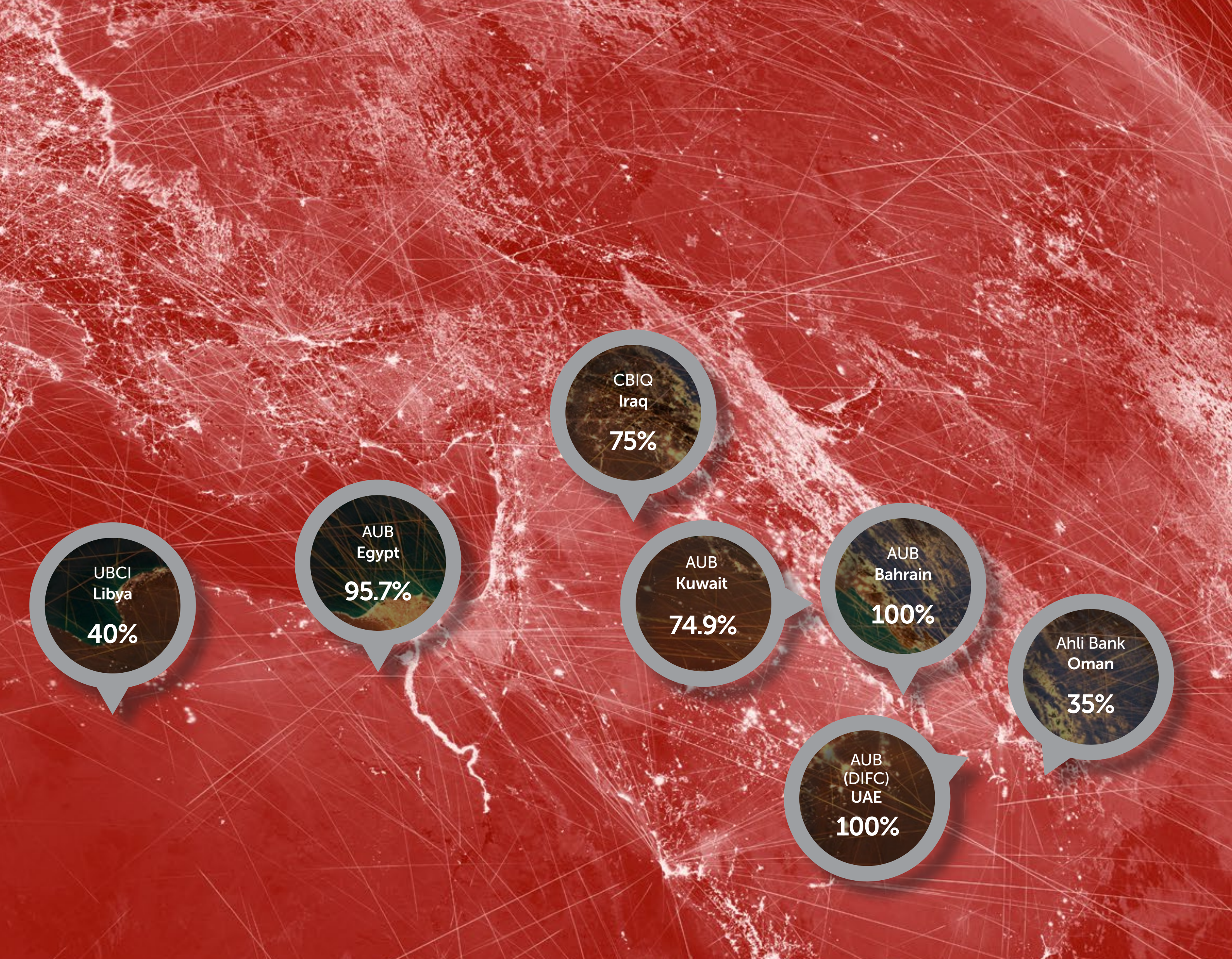
LOANS AND ADVANCES US$' 000s
20,719,878

TOTAL ASSETS US$' 000s
40,071,167

SHAREHOLDERS' EQUITY US$' 000s
4,001,640

Ownership in Group Entities

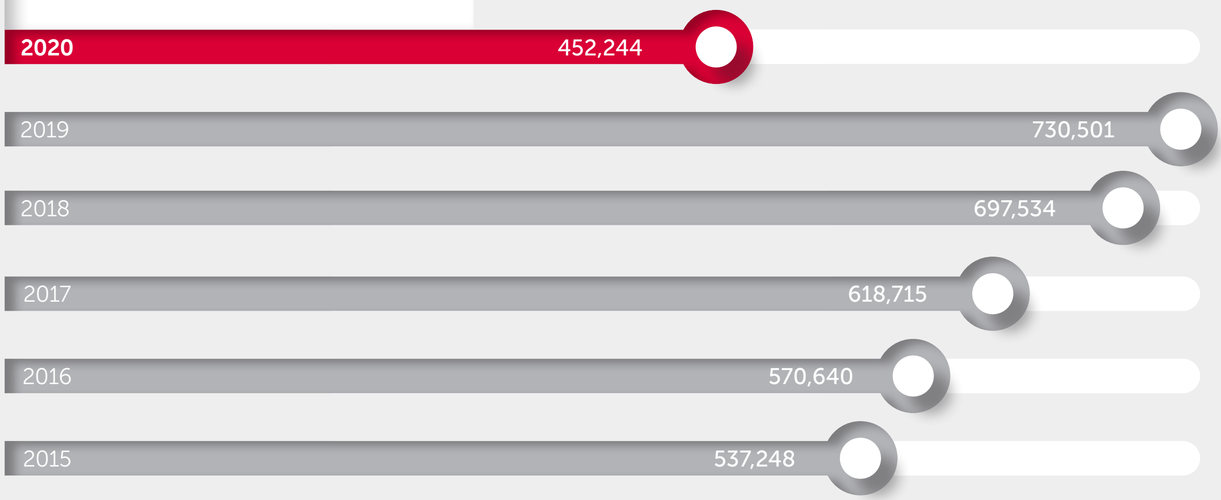
Ahli United Bank is well on course to achieving its **growth and regional expansion** objectives through the combined resources of **experienced staff, solid capital and advanced technologies**



Financial Highlights continued

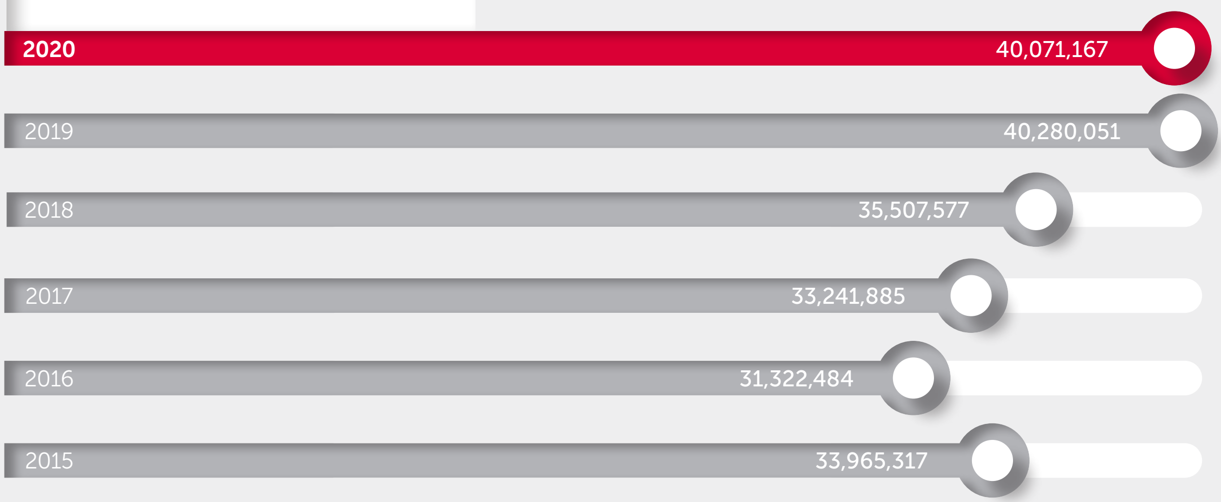
NET PROFIT US$'000

452,244



TOTAL ASSETS US$'000

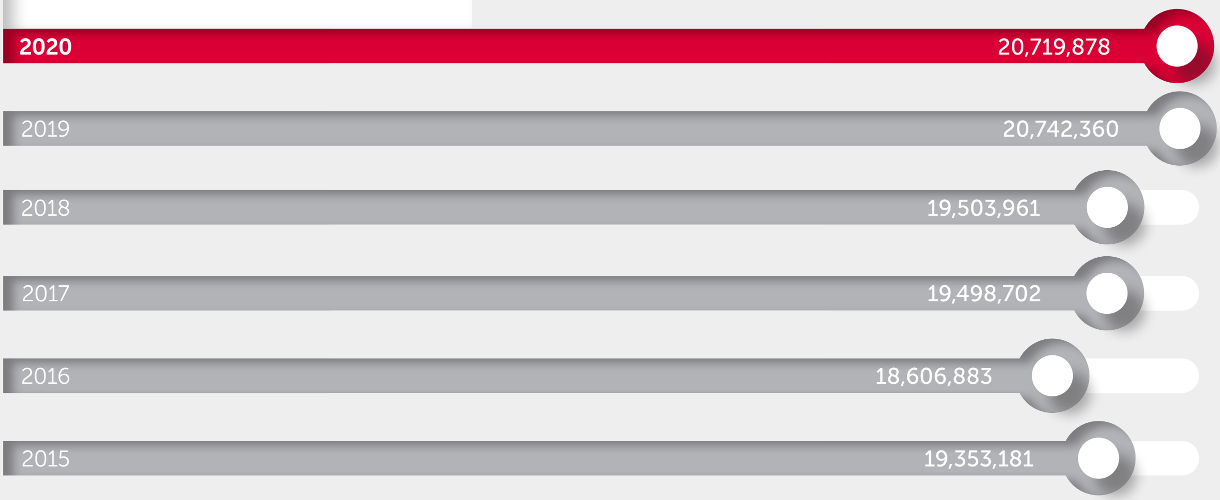
40,071,167



Financial Highlights continued

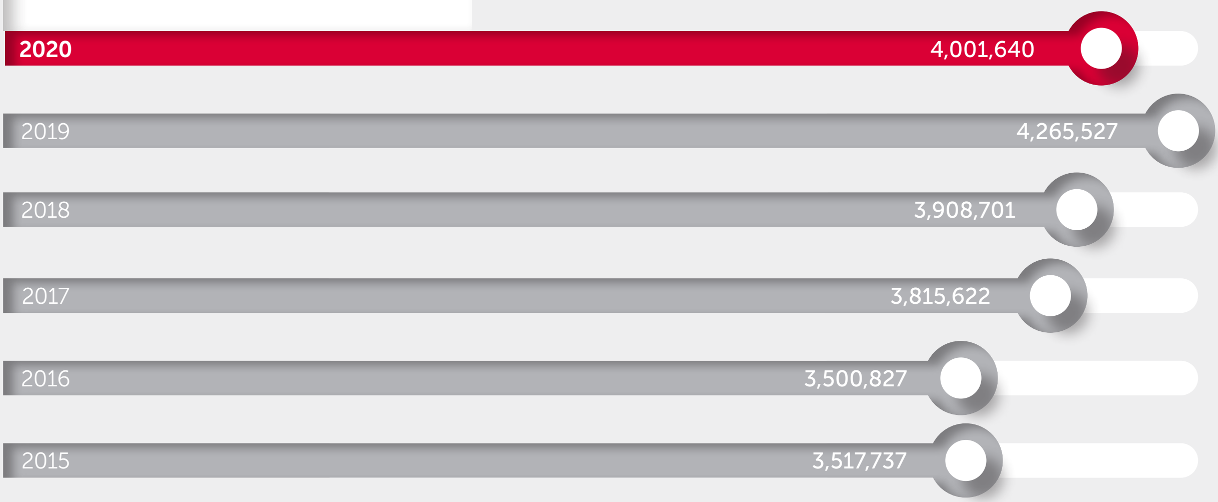
LOANS AND ADVANCES US$'000

20,719,878



SHAREHOLDER'S EQUITY US$'000

4,001,640



Financial Highlights continued

AHLI UNITED BANK B.S.C.

	US $ '000s					
	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15
Net profit*	452,244	730,501	697,534	618,715	570,640	537,248
Total assets	40,071,167	40,280,051	35,507,577	33,241,885	31,322,484	33,965,317
Loans and advances	20,719,878	20,742,360	19,503,961	19,498,702	18,606,883	19,353,181
Total liabilities	35,034,809	34,918,522	30,535,569	28,353,731	26,782,982	29,605,103
Shareholders' equity	4,001,640	4,265,527	3,908,701	3,815,622	3,500,827	3,517,737
Non-controlling interests	434,718	496,002	463,307	472,532	438,675	442,477
Return on average assets (ROAA)	1.2%	2.1%	2.2%	2.1%	1.8%	1.7%
Return on average equity (ROAE)	10.4%	17.7%	18.1%	16.5%	15.6%	15.6%
Cost to income ratio	29.3%	28.6%	27.1%	28.8%	27.6%	28.3%
Financial leverage	7.9	7.3	7.0	6.6	6.8	7.5
Risk assets ratio	16.1%	16.4%	16.9%	17.0%	17.1%	16.7%
Net interest margin	2.06%	2.62%	2.88%	2.79%	2.56%	2.54%
Earnings per share (US cents)	4.3	7.2	6.9	6.1	5.7	5.5

* Attributable to Bank's equity shareholders

PRINCIPAL SUBSIDIARIES
KUWAIT: AHLI UNITED BANK K.S.C.P.

	KD '000s					
	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15
Net profit*	29,729	55,017	51,255	44,463	40,348	42,805
Total assets	4,369,998	4,351,404	3,913,653	3,665,579	3,692,161	3,904,303
Financing receivables	3,113,685	3,018,755	2,799,906	2,672,832	2,706,054	2,680,334
Total liabilities	3,866,795	3,835,246	3,422,251	3,197,991	3,246,473	3,543,468
Shareholders' equity	442,563	455,518	430,762	406,948	385,048	356,158
Return on average assets	0.7%	1.4%	1.4%	1.2%	1.0%	1.2%
Return on average equity	6.6%	12.7%	12.4%	11.4%	11.0%	12.7%
Cost to income ratio	36.6%	37.3%	30.6%	32.0%	30.5%	29.9%
Financial leverage	8.7	8.4	7.9	7.9	8.4	9.8
Risk assets ratio	15.7%	16.0%	16.6%	18.0%	18.2%	15.5%
Earnings per share (KD - fils)	13.5	26.5	24.6	21.1	20.7	22.0

* Attributable to Bank's equity shareholders

PRINCIPAL SUBSIDIARIES
UNITED KINGDOM: AHLI UNITED BANK (UK) PLC

	US $ '000s					
	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15
Net profit	25,752	40,814	35,185	39,102	32,782	40,328
Total assets	2,828,031	3,210,261	2,909,856	2,785,254	2,580,972	2,723,683
Loans and advances	1,735,370	1,670,090	1,451,715	1,370,409	1,170,198	1,292,433
Total liabilities	2,549,641	2,911,244	2,621,474	2,493,406	2,288,573	2,421,215
Shareholders' equity	278,390	299,017	288,382	291,848	292,399	302,468
Return on average assets	0.8%	1.4%	1.2%	1.5%	1.2%	1.3%
Return on average equity	9.0%	14.4%	12.8%	13.8%	11.3%	13.9%
Cost to income ratio	43.6%	35.3%	44.7%	39.0%	40.9%	42.4%
Financial leverage	9.1	9.7	9.1	8.5	7.8	8.0
Risk assets ratio	19.2%	20.4%	23.6%	24.0%	25.7%	27.4%
Earnings per share (US - cents)	12.9	20.4	17.6	19.5	16.4	20.2

PRINCIPAL SUBSIDIARIES
IRAQ: COMMERCIAL BANK OF IRAQ P.S.C.

	IQD Millions					
	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15*
Net profit	35,457	6,554	10,864	10,050	7,578	8,109
Total assets	616,949	449,596	443,946	460,616	423,819	414,889
Loans and advances	18,841	11,447	11,933	10,789	9,904	28,334
Total liabilities	309,195	177,364	159,987	168,808	141,878	140,688
Shareholders' equity	307,755	272,232	283,958	291,809	281,941	274,201
Return on average assets	7.4%	1.5%	2.4%	2.3%	1.7%	1.9%
Return on average equity	13.0%	2.3%	3.8%	3.5%	2.7%	2.9%
Cost to income ratio	29.4%	64.1%	45.6%	52.9%	48.9%	58.7%
Financial leverage	1.0	0.7	0.6	0.6	0.5	0.5
Risk assets ratio **	73.7%	529.2%	657.6%	594.1%	728.8%	535.8%
Earnings per share (IQD - fils)	141.8	26.2	43.5	40.2	30.3	32.4

* Financial Statements under local GAAP
** Under Basel III from 2020

Financial Highlights continued

PRINCIPAL SUBSIDIARIES
EGYPT: AHLI UNITED BANK (EGYPT) S.A.E

	EGP '000s					
	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15
Net profit*	1,217,264	1,284,708	1,462,981	1,205,027	2,389,921	475,728
Total assets	56,373,815	47,288,176	51,488,260	46,989,288	42,354,094	30,614,671
Loans and advances	29,698,946	26,261,571	22,983,062	21,871,149	19,376,811	14,959,474
Total liabilities	48,167,377	39,626,232	44,423,636	40,477,096	37,163,103	27,708,805
Shareholders' equity	8,206,438	7,661,944	7,064,624	6,512,192	5,177,254	2,893,243
Return on average assets	2.4%	2.6%	2.9%	2.9%	7.5%	1.8%
Return on average equity	15.9%	18.8%	22.4%	22.0%	75.1%	20.5%
Cost to income ratio	28.0%	28.5%	19.3%	19.7%	9.8%	23.1%
Financial leverage	5.9	5.2	6.3	6.2	7.2	9.5
Risk assets ratio	19.6%	18.3%	17.0%	18.1%	13.6%	12.7%
Earnings per share (EGP)	3.6	3.9	4.6	3.7	7.7	1.4

* Attributable to Bank's equity shareholders

PRINCIPAL ASSOCIATE
OMAN: AHLI BANK S.A.O.G.

	OMR '000s					
	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15
Net profit	23,968	31,015	28,786	26,667	29,552	27,727
Total assets	2,702,477	2,518,527	2,290,414	2,014,582	1,899,654	1,898,265
Loans and advances	2,218,897	2,054,986	1,870,677	1,634,458	1,522,106	1,518,052
Total liabilities	2,314,127	2,129,332	1,931,410	1,709,755	1,656,706	1,670,982
Shareholders' equity	264,350	265,195	255,004	254,827	242,948	227,283
Return on average assets	0.9%	1.3%	1.3%	1.4%	1.6%	1.6%
Return on average equity	9.1%	11.9%	11.3%	10.7%	12.6%	13.0%
Cost to income ratio	42.1%	39.6%	37.4%	35.3%	35.9%	36.3%
Financial leverage	8.8	8.0	7.6	6.7	6.8	7.4
Risk assets ratio	15.7%	16.9%	17.5%	16.7%	15.0%	14.5%
Earnings per share (Baiza)	14.5	18.8	17.4	16.2	17.9	16.8

Board of Directors' Report

The Directors of Ahli United Bank B.S.C. ("AUB" or the "Bank") are pleased to submit the Annual Report and the accompanying consolidated Financial Statements for the year ended 31 December 2020.

General Operating Environment

During the year 2020, the global economy faced a crisis at a scale not witnessed before. This was triggered by the Covid-19 pandemic which caused widespread and continuing disruption to business and economic activities as governments around the world imposed strict protocols including lockdown measures to control the spread of the virus. The unprecedented public health situation together with the above measures resulted in the estimated decline of global GDP by 4.3% during the year, as per the World Bank, compared to a growth of 2.3% in 2019.

The oil-producing regional economies were adversely impacted by the twin effects of the Covid-19 pandemic and the sharp decline in average energy prices. With the collapse in the oil prices, including falling to a 20-year low during April 2020, the fiscal position of GCC economies weakened significantly. Given the above, the GDP of the GCC region contracted by 5.7% during the year 2020, at a much steeper rate than the global economy.

To stabilize the turbulent economic and market conditions, governments and central banks responded with vigorous monetary and fiscal interventions including sharp reductions in benchmark interest rates. The US Federal Reserve further reduced the benchmark rates by 150 basis points in Q1/2020 on the back of its earlier rate cuts by 75 basis points in H2/2019 which were followed by similar rate cuts by regional economies. Stimulus measures on the fiscal side were also undertaken with a view to keep afloat impacted businesses and to provide relief to a wide range of the impacted population.

With the recent developments on the approved usage, availability and roll-out of different vaccines by authorities, the world looks forward with cautious optimism towards a gradual return to normalcy. This however will be greatly influenced by the emergence of renewed waves and by the discovery of new variants of Coronavirus which can further delay or derail the vaccine based recovery scenario.

Nevertheless, amid exceptional uncertainty, the World Bank, in its January 2021 Global Economic Prospects release, has projected the global economy to grow by 4.0% in 2021 versus a contraction estimated at 4.3% for 2020. However, the strength of the recovery is projected to vary significantly across countries depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spill-overs and structural characteristics at entry point of the crisis. From a regional perspective, the World Bank has projected a lower growth for the Middle East and North Africa at 2.1% recovering from an estimated contraction of 5.0% for 2020. As per the World Bank, the GCC economies are expected to grow by 1.6% versus 5.7% estimated contraction in 2020.

Performance Overview

Given the extremely difficult general operating environment explained above, AUB's performance for most of 2020 was subsumed with the onset and response to the rapidly evolving developments arising out of the Covid-19 outbreak which together with the oil price shock had a profound impact on the hydrocarbon based regional economies. Furthermore, the steep decline in US dollar benchmark interest rates by the Fed was followed by similar rate moves in all AUB's key operating markets which affected earnings on free float balances as witnessed by the entire banking industry. The turbulence in the markets, during the initial March to July 2020 period, saw a sharp spike in liquidity premiums amidst a global tightening of funding conditions, thereby further compressing net interest margins. Given the rapidly shifting and heightened overall risk environment, AUB built up and managed its liquidity contingency buffers through tapping diversified and multiple sources of funds, albeit at increased costs. The Bank's cost of risk was also impacted by the raising of incremental gross Stage 1 and Stage 2 provisions taken on performing risk exposures as a precautionary measure in accordance with IFRS-9 and in anticipation of a prolonged crisis situation extending into 2021.

Further details together with the key highlights of the AUB Group's consolidated financial performance for 2020 are given below:

- Consolidated net profit, attributable to the Bank's equity shareholders, of US$ 452.2 million was achieved showing a drop of 38.1% versus US$ 730.5 million in 2019.

Board of Directors' Report continued

- The decline in net interest margin, as explained above, was partially offset by a prudent growth in average asset volumes thereby containing the decline in net interest income for 2020 to US$ 799.4 million (2019: US$ 951.5 million), a drop of 16.0%.

- Total operating income fell by 10.0% to US$ 1,111.9 million (2019: US$ 1,235.5 million), buoyed by other compensatory measures through liquidation of securities to benefit from market conditions.

- Net provision charges, covering Stages 1 to 3 exposures, were increased by US$ 200.5 million on a prudent and conservative basis to reach US$ 254.9 million for 2020 (2019: US$ 54.4 million). Incremental provision charges for Stage 1 and Stage 2 amounting to US$ 145.0 million for 2020 included management overlays to provide a cushion against the impact of the wide-spread decrease in economic activity triggered by the elongated Covid-19 cycle and the evolving and uncertain implications of the current pandemic. Despite the increase in the credit impaired loans and advances ratio to 2.6% (31 December 2019: 1.9%), the related specific provision coverage was maintained at a very solid 85.9% level (31 December 2019: 85.9%). Provision coverage levels are calculated on a cash provision basis excluding the value of the additional significant non-cash (real estate and securities) collateral available against non-performing loans.

- The cost to income ratio was sustained below 30%. The 2020 ratio of 29.3% (2019: 28.6%) reflecting the continued positive impact of the group-wide disciplined implementation of AUB's entrenched intelligent spend approach and from the operational efficiencies achieved through streamlining of processes and leveraging from technology and digitization initiatives through our ongoing transformation project.

- AUB Group's total assets at 31 December 2020 were US$ 40.1 billion (31 December 2019: US$ 40.3 billion). The loans and advances portfolio remained at the previous year level of US$ 20.7 billion (31 December 2019: US$ 20.7 billion) as part of a prudent credit stance adopted during this crisis period. The non-trading investments portfolio increased (+5.2%) to US$ 9.6 billion (31 December 2019: US$ 9.1 billion) as a credit proxy to loans and advances with a view to sustaining acceptable risk adjusted returns through deployment in liquid high-quality securities.

- Overall, the Bank generated a Return on Average Assets of 1.2% (2019: 2.1%) and a Return on Average Equity of 10.4% (2019: 17.7%).

Strategic & Corporate Developments

- On 24 February 2020, the AUB Board of Directors received an offer from Kuwait Finance House K.S.C.P. ("KFH") to acquire 100% of the issued and paid up ordinary shares of AUB by way of a share swap subject to fulfillment of regulatory requirements. However, the proposed acquisition procedures were subsequently suspended until December 2020 due to the prevailing unprecedented circumstances relating to the Covid-19 pandemic.

  During December 2020, the AUB Board of Directors, in consultation with the KFH Board of Directors, and subject to necessary regulatory approvals, agreed to extend the suspension period for the resumption of the acquisition of AUB by KFH until completion of KFH's updated assessments to be conducted by its appointed international advisors.

- During the year 2020, AUB increased its shareholding in Ahli United Bank (Egypt) S.A.E. ("AUBE") from 85.5% to 95.7% through a tender offer for a total consideration of US$ 58.2 million.

Recognition

AUB Group has been a recipient of a number of prestigious banking awards during the year which includes the following:

- Best Bank in Bahrain – 2020 awarded by Global Finance
- Best Local Bank in Bahrain – 2020 awarded by EMEA Finance

Board of Directors' Report continued

- Private Bank of the Year, Bahrain – 2020 awarded by The Banker and Professional Wealth Management (PWM)
- Best Private Bank of Islamic Services – 2020 by Private Banker International
- Outstanding Private Bank Middle East – 2020 by Private Banker International
- Best FX provider in Bahrain – 2021 awarded by Global Finance
- Best Private Bank in Bahrain – 2021 awarded by Global Finance
- Best Trade Finance Provider – 2021 by Global Finance
- Best Global Network GCC Bank – 2020 by CFI
- Best Retail Bank in Bahrain – 2020 awarded by MEA Finance
- Best Digital Transformation Bank in Bahrain – 2020 awarded by MEA Finance
- Best Retail Bank in Bahrain – 2020 awarded by Finance Derivative
- Best Retail Bank in Bahrain – 2020 awarded by Global Banking & Finance Review

Directors' Shareholdings & Remuneration

The number of shares held by directors, senior management and their related parties as at 31 December 2020 is disclosed in the Corporate Governance Report. For Directors' fees and related expenses, salaries and other benefits, please refer to Note 25 of the consolidated financial statements.

Appropriations

On the basis of the results of the Bank for the year ended 31 December 2020, the Board of Directors recommends the following appropriations for approval by the shareholders:

- Cash dividend - ordinary shares at 1.25 US cents per share (2019: 5.0 US cents per share) and a bonus issue of one ordinary share for every twenty ordinary shares held (2019: bonus of one ordinary share for every ten ordinary shares held)
- Transfer to statutory reserve of US$ 45.2 million
- Donations of US$ 2.0 million

Conclusion

In my capacity as the Chairman of the Board, it is my pleasure to thank our shareholders for their continuing support and confidence reposed in AUB. It is very important to state that our achievements since inception of the Bank were only made possible through the guidance of our regulators, the support and trust of our clients, business partners, customers and most importantly the dedication, professionalism and resilience of our management and staff which were again very tangibly proven in 2020, a very difficult year.

Meshal AbdulAziz Alothman
Chairman
22 February 2021

Board of Directors

MESHAL ABDULAZIZ ALOTHMAN
(Non-Executive Director)

Chairman of the Board and the Executive Committee

Director since 19 February 2019. Holds a Bachelor of Science, Marketing with a Minor in International Studies from the University of South Florida, 1996.

Chairman of the Board of Directors, Ahli United Bank (UK) plc, UK; Director General, The Public Institution for Social Security, Kuwait; Member of The Board of Directors, The Public Institution for Social Security, Kuwait; Chairman of The Board of Directors, Wafra Intervest Corporation, Bermuda; Member of The Board of Directors, The Industrial Bank of Kuwait, Kuwait; Member of The Awqaf Affairs Council, Kuwait Awqaf Public Foundation, Kuwait; Chairman of the Board of Directors, Kuwait Medical City Co., Kuwait.

Formerly: Deputy Director General for Investment and Operations, The Public Institution For Social Security, Kuwait; Chief Investment Officer, The Public Institution For Social Security, Kuwait; Member of The Board of Directors, Kuwait Ports Authority, Kuwait.

He has held many key positions in the investment Department for 20 years in the Kuwait Fund for Arab Economic Development.

24 years of experience covering financial services and investments.

MOHAMMAD JASSIM AL-MARZOOQ
(Non-Executive Director)

Deputy Chairman of the Board and a Member of the Executive Committee

Director since 27 March 2006. Holds a Bachelor of Commerce-Finance Major from Kuwait University, 1991.

Chairman, Tamdeen Holding Group, Kuwait; Chairman, Tamdeen Shopping Centers Co., Kuwait; Chairman, Tamdeen Bahraini Real Estate Co., Bahrain; Partner and Manager of Ahli United Co., Kuwait; Honorary Chairman of Arabian Horse Centre (Kuwait State Stud), Kuwait; Member of Advisory Committee of National Fund for Small and Medium Enterprise Development, Kuwait.

Formerly: Board Member of Silk Road City & Islands Authority, Kuwait; Deputy Chairman and Member of the Audit & Compliance Committee of Ahli United Bank Limited, Dubai; Member, The Supreme Council for Planning and Development, Kuwait; Chairman of the Board of Trustees Arabian Horse Centre (Kuwait State Stud), Kuwait; CEO, Tamdeen Real Estate Co., Kuwait; Chairman and CEO, Tamdeen Real Estate Co., Kuwait; Board Member, Global Omani Development & Investment Co., Sultanate of Oman; Board Member, Al Maalem Holding Co., Bahrain; Board Member, Fateh Al Khear Holding Co., Kuwait; Board Member, Ahli United Bank, Bahrain; Deputy Chairman, Tamdeen Shopping Centers Co., Kuwait; Vice Chairman, Tamdeen Investment Co., Kuwait; Board Member, Ahli United Bank (Former Bank Of Kuwait and Middle East)- Kuwait; Board Member, Al-Ahli Bank of Kuwait, Kuwait; Board Member, Kuwait National Cinema Co., Kuwait; Board Member of Arab Financial Consulting Co., Kuwait; Chairman and Managing Director, Tamdeen Real Estate Co., Kuwait; CEO, Real Estate Investment Fund, Kuwait; and Board Member, The Public Warehousing Co., Kuwait.

29 years of experience, covering financial services and real estate sectors.

MOHAMMAD FOUAD AL-GHANIM
(Non-Executive Director)

Member of the Executive Committee

Director since 29 March 2003. Holds a degree, in Business Administration from Kuwait University, 1993.

Vice Chairman and Group Chief Executive Officer of the Fouad Alghanim & Sons Group of Companies, Kuwait; Chairman, Ahli United Bank (Egypt) SAE, Egypt; Chairman, Fluor Kuwait Co. KSC, Kuwait; Board Member, Tamdeen Real Estate Company KSCC, Kuwait. Formerly: Board Member, Ahli United Bank Limited, Dubai.

Mr. Alghanim is a respected member of the international business community including World Economic Forum (WEF), The World Economic Forum is an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas.

He is an active member in various business forums in Kuwait and abroad. He is also personally associated with various philanthropic activities particularly with a focus on children's health, education and refugees.

31 years of experience covering corporate management operations, contracting, manufacturing, trade, real estate and financial.

Board of Directors continued

ABDULGHANI M.S.Y BEHBEHANI
(Independent Director)

Chairman of the Audit & Compliance Committee and the Nominating Committee and a Member of the Compensation Committee.

Director since 29 March 2016. Holds a Bachelor of Science in Mechanical Engineering from Kuwait University, 1984.

Vice Chairman, Noor Financial Investment Co. KSC, Kuwait; Board Member, Al-Alfain Printing, Publishing & Distribution Co. KSCC, Kuwait; Board Member, Kuwait Insurance Co. SAK, Kuwait; Board Member United Beverage Co. KSCC, Kuwait; Chairman, Noor Jordan Kuwait Financial Investment Co., Jordan; Chairman, Hotels Global Group, Jordan; Director, Mohammad Saleh & Reza Yousuf Behbehani Co. W.L.L, Kuwait; Director, Behbehani Capital Co. for Selling & Purchasing Shares & Bonds W.L.L, Kuwait; Manager, Shereen Motor Company W.L.L, Kuwait; Manager, Behbehani Tire Center Company SPC, Kuwait. Former Board Member, Al-Ahli Bank of Kuwait KSCP, Kuwait.

37 years of experience covering financial services, trade, engineering and real estate sectors.

AHMAD GHAZI AL-ABDULJALIL
(Non-Executive Director)

Member of the Audit & Compliance Committee and the Nominating Committee

Director since, 29 March 2016. Holds a Master's Certificate in Project Management from The George Washington University, School of Business, 2009; Certified Investment and Derivatives Auditor, 2009; Certified International Financial Accountant, 2014; Certified Professional Internal Auditor, 2015; Certified Merger & Acquisition Specialist, 2016; Certified Enterprise Risk Manager, 2020; Certified Banking and Credit Analyst, 2021; Investment Diploma from American University of London, 2009; Bachelor of Political Science from Kuwait University, 1999; Associate's Certificate in Project Management from The George Washington University, School of Business, 2008.

Financial Advisor to Director General, The Public Institution for Social Security, Kuwait; Board Member, Petro Link Holding Co. (K.S.C.C), Kuwait; Vice Chairman, Kuwait Medical City Co. (K.S.C.C), Kuwait; Member of The International Centre for Settlement of Investment Disputes (ICSID) Panels of Arbitrators and of Conciliators, Washington D.C. Formerly: Advisory Board Member, Markaz Real Estate Fund, Kuwait; Board Member, Al Salmiya Group for Enterprise Development Co. (K.S.C.C), Kuwait; Chairman, United Marketing and Organizing Exhibitions (K.S.C.C), Kuwait; Vice Chairman, Arab Gulf Company for food & Supermarket (S.A.K.C),Kuwait.

22 years of experience covering financial services, trading, real estate and manufacturing sectors.

ABDULLAH AL MUDHAF
(Independent Director)

Chairman of the Compensation Committee and a member of the Audit & Compliance Committee and Nominating Committee

Director since 29 March 2018. Holds a Bachelor Degree in Arts Business Administration (E-Commerce & Info System) from Seattle University USA, 2005.

Managing Director and Partner, AM Holding Group, Kuwait; Executive Director, Ruby's Café Restaurant Management and Catering Services, Kuwait; General Manager, Big Bang Restaurant Management and Catering Services, Kuwait, and General Manager, Flain Gulf General Trading Company, Kuwait. Formerly: Independent Board Member, YIACO Medical Company, Kuwait; Senior Director, International Brokerage Division, Kuwait & Middle East Financial Investment Company (KMEFIC), Kuwait.

15 years of experience covering financial services and Entrepreneur – Private Sector Development.

Board of Directors

JAMAL ABDEL RAZZAQ AL-NAIF (Independent Director)

Member of the Audit & Compliance Committee, the Nominating Committee and the Compensation Committee

Director since 29 March 2018. Holds Bachelor of Science Degree in (Economics) from Bradley University, USA 1980.

Independent Director, Lakemore Partners (DIFC) Limited, Dubai. Formerly: Regional Head, Middle East, Africa & Central Asia, Pictet Asset Management, DIFC, Dubai; Managing Partner, Safanad SA DIFC, Dubai; Managing Director, Regional Head, MENA, Credit Suisse Asset Management, Dubai; Member of Credit Suisse MENA Operating Committee, Dubai; Managing Director, Regional Head MENA, Citi Alternative Investments, Citibank N.A. London; Founder and Managing Partner Al-Naif Consulting, Amman, Jordan; Head of Middle East Fixed Income Sales, Lehman Brothers, London; VP, Head of European and Middle East Sales, Head of Emerging Market Sales Europe, Member of Citibank Global Capital Markets Committee, Citibank N.A., London; VP, Head of Corporate Treasury, Gulf International Bank B.S.C., Bahrain; AVP, Middle East Currencies Trading and Head of Corporate Treasury Desk, Citibank N.A. Bahrain, Executive Trainee, Citibank N.A. Treasury, Bahrain.

40 years of experience in financial service sector.

KHALID MOHAMED NAJIBI (Non-Executive Director)

Member of the Executive Committee

Director since 23 April 2019. Holds a Bachelor Degree in Business Administration (with major in Finance) from BA Schiller International University, UK, 1990; Passed CPA 1993 (from The American Institute of CPA) USA.

Founding Member and Managing Director, Najibi Investment Co. B.S.C(c), Director/Co-Owner, Al Souq Real Estate Co., First Vice Chairman, Bahrain Chamber of Commerce and Industry (BCCI) (NGO), Board Member, Social Insurance Organisation (SIO), Chairman, Osool Asset Management B.S.C. (C), Chairman, Bahrain Marina Co., Board Member, Ahli United Bank (UK) PLC, and Board Member, Bahrain Tourism and Exhibitions Authority (BTEA), Kingdom of Bahrain.

Formerly: Vice Chairman, Managing Director/ Chief Executive Officer, Capital Management House B.S.C. (c), Vice Chairman of Ibdar Bank, Board Member, & Chairman of Executive Committee of Bahrain Islamic Bank, Board Member of Gulf Finance House, Board Member of First Energy Bank, Board Member of QInvest Regulated by QFC in Qatar, Board Member & Member of Executive Committee of Arbah Capital Regulated by CMA in Kingdom of Saudi Arabia. Also, Board Member & Chairman of Executive Committee of Crown Industries & Bahrain Scrapmould, Board Member of Skaugen Gulf Petchem Carriers.

30 years of experience covering Investments & Real Estate development, Islamic banking both wholesale and retail.

ADEL A. EL-LABBAN (Executive Director)

Member of the Executive Committee

Director since 30 July 2000. Holds a Masters in Economics (Highest Honors) from the American University in Cairo, 1980, Bachelors in Economics (Highest Honors) from American University in Cairo, 1977.

Group Chief Executive Officer & Managing Director, Ahli United Bank B.S.C., Bahrain; Deputy Chairman, United Bank for Commerce & Investment S.A.C., Libya; Director, Ahli United Bank (UK) PLC; and Director, Ahli United Bank K.S.C.P., Kuwait.

Formerly: Chief Executive Officer and Director, United Bank of Kuwait P.L.C., UK; Managing Director, Commercial International Bank, Egypt S.A.E.; Chairman, Commercial International Investment Company, Egypt; First Deputy Chairman, Ahli Bank S.A.O.G., Oman; Vice Chairman, Middle East Financial Investment Co., Saudi Arabia; Deputy Chairman, Ahli United Bank S.A.E., Egypt; Deputy Chairman, Commercial Bank of Iraq; Director, Ahli United Bank Limited, UAE; Vice President, Corporate Finance, Morgan Stanley, USA; Assistant Vice President, Arab Banking Corporation, Bahrain; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; Director, Kuwait & Middle East Financial Investment Co., Kuwait; and Director, Bahrain Association of Banks, Bahrain.

42 years of experience in financial service sector.

Despite the decline in profitability, AUB performed better than most of its peer group, as its well-managed business model held up.

Chairman's Statement continued

On behalf of the Board of Directors, I am pleased to report on Ahli United Bank's performance in 2020.

The entire year was deeply impacted by the coronavirus pandemic, which saw the global economy contract by 4.3%. Almost every business sector felt the effect as Covid-19 escalated into all continents and populations. Sadly, significant loss of life resulted, with economic and commercial activity likely to continue to struggle in many quarters for the balance of 2021. In the MENA region, GDP shrank by 5% with the dual effect of Covid-19 and of low and volatile oil prices, with a sharp fall in oil demand impacting government spending power and market confidence.

In financial terms, the AUB Group consolidated net profit declined to US$ 452.2 million in 2020, a drop of 38.1% compared with US$ 730.5 million in 2019. Apart from the weak business environment due to the coronavirus and oil price fluctuations, net interest income fell in 2020, driven by the steep decline in the US dollar benchmark interest rates, triggered by the Fed and emulated by similar interest rate movements in all of AUB's key markets. Prudent and precautionary asset provisioning actions were taken in expectation of the ongoing effects of the pandemic on businesses generally.

Despite the decline in profitability, AUB performed better than most of its peer group, as its well-managed business model held up. The Group's base of geographical diversification and cross border flows, as well as its measured and prudent risk assessment framework supported a balanced approach towards handling risks and returns across all its operating markets in a profitable manner. Our results were also underpinned by continuing rigorous application of our intelligent spend model across all capex and opex activities.

In order to ensure the continued health and safety of AUB customers and employees for as long as the Covid-19 pandemic persists, major changes were implemented in the infrastructure in all Group-wide offices and branches to facilitate social distancing norms. Precautionary personal protective equipment and materials were provided, as well as health support and advisory notices to customers and personnel alike. Additionally, respective governmental guidelines and regulations were followed for the periodic disinfection of office and branch premises.

The AUB Group also made total donations amounting to US$ 4.7 million in the region to support humanitarian and relief efforts in the wake of the pandemic.

The World Bank notes that the global economy is expected to recover gradually from the effects of Covid-19. However, the recovery is expected to be subdued, with a low global GDP growth of 4% during 2021. The MENA region is forecast to grow at an even lower rate of 2.1%.

Significant risks from mutations creating new strains of the virus, in addition to subsequent waves of the virus spread, may delay the recovery process. On the upside, several approved vaccines have been produced on an industrial scale which will help to alleviate some of the impact on global health.

On the strategic front, two issues are noteworthy of comment. Firstly, as covered by our various public announcements, the KFH transaction was delayed given Covid – 19 conditions with the mutual consent of both parties and their regulators. Necessary updates will be given as needed. Secondly, following receipt of all required regulatory approvals, AUB launched a tender offer to increase its shareholding in AUB – Egypt (AUBE), with a take-up of 30.7 million shares, representing a 10.2% shareholding, thereby increasing its shareholding in AUBE from 85.5% to 95.7 % in October 2020.

As Chairman of the Board, I am pleased to record my grateful appreciation of the constant support of our loyal shareholders and client base, whose trust and confidence in AUB remains our strongest asset. Similarly, thanks are extended to our regulators in each of the jurisdictions where we operate, whose consistent guidance and support is much appreciated. Finally, to the management and staff, who have again demonstrated their commitment and expertise in delivering safe and reliable services to our customers throughout the year, a thank you to each and every one for their continuing contribution to the success of the Bank.

Meshal AbdulAziz Alothman
Chairman

Group Chief Executive Officer & Managing Director's Statement

"During 2020, AUB Group invested significantly in its operational and technical capabilities in providing ease of access to its clients to conduct their business needs securely on a remote basis."

Group Chief Executive Officer & Managing Director's Statement continued

The year 2020 was dominated by the emergence of the Covid-19 pandemic. This once-in-a-generation event impacted every business around the globe, including the financial industry. I am pleased to report that against that exceptional backdrop, the AUB Group performed well vis a vis its regional and international peers.

The group net profit of US$ 452.2 million versus US$ 730.5 million in 2019 included prudent, precautionary impairment provisioning for the expected difficult after-effects of the pandemic as businesses across the board in every jurisdiction adjust to the post virus economic and operational realities. Added downward pressure from a much weaker absolute interest rate environment and a drop in oil prices also contributed to the restrained earnings figure.

The underlying solid foundation of AUB's multi country network and businesses served it well as lower economic activity affected income levels generated from trade finance, asset management and other income generating sources of fees and commissions.

The cost to income ratio was maintained at 29.3%, testament to the success of AUB's inherent intelligent spend philosophy; coupled with the operational efficiencies derived from process streamlining and the leverage created from technology application initiatives.

Risk management's focus on reinforcing ECL 1 and 2 provisioning levels for performing accounts underlined the Bank's prudent stance within its risk framework to ensure sustainable growth in business and profitability in these difficult times.

S & P affirmed the long-term Issuer rating of AUB at' 'BBB", while S & P's outlook on AUB changed from 'Watch Positive' to 'Positive', reflecting, "the Group's strong franchise, good geographic diversification, a well-defined strategy, and strong management team". Capital Intelligence re-affirmed AUB's Long Term Issuer 'A-/Stable' credit rating, quoting, "the rating is supported by a geographically diversified balance sheet and revenue streams, prudent management, and strong loan asset quality. Also supporting the rating are the good liquidity and customer deposit funding, high capitalisation and profitability at all levels."

During 2020, AUB Group invested significantly in its operational and technical capabilities in providing ease of access to its clients to conduct their business needs securely on a remote basis. Staff were trained to react from remote locations to serve in a safe and controlled manner as a response to the Covid-19 conditions.

The Bank continued its Group-wide Transformation initiative for delivering customer-centric driven process automation solutions. Products and services are made available through digital channels to improve customer experience, increase revenues and reduce costs. Within the Transformation project, AUB is implementing market-leading systems and technologies to digitize end-to-end processes; to harvest data and undertake analytics with a view to generating sustainable monetization opportunities; and to equip staff with the required skill sets by undertaking focused training programs.

AUB launched various products and services, specifically focusing on the banking needs of the Small and Medium Enterprises (SME) segment, which included products such as Al-Tajer, and Point of Sale (POS) Merchant Financing, Al-Tajer is a one-stop solution for all banking and payment needs for SMEs, helping them build sustainable and competitive businesses. Al-Tajer goes far beyond conventional banking services, empowering local SMEs with the means to transform and embrace the digital world and grow their sales. POS Merchant Financing is an innovative product for merchant services which allows AUB POS customers to avail loans based on their business performance.

Looking ahead, AUB will continue to navigate prudently these challenging and unprecedented times by providing a safe operating environment for all of its staff, customers and counterparties, building a seamless remote capability to transact business and support all our client needs and by protecting its core earnings capacity and multi country franchise until business as usual conditions can be restored.

2020 has been a unique experience in terms of the scale and severity of its shifts. I hope our future brings more stability and balance but remain fully confident and grateful to our staff and clients for their unwavering support which will enable us to deal with all future eventualities in a prudent and profitable manner.

Adel A. El-Labban
Group Chief Executive Officer and Managing Director

Corporate Governance

Good Corporate Governance practices are important in creating and sustaining shareholder value and ensuring appropriate disclosure and transparency. The Bank's Corporate Governance Policy provides the framework for the principles of effective Corporate Governance standards across the AUB Group.

The Bank's Board of Directors (the "**Board**") is committed to implementing robust Corporate Governance practices and to continually reviewing and aligning these practices with international best practices, where appropriate.

The Bank's management is committed to ensuring that procedures and processes are in place to reflect and support the Board approved Corporate Governance related policies, to ensure the highest standards of Corporate Governance throughout the AUB Group.

SHAREHOLDER INFORMATION

The Bank's shares are listed on the Bahrain Bourse and the Boursa Kuwait. As at 31 December 2020, the Bank had issued 9,651,888,709 ordinary shares, each with a nominal value of US$0.25. All ordinary shares are fully paid up

The Bank's shareholders are invited by the AUB Chairman to attend the Annual General Meeting ("AGM"). The AUB Chairman and other Directors attend the AGM and are available to answer any questions. Both, the AGM and an Extraordinary General Meeting were held on 19 March 2020.

Ordinary shareholders as at 31 December 2020: holding 5% and above:

No.	Name / Entity	Country of Origin	No. of Shares	% Ownership
1	Public Institution For Social Security	Kuwait	1,816,899,730	18.82%
2	Social Insurance Organization	Bahrain	965,919,605	10.01%
3	Tamdeen Investment Company	Kuwait	724,801,434	7.51%
4	Sh. Salem Sabah Al Naser Al Sabah	Kuwait	565,850,000	5.86%

Distribution of Shares

Table 1- Distribution of ordinary shares by threshold as at 31 December 2020:

Threshold	No. of Shares	No. of Shareholders
50% and above	-	-
20% to 49.99%	-	-
10% to 19.99%	2,782,819,335	2
5% to 9.99%	1,290,651,434	2
1% to 4.99%	1,837,464,297	10
Less than 1%	3,740,953,643	4,610
Total	**9,651,888,709**	**4,624**

Table 2- Distribution of ordinary shares by nationality as at 31 December 2020:

No.	Name	No. of Shares	% of Total Shares
1	**Kuwait**		
	Government & Quasi Government	1,956,834,858	20.27%
	Individuals and Corporates	4,388,460,724	45.47%
	Subtotal Kuwait	**6,345,295,582**	**65.74%**
2	**Bahrain**		
	Government & Quasi Government	979,772,089	10.15%
	Individuals and Corporates	1,312,394,466	13.60%
	Subtotal Bahrain	**2,292,166,555**	**23.75%**
3	**Others**		
	Government & Quasi Government	86,511,308	0.90%
	Individuals and Corporates	927,915,264	9.61%
	Subtotal Others	**1,014,426,572**	**10.51%**
Total		**9,651,888,709**	**100%**

The Board

The composition of the Board represents an appropriate mix of professional skills and expertise. A general election for Board membership was held on 29 March 2018. The Board periodically reviews its composition and performance, as well as the performance of each Director. In compliance with the Corporate Governance requirements of the Central Bank of Bahrain ("CBB"), the Board has outlined its criteria and materiality thresholds for the definition of "Independence" in relation to Directors. The independence criteria are reassessed annually by the Board and for the year 2020, the 9 Directors comprising the Board were classified as follows:

- 5 Non-Executive Directors
- 3 Independent Directors
- 1 Executive Director

Corporate Governance continued

The classification of each Director as at 31 December 2020 is set out below:

Directors	Classification
Meshal AbdulAziz Alothman – Chairman	Non-Executive
Mohammad Jassim Al-Marzooq - Deputy Chairman	Non-Executive
Mohammad Fouad Al-Ghanim	Non-Executive
Abdulghani M.S.Y. Behbehani	Independent
Ahmad Ghazi Al-Abduljalil	Non-Executive
Abdullah Mudhaf Al Mudhaf	Independent
Jamal Abdulrazzaq Al Naif	Independent
Khalid Mohamed Najibi	Non-Executive
Adel A. El-Labban	Executive

* Mr. Mahmoud Difrawy, who was an Independent Director, passed away on 27 September 2020.

The CBB Rulebook Module HC-1.4.6 recommends that the Chairman of the Board should be an Independent Director. Although the AUB Chairman was classified as a Non-Executive Director, due to his position as Director General of the Public Institution for Social Security, a major shareholder of the Bank, this did not compromise the Bank's high standards of Corporate Governance as the Bank follows strict policies to manage conflict of interests relating to decisions of the Board.

The Role and Responsibilities of the Board of Directors

The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the prudent management of the Bank's business.

The Board, as a whole, is collectively responsible for ensuring that an effective, comprehensive and transparent Corporate Governance framework is in place. The Board's role is to:

1. ensure adherence to prevailing laws and regulations and to best business ethics;
2. provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls, which enable risk to be assessed and managed;
3. set the Bank's strategic aims, ensure that the necessary financial and human resources are in place for the Bank to meet its objectives and review management performance; and
4. set the Bank's values and standards and ensure that its obligations to its shareholders and others are understood and met.

In carrying out these responsibilities, the Board must ensure that the Bank's management strikes an appropriate balance between promoting long term growth and delivering short term objectives and have regard to what is appropriate for the Bank's business and reputation, the materiality of the financial and other risks inherent in the business and the relative costs and benefits of implementing specific controls.

All Directors must act in good faith and in a way that promotes the success of the Bank for the benefit of its shareholders as a whole. In doing so, each Director, must have regard to:

1. the likely consequences of any decision in the long term;
2. the interests of the Bank as well as the Bank's employees and shareholders;
3. the need to foster the Bank's business relationships with suppliers, customers and others;
4. the impact of the Bank's operations on the community and the environment;
5. the desirability of the Bank maintaining a reputation for high standards of business conduct; and
6. the need to act fairly as between the members of the Bank.

When carrying out their responsibilities, Directors are required to:

1. act with integrity;
2. act with due skill, care and attention;
3. observe proper standards of market conduct; and
4. deal with the regulatory authorities in an open and co-operative way and must disclose appropriately any information of which the regulator would reasonably expect notice.

Board of Directors Meetings and Attendance

The Board is required to meet at least four (4) times per year. A schedule for the Board's regular meetings is submitted to the Directors annually in advance. Additional meetings may be convened on an ad hoc basis at the invitation of the Chairman or otherwise in accordance with the provisions of the Commercial Companies Law. The Board met five (5) times during 2020.

All Directors are expected to physically attend all Board and shareholder meetings unless there are exceptional circumstances that prevent them from doing so. Directors who cannot physically attend Board meetings, may attend by video, electronic or telephone conference. Meeting papers are prepared and circulated in advance of Board meetings and include minutes of the meetings of Board Committees held since the previous Board meeting.

The Board meetings held during 2020, and attendance of each Director at each such meeting are detailed below:

Directors	Meeting Dates				
	7/2/2020	12/5/2020	27/8/2020	28/10/2020	29/12/2020
Meshal AbdulAziz Alothman	✓	✓	✓	✓	✓
Mohammad Al-Marzooq	✓	✓	✓	✓	✓
Mohammad Al-Ghanim	✓	✓	✓	✓	✓
Abdulghani Behbehani	✓	✓	✓	✓	✓
Ahmad G. Al-Abduljalil	✓	✓	✓	✓	✓
Abdullah M. Al Mudhaf	✓	✓	✓	✓	✓
Jamal Al Naif	✓	✓	✓	✓	✓
Mahmoud Difrawy [1]	✓	✓	×		
Khalid Mohamed Najibi	✓	✓	✓	✓	✓
Adel A. El-Labban	✓	✓	✓	✓	✓

1- Mr. Mahmoud Difrawy passed away on 27 September 2020.

The CBB Rulebook Module HC-1.3.4 requires individual Directors to attend at least 75% of all Board meetings held in each financial year. The attendance of all Directors at Board meetings is reported to the CBB on an annual basis. During 2020, all Directors complied with the requirements of Module HC-1.3.4.

Election and Termination of Appointment of Directors

Directors are elected for a three-year term. Elections take place in accordance with the Memorandum and Articles of Association of the Bank, the Bahrain Commercial Companies Law and the CBB Rulebook. There is no maximum age at which a Director must retire from the Board. Each Director's term of appointment terminates, pursuant to the terms of his letter of appointment and/or the provisions of applicable law.

Induction and Training of Directors

The Bank has an induction program in place, which is designed for each new Director. The induction program includes: i) an introductory pack containing, amongst other things, the AUB Group Overview, AUB Group Organisation Chart, Terms of Reference of the Board and Board Committees and key policies; ii) presentations on significant financial, strategic and risk issues; and iii) orientation meetings with key management as may be required. As a standing procedure, all continuing Directors are invited to attend orientation meetings.

Ongoing professional development for Directors was conducted during the year in accordance with the requirements of the TC Module 1.2.1. An annual comprehensive training plan in compliance with the

CBB Rule Book High Level Controls Module for the AUB Board of Directors (BoD) for the continuous professional education of the BoD members is managed by Group HR through a combination of face-to-face training sessions which are based on industry relevant topics and delivered by international speakers, online learning and the dissemination of relevant industry driven articles. The training plan incorporates a blended learning methodology to comply with the CBB requirement that all Directors must continually educate themselves as to the licensee's business and corporate governance for a minimum of 15 hours annually.

Board Evaluation

Evaluations were conducted on the performance of the Board and each Director during 2020. Applying a scoring methodology proposed by professional advisors, a rating of "Excellent" was achieved for the performance of the Board and each individual Director, indicating that the Board, and the Directors on an individual level, performed in accordance with their stated roles and responsibilities during 2020.

Access to Advice and Information

Individual Directors are authorized to obtain independent legal or other professional advice at the Bank's reasonable expense whenever they judge this necessary in order to discharge their responsibilities as Directors.

Non-Executive Directors have access to, and are authorised to seek, any information they require from any employee of the Bank.

Directors' and Related Parties' Interests

No Director has entered into, either directly or indirectly, any material contract with the Bank or any of its subsidiaries, nor does any Director have any material conflict of interest with the Bank. The Directors are required to declare any conflict of interest or any potential conflict of interest that exists, or that Directors become aware of, to the Chairman of the Board and the Corporate Secretary as soon as they become aware of them. This disclosure must include all relevant material facts.

The Bank has a procedure for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board, with the conflicted Director abstaining.

Note 25 to the audited consolidated financial statements of the AUB Group for the year ended 31 December 2020, sets out the relevant disclosures of related party transactions.

The Terms of Reference of the Board require that all Directors, whether Non-executive or Executive, should exercise independence in their decision-making and should abstain from any decisions involving any actual or potential conflicts of interest. Should any Director have any doubts with respect to conflicts of interest or potential conflict of interest, the Director is requested to consult the Chairman of the Board, or in the case of the Chairman, the Chairman of the Audit & Compliance Committee, and in each case the Corporate Secretary prior to taking any action that might compromise the Bank.

All Directors and other Approved Persons have declared all of their interests in other enterprises or activities which were duly submitted and reviewed by the Board.

The number of shares of the Bank owned by Directors as at 31 December 2020 is shown below:

No.	Directors	Purchased	Sold	No. of Shares as of 31 Dec 2020
1.	Meshal AbdulAziz Alothman	-	-	-
2.	Mohammad Jassim Al-Marzooq	-	-	257,613
3.	Mohammad Fouad Al-Ghanim	-	-	785,145
4.	Abdulghani M.S.Y. Behbehani	-	-	293,485
5.	Ahmad Ghazi Al-Abduljalil	-	-	-
6.	Abdullah Mudhaf Al Mudhaf	-	-	33,745,570
7.	Jamal Abdulrazzaq Al Naif	-	-	-
8.	Khalid Mohamed Najibi	55,000	-	60,500
9.	Adel A. El-Labban	-	-	-
Total				**35,142,313**
Percentage				**0.36%**

Corporate Governance continued

The numbers of shares owned by Senior Management and Approved Persons as at 31 December 2020 is as follows:

Names	Purchased	Sold	No. of Shares as of 31 Dec 2020
Sanjeev Baijal	952,215	2,689,702	1,047,436
Keith Gale	764,010	840,411	-
Suvrat Saigal	145,833	-	160,416
Mustafa Shafqat Anwar*	297,401	700,000	562,060
Geoffrey Michael Stecyk	-	-	-
David Arthur O' Loan	628,541	550,000	99,341
Mark Andrew Ogilvie Hirst	250,802	-	275,882
Robert Jones*	706,487	777,135	-
Andre Roos*	57,750	-	63,525
Tom Nicholas Roger Blackwell	-	-	-
Iman Al-Madani	567,727	567,727	-
Srinivasan Rathinam	808,835	-	889,718
Ramachandralal Ravindranath	419,064	460,970	-
Othman Hijazi	62,500	-	68,750
Vikas Gupta	22,889	-	53,124
Mahmood Hassan Khursheed*	588,213	76,045	1,605,000
Sami Tamim	-	-	-
Jehad Al Humaidhi	-	-	-
Hala Sadek	1,791,028	-	1,791,028
Ayman El-Gammal	1,100,028	-	1,100,028
C.B. Ganesh*	77,001	-	84,701
Nouri Aldubaysi	-	-	-
Said Hathout	-	-	-

* Resigned / Retired during the year 2020

Employment of Relatives
The Bank does not encourage the employment of relatives. However, under exceptional conditions and based on specific requests and needs, the Bank may decide in favour of employing relatives, on a temporary or permanent basis, subject to a comprehensive review and only in cases where there is no conflict of interest or operational risk to the Bank involved. The Board of Directors has approved a policy on the employment of relatives which is part of the HR Policy on 19 July 2016 (last reviewed and approved by the Board of Directors on 27 December 2020), which has established a recruitment committee to review the recruitment requests of relatives of Bank employees of up to the third degree and recommend the hiring of relatives of Approved Persons occupying Controlled Functions to the GCEO & MD. Human Resources discloses to the Board of Directors on an annual basis, the names of all relatives of any Approved Persons occupying Controlled Functions, last disclosed on 31 December 2020.

The recruitment committee reviews the recruitment requests on the following considerations:
- No relatives shall work in the same business unit/ department.
- No relatives shall report to each other or allowed to supervise each other.
- No relatives shall work in business units/departments which have a conflict of interest or would create an operational risk for the Bank.
- No relatives shall share a dual signature/ approval in the Bank and have dual access control to any Bank property (Physical & IT).

Material Transactions
In addition to large credit transactions that require Board approval as per the Credit Policy, the Board also approves senior unsecured medium term (greater than 1 year) funding initiatives, strategic investments decisions, as well as any other decisions which have or could have a material financial or reputational impact on the Bank.

Board Committees
The Board may, where appropriate, delegate certain of its powers to an individual Director or to a committee comprised of Directors and/or other persons, constituted in the manner most appropriate to those tasks.

The Board has constituted a number of Board Committees, membership of which is drawn from the Directors and to which it has delegated specific responsibilities, through Terms of Reference, which are reviewed and adopted by the Board on an annual basis.

All Board Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances that prevent them from doing so. Committee members who cannot physically attend a meeting may attend the meeting by video or telephone conference.

Each Board Committee has access to independent expert advice at the Bank's expense.

The Board Committees are each comprised of an appropriate mix of professional skills and expertise. The Chairman of each Board Committee periodically evaluates the performance of the Board Committees and reports the results to the Board. The names of the Committee members and their memberships in the Board Committees and attendance at meetings held during 2020 are detailed below:

Executive Committee Meetings

Members	Classification	Meeting Dates			
		7/2/2020	12/5/2020	27/8/2020	28/10/2020
Meshal AbdulAziz Alothman - Chairman	Non-Executive	✓	✓	✓	✓
Mohammad Al-Marzooq	Non-Executive	✓	✓	✓	✓
Mohammad Al-Ghanim	Non-Executive	✓	✓	✓	✓
Khalid Mohamed Najibi	Non-Executive	✓	✓	✓	✓
Adel A. El-Labban	Executive	✓	✓	✓	✓

Audit and Compliance Committee Meetings

Members	Classification	Meeting Dates				
		6/2/2020	12/5/2020	26/8/2020	27/10/2020	28/12/2020
Abdulghani Behbehani - Chairman	Independent	✓	✓	✓	✓	✓
Ahmad G. Al-Abduljalil	Non-Executive	✓	✓	✓	✓	✓
Abdullah M. Al Mudhaf	Independent	✓	✓	✓	✓	✓
Jamal Al Naif	Independent	✓	✓	✓	✓	✓
Mahmoud Difrawy[1]	Independent	✓	✓	×		

1- Mr. Difrawy passed away on 27 September 2020.

Nominating Committee Meetings

Members	Classification	Meeting Dates
		28/12/2020
Abdulghani Behbehani - Chairman	Independent	✓
Ahmad G. Al-Abduljalil	Non-Executive	✓
Abdullah M. Al Mudhaf	Independent	✓
Jamal Al Naif	Independent	✓
Mahmoud Difrawy [1]	Independent	

1- Mr. Difrawy passed away on 27 September 2020.

Compensation Committee Meetings

Members	Classification	Meeting Dates	
		21/1/2020	27/12/2020
Abdullah M. Al Mudhaf – Chairman	Independent	✓	✓
Abdulghani Behbehani	Independent	✓	✓
Jamal Al Naif [1]	Independent		✓
Mahmoud Difrawy [1]	Independent	✓	

1- Mr. Mahmoud Difrawy passed away on 27 September 2020 who was replaced by Mr. Jamal Al Naif as a member of the Compensation Committee on 1 October 2020.

The principal responsibilities of the Board Committees are detailed below:

Executive Committee

The Executive Committee assists the Board in discharging the Board's responsibilities relating to matters including credit and market risk. The Executive Committee, acting for the Board of AUBUK, deputizes only in relation to credit and market risk approvals.

The Executive Committee has 5 members, comprising 4 Non-Executive Directors (including the Chairman) and 1 Executive Director.

Audit & Compliance Committee

The Audit and Compliance Committee is combined with the Corporate Governance Committee, and assists the Board: i) in discharging its oversight responsibilities relating to the Bank's accounting and corporate governance (including key persons dealings and market abuse practices), internal audit controls, compliance procedures, risk management systems, financial reporting functions; ii) in liaising with the Bank's external auditors and regulators in order to ensure compliance with all relevant regulatory requirements; and iii) in achieving uniformity with best market practices. The Audit and Compliance Committee carries out its principal responsibilities in respect of the Bank (as the parent company) and has oversight of the related responsibilities of the Audit and Compliance Committees of the Bank's subsidiaries and managed affiliates.

The Audit and Compliance Committee has 4 members, comprising 3 Independent Directors (including the Chairman) and 1 Non-Executive Director.

Compensation Committee

The Compensation Committee reviews the Bank's compensation and related policies and arrangements for its staff and Directors, and makes recommendations to the Board in this regard, in line with CBB guidelines and best international practice.

The Compensation Committee has 3 members, comprising 3 Independent Directors (including the Chairman).

Nominating Committee

The Nominating Committee supports the Bank's Corporate Governance, aligning it with the regulations of the CBB Rulebook and instills a best practice approach to the matters assigned to its responsibilities, at all times acting within the criteria set by the CBB Rulebook and the relevant sections of the Bahrain Commercial Companies Law, and any other applicable legislation and following a fair and balanced approach.

The principal responsibilities of the Nominating Committee include, identifying and recommending to the Board persons qualified to become a Director or other officers of the Bank considered appropriate by the Board. The Nominating Committee also oversees the Board's educational activities in the form of a formal induction program and on-going orientation activities and programs for the Directors.

The Nominating Committee has 4 members, comprising 3 Independent Directors (including the Chairman) and 1 Non-Executive Director.

Board Committee Evaluation

Evaluations of the performance of the Board Committees have been conducted. Applying a scoring methodology proposed by professional advisors. A rating of "Good" was achieved for the performance of the Executive Committee indicating that, on a majority of aspects, the Executive Committee functioned as required during 2020. A rating of "Excellent" was achieved for the performance of the Audit and Compliance Committee, the Nominating Committee and the Compensation Committee indicating that the Audit and Compliance Committee, the Nominating Committee and the Compensation Committee performed in accordance with their stated roles and responsibilities during 2020.

Senior Management:

Names	Title
Adel A. El-Labban	Group CEO & Managing Director
Sanjeev Baijal	Deputy Group CEO - Finance & Strategic Development
Keith Gale	Deputy Group CEO - Risk, Legal & Compliance
Suvrat Saigal	Deputy Group CEO - Retail Banking
Geoffrey Stecyk	Deputy Group CEO – Technology & Operations
David O' Loan	Deputy Group CEO - Treasury & Investments
Mark Hirst	Deputy Group CEO – Private Banking & Wealth Management
Othman Hijazi	Group Head – Corporate Banking
Iman Al-Madani	Group Head - Human Resources & Development
Sami Tamim	CEO - Ahli United Bank (UK) P.L.C.
Jehad Al Humaidhi	Acting CEO - Ahli United Bank K.S.C.P
Hala Sadek	CEO - Ahli United Bank (Egypt) S.A.E.
Ayman El-Gammal	CEO - United Bank for Commerce & Investment S.A.L.
Nouri Aldubaysi	CEO – Commercial Bank of Iraq - Iraq
Said Hathout	CEO – Al Hilal Life & Al Hilal Takaful

Management Committees

The Board has established a management structure with clearly defined roles, responsibilities and reporting lines. The Bank's management monitors the performance of the Bank, and each of its subsidiaries, and managed affiliates on an ongoing basis and reports this performance to the Board. The monitoring of performance is carried out through regular assessments of performance trends against budget, and prior periods and peer Banks in each of the markets and collectively through AUB Group committees and sub- committees at the parent bank and its subsidiary/affiliated banks' level. Specific responsibilities, as explained below, have been delegated to each management committee, and the minutes of all management committee meetings are sent to the Audit and Compliance Committee, in order to assess the effectiveness of these committees.

Group & Solo Management Committee

The Group Management Committee and Solo Management Committee is the collective Group management forum, providing a formal framework for effective consultation and transparent decision-making by the senior management on cross-organizational matters. In light of the unprecedented challenges faced on account of the global Covid-19 pandemic, the Group Crisis Management committee (CMT) replaced the Group Management and Solo Management Committees for a cohesive and unified approach for efficient and effective assessment and management during the period of the crisis, until a business as usual situation is established. The CMT is chaired by AUB's Group CEO and Managing Director and members include Deputy Group CEO's and Group Heads of relevant functions.

Group Asset and Liability Committee
The Group Asset and Liability Committee (GALCO) sets, reviews and manages the liquidity, interest rate risk, market risk and funding strategy of the AUB Group and reviews and allocates capacity on the balance sheet to achieve targeted return on capital, return on asset and liquidity ratios. It is chaired by the DGCEO-Treasury & Investment and has eight other members.

Group New Product Committee
The Group New Product Committee (GNPC) has been established to review and approve new products, processes and services for Private Banking & Wealth Management, Treasury, Retail, Commercial banking and other areas of the Group. The GNPC should assess all related reputational, operational, credit, liquidity and market risk, IT, legal, AML, compliance, control, staffing and capital/profit allocation issues related to approving new products. The approval by the GNPC follows the new product or process development according to the New Product Approval and Development Procedure. It is chaired by the DGCEO – Private Banking and Wealth Management and has eight other members.

Group Information Technology and Digital Transformation Steering Committee
The Group Information Technology and Digital Transformation Steering Committee (GITDTSC) oversees all the Information Technology and Digital Transformation functions of the AUB Group. Its responsibility encompasses: strategy formulation, prioritised implementation and delivery of Information Technology (IT) and Digital Transformation (DT) projects within an acceptable, secure and standardised framework to meet the evolving conventional and Islamic banking business needs of the businesses. It is chaired by the GCEO & MD and has ten other members

Group Risk Committee
The Group Risk Committee (GRC) reviews and manages risk asset policies, approvals, exposures and recoveries related to credit, operational and compliance risks. It acts as a general forum for the discussion of any aspect of risk facing or which could potentially face the Bank or its subsidiary and affiliated banks resulting in reputational or financial loss to the AUB Group. It also oversees the operation of the Group Operational Risk Sub-committee, the Group Special Assets Sub-committee, the Client On-boarding & AML Sub-committee and the Working Committee on IFRS9 impairment provisioning. It is chaired by the DGCEO-Risk, Legal & Compliance and has six other members.

Group Operational Risk Committee
Group Operational Risk Committee (GORC) is a sub-committee of the GRC and administers the management of operational risk throughout the AUB Group. It is chaired by the DGCEO- Technology & Operations and has nine other members.

Group Investment Committee
The Group Investment Committee (GIC) approves, reviews and manages AUB Group's proprietary investment portfolio of bonds, equities and funds. It acts as a general forum for the discussion of any aspect of investment risk faced by AUB or its subsidiary and affiliated banks. It is chaired by the DGCEO Risk, Legal & Compliance and has six other members.

AUB Solo Assets and Liability Committee
AUB Solo Asset and Liability Committee (ALCO) sets, reviews and manages the liquidity, interest rate risk, market risk and funding strategy of AUB Bahrain, and reviews and allocates capacity on the balance sheet to achieve targeted return on capital, return on asset and liquidity ratios. It is chaired by the DGCEO Treasury & Investment and has ten other members.

Other Governance Measures
In addition to the Board and Management Committee structures, the Board of Directors has approved several AUB Group policies to ensure clarity and consistency in the operation of the AUB Group. These policies, which are communicated to staff, include Credit, Anti-money Laundering, Corporate Governance, Personal Account Dealing, Key Persons Dealings, Banking Integrity, Compliance, Legal and Human Resources policies.

Underpinning these policies is the Board approved Group Code of Business Conduct which prescribes standards of ethical business behavior and personal conduct for the Bank's Directors, its senior management (officers) and its staff.

The Board annually reviews and adopts compensation and related policies and closely monitors the implementation of these policies and processes with respect to the Bank's staff and Directors. The AUB Compensation Policy provides the remuneration framework for motivating employees and directors with financial motivation to deliver optimum Group performance. The policy aims at rewarding performance by individual contribution within a team-oriented approach, remunerating individuals who achieve personal, divisional and Group results and providing a long term incentive to performing staff.

The Banking Integrity Policy, which includes detailed policy and procedures on whistle blowing, is specifically designed to facilitate concerns raised regarding misconduct occurring within, or associated with, the AUB Group.

The Board has also adopted a Group Communications Policy. This policy sets out the authority of AUB Group employees with respect to the communication of information to third parties in the course and scope of their employment. The Bank has an open policy on communication with its stakeholders, which includes:

(i) The disclosure of all relevant information to stakeholders on a timely basis in a timely manner; and

(ii) The provision of the last five years of financial data on the Bank's website.

The Bank is at all times mindful of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website, www.ahliunited.com, Bahrain Bourse, and other forms of publications, such as press releases, the Bank's annual report and quarterly financial statements, and the Corporate Governance Policy are all published on its website.

As a supporting governance measure, the Board also relies on the ongoing reviews performed by internal and external auditors on the AUB Group's internal control functions. These reviews are conducted in order to identify any weaknesses, which then enable management to take remedial action.

AUB GROUP COMPENSATION FRAMEWORK AND GOVERNANCE

AUB's compensation framework is designed to attract, motivate and retain employees and to align their interests and direct their efforts towards achieving the short- and medium-term objectives of the AUB Group as set by the Board of Directors. Performance is measured not only on financial achievements but the effective control of all risks that is in the long-term interests of all stakeholders of the Bank.

The effective governance of the framework and the application of AUB's compensation principles is maintained through the Board of Directors, who review and approve on a regular basis, the HR policy including, the compensation and training & competency policies and oversee the implementation and administration of these policies and processes with respect to the Bank's employees and directors directly or through delegation to the Board Compensation Committee, as mandated by the CBB.

The Compensation System

The compensation system represents a balanced risk-based remuneration consisting of fixed compensation for employees (Paid in the form of monthly salaries and allowances) and directors (Director Fees based on contribution and on attendance of meetings), employee benefits and of annual variable compensation for performing employees aligned to business performance and market conditions as mandated by regulators in AUB markets.

Component	Key Features
Fixed Compensation	• Rewards the capacity to hold a role/ position in a satisfactory manner through the employee displaying the required skills. • Consists of cash salary and allowances. • Payments are fixed and do not vary with performance.
Benefits	• Ensure market competitiveness and provide benefits in accordance with local market practice. • Consists of contributions to pension, social insurance, medical insurance, life insurance and health and wellness. • Contributions are fixed and do not vary with performance.
Variable Compensation	• Aims to reward collective and individual performance achieved for objectives defined at the beginning of the year and discretionary on extent to which objectives are achieved. • Consists of cash and/ or share-based performance related compensation, paid upfront or deferred in part with deferrals subject to the concept of malus and clawback. The MSP is operated by Trustees independent of the Board/ management of the Bank. • Payments are linked to performance standards and maintaining risk and control parameters defined by the Bank.
Others	• Awards under the Employee Share Purchase Plan (ESPP) to motivate and retain employees with sustainable performance using both pre- and post- award performance measures operated by Trustees independent of the Board/ management of the Bank.

The compensation system is aligned to supporting the Bank's short term and medium-term performance objectives and to controlling and reducing the full gamut of associated risks. It specifies the proportion of fixed and variable remuneration to be consistent with the Board approved Risk Framework.

Impact of Kuwait Finance House K.S.C.P. ("KFH") Offer on the ESPP and the MSP arrangements

- Following a decision by the Board of Directors, the ESPP program was terminated in 2020 including a decision to wind-up the ESPP program related entities, given the receipt of the Kuwait Finance House (KFH) intention to make a voluntary conditional Offer to acquire 100% of the issued and paid up capital of the Bank on 5 February 2020 with the formal Offer document being received by the AUB Board of Directors on 24 February 2020.

- All issued and un-exercised MSP shares were fully exercised during 2020 under Clause 7.1 of the MSP Rules, with the CBB, pursuant to letter dated 27 February 2020, exempting eligible MSP participants from the six months retention of proceeds in the form of cash or shares to ensure equitable treatment of AUB MSP participants

- The Central Markets Supervision Directorate (CMSD) of the CBB has closely followed up since February 2020 on a periodic basis, the liquidation of all share positions (ESPP & MSP) in anticipation of the KFH acquisition, currently under suspension due to unprecedented circumstances relating to the COVID-19 pandemic and as disclosed to the Bahrain Bourse and Boursa Kuwait by the Bank on 12 April 2020 and on 29 December 2020.

- The Bank is keeping the CMSD updated on the progress of the above on a periodical basis.

The Compensation Policy

The Compensation Policy is annually reviewed by the Board of Directors, which was last approved on 27 December 2020. The policy incorporates the mandatory regulations issued by the CBB on Sound Remuneration Practices [HC-5 Remuneration of Approved Persons and Material Risk-Takers], which are applicable to Approved Persons and Material Risk-Takers whose total annual remuneration (including all benefits) is in excess of BD100,000 or equivalent. The Policy and related schemes have been approved by the shareholders of the Bank at the Annual General Meeting held on 31 March 2015 and have been applied to performance related employee compensation payments made for each financial year.

The policy outlines the basis and methodology for arriving at variable compensation, making allocations, implementing risk adjustments to compensation, the framework for compensation of Approved Persons and Material Risk-Takers, conditions for deferral, malus and claw-back clauses, compliance and disclosure requirements. Equity schemes are limited so as not to exceed an aggregate 10% of the total issued outstanding ordinary share capital of the Bank, at any given time.

Role of the Compensation Committee in Governance and oversight over Remuneration

The Board of Directors has established a Compensation Committee (the "Committee") and has delegated certain of its powers and responsibilities to the Committee through its Terms of Reference. The primary responsibilities of the Committee are to provide effective oversight of and governance over the compensation strategy, structure and systems, to ensure that these are properly implemented. The aggregate compensation/ fees paid to the Committee members for 2020 amounted to US$11,750 (2019: US$15,000).

The Committee approves the annual aggregate amounts payable under fixed and performance related variable compensation schemes for employees. The Committee reviews and approves any material changes in employee benefits as per market trends and cost considerations and makes recommendations about any other employee matters, as brought before it. The Committee reviews compensation payable to the members of the Board of Directors and makes recommendations to the Board of Directors and in this regard, in line with applicable regulations.

The Committee further reviews and tests the Compensation Policy and framework to ensure that compensation arrangements comply with applicable regulations and to ensure that the compensation system operates as intended and that effective controls exist through testing of compensation outcomes as per the Bank's risk framework.

Main Duties of the Compensation Committee

The Compensation Committee (the "Committee") is vested by the Board of Directors through its Terms of Reference with the primary responsibility, inter alia, to provide effective oversight and assure governance over the compensation strategy, structure and systems, to ensure that they are properly implemented. The authority matrix for the Committee is as follows:

Action	Approved by
a) Approve the Bank's annual performance bonus pool funding model based on KPI and KRI adjustments.	Compensation Committee
b) Approve the Bank's annual performance bonus based on the determined funding model amount pool.	Compensation Committee
c) Approve the criteria for performance-based distribution of the Bank's annual performance bonus.	Compensation Committee
d) Approve the performance scores, annual increment % and annual performance bonus monthly salary multiples for Approved Persons and Material Risk Takers of the Bank	Compensation Committee
e) Approve the aggregate performance distribution, annual actual salary increment and actual performance bonus amount for the Bank.	Compensation Committee

External Consultants

Consultants are appointed on an ad hoc basis to advise the Bank on revisions to the Compensation Policy, if any and on regulations and market best practices including providing consulting advice for the deferred share/ equity-linked schemes.

Compensation of the Board of Directors

The Compensation Committee annually reviews the compensation of the Board of Directors and its related Committees to ensure compliance with the CBB Rulebook, within the relevant Commercial Companies Law requirements and the Articles of Association of the Bank. The Bank is in compliance with the CBB Rule Book HC Module 5.2.1 (c) which requires that the compensation of the Board of Directors is linked to attendance and performance. Board of Directors and its committees' compensation is pro-rated and paid on the basis of actual attendance and membership. Compensation for the Board of Directors and its related committees is submitted to the shareholders at the Annual General Meeting each year for approval.

The Bank is in compliance with its Articles of Association requiring that total compensation for Directors (excluding sitting fees) is capped at 10% of the Bank's NPAT for 2020, after all the required deductions outlined in Article 188 of the Bahrain Commercial Companies Law, 2001.

The compensation of Non-Executive Directors for 2020 does not include any performance-related elements such as shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits, in compliance with the CBB Rule Book HC Module 5.5.1.

AUB employees who represent or who are appointed by AUB to represent it at the Boards or Board Committees of its subsidiaries or affiliates are precluded from receiving any remuneration relating to their appointments, as per the terms of their employment contracts. Employees do not receive any additional remuneration for their participation in any management committees.

The Approved Persons and Material Risk Takers of the Bank do not receive remuneration, incentives, performance payments, commission, fees, shares, consideration in kind or other direct benefits of any kind from any projects or investments managed by the Bank or promoted to its customers or potential customers. This applies to all Approved Persons and Material Risk Takers including those appointed as members of the Board of any special purpose vehicles or other operating companies set up by the Bank for special projects or investments.

All Board of Directors' and related Committees' fees or other forms of compensation (except actual expenses) payable to AUB appointed Directors are fully credited to the Bank. Such directors are, however, reimbursed for reasonable and customary expenses such as communication, transportation, boarding and lodging as per the AUB HR Policy.

AUB Compensation Framework, Performance Bonus Pool Calculation and Risk Adjustments

Compensation decisions are made at the end of each performance year based on a combination of:

- Business performance against set objectives as per the annual operating plan;
- Risk objectives, KPI's and KRI's based on the Board approved Risk Framework.
- Compliance to AUB values, applicable regulatory guidelines and local market practices.

Key features of the compensation framework, that enables AUB to achieve the appropriate balance between risk and reward, include:

Framework	Key Features
Business Performance and KPI's and KRI's	• The Committee reviews and ensures the framework linking individual performance to the Bank's performance adjusts the annual accrual of the Variable Compensation pool for the Bank based on achievement of specified Key Performance Indicators ("KPI") which reflects Bank Performance for FY 2020. • The Committee reviews and ensures the Key Risk Indicators ("KRI") which reflects the compliance of the Bank as per the Board approved Risk Framework for FY 2020.
Performance Measures	• KPI's and KRI's measure the actual financial and operational performance against budgets and as per the Board approved Risk Framework and may include: Net Profit after Tax (NPAT)/ Return on average assets (ROAA)/ Return on average equity (ROAE) / Cost to income ratio/ Audit ratings/ Non-performing loans (NPL) as % of gross loans and/ or capital adequacy ratio. • Performance-related variable compensation at AUB aims at recognizing and rewarding employee's contribution beyond their regular job requirements, particularly those contributions that increase Bank's productivity and profitability in a prudent and sustainable manner with effective control of risk.
Performance bonus pool calculation	• The performance bonus pool is aligned to and accrued based on the Bank's short- or long-term financial performance and adjusted for compliance to the risk framework. • The Committee reviews the accrual of the performance bonus pool for the Bank and ensures it is based on the overall performance of the Bank and is accrued as a percentage of Net Profit after Tax (the "NPAT") for the preceding financial year and is in compliance to the risk-adjusted performance as per the Board approved Risk Framework. • Fines, penalties by regulators and non-compliance to the Risk Framework results in reduction in the overall profit achievement as assessed by the Committee.
Deferral of performance bonus	• The CBB mandates that the variable performance bonus for Approved Persons and Material Risk-Takers whose annual salaries are BD100K (-c.US$256K) be deferred.
Malus	• Allows cancellation/ reduction of unvested deferred performance bonus awards prior to their exercise, in addition to discretionary performance bonus adjustments to businesses and individuals based on compliance to risk objectives and record of disciplinary actions under the AUB HR policies.
Clawback	• Subject to compliance with local labour laws, allows the Bank to recover paid deferred awards under specific conditions as defined in the HR policy for a period of up to 6 months after exercise.
Incentive Compensation	• The Bank does not operate job-linked incentive or commission-based sales plans for full-time employees except for specific campaign-related or marketing schemes.

Performance bonus is payable at the end of the performance (financial) year in the following manner, applicable to the following Approved Persons in AUB:

- Group CEO & Managing Director;
- Business Functions: DGCEO Retail Banking, DGCEO Treasury & Investments, DGCEO Private Banking & Wealth Management, Group Head Corporate Banking and Group Head Treasury;
- Support Functions: DGCEO Finance & Strategy, DGCEO Risk, Legal & Compliance, DGCEO Operations & Technology, Group Head Audit, Group Head HR&D, Group Head Finance, Group Head Compliance, Group Head Legal & Corporate Affairs, Group Head Risk Management.

Variable Performance-based Compensation	**Regulated Roles** (Approved Persons and Material Risk Takers)	All other employees
Cash (Immediate)	• For the GCEO & MD, Approved Persons in business functions and all direct reports to the GCEO & MD, 40% of variable performance-based compensation is paid upfront in cash. • For the Approved Persons in Control and Support functions, 50% of variable performance-based compensation is paid upfront in cash.	100% immediate
Deferred	• For the GCEO & MD, Approved Persons in business functions and all direct reports to the GCEO & MD, 60% of variable performance-based compensation is deferred. • For the Approved Persons in Control and Support functions, 50% of variable performance-based compensation is deferred.	Nil

Review of Performance and Compensation arrangements of Approved Persons at AUB

The performance measurement and the compensation arrangements for designated Approved Persons and Material Risk Takers of the Bank for 2020 is reviewed and approved by the Compensation Committee and is subject to changes in total individual compensation and/ or to changes in the organizational structure and business model. Performance assessment of regulated roles is as per the following framework:

Level	Area	Group Objectives	Function Objectives
Group CEO & Managing Director	(Business)	100%	-
Approved Persons	(Business) (Control & Support)	60%	40%

The above performance measurement ensures that adequate focus is employed by personnel on their core objectives with Heads of business functions are measured for both Group business performance and development of their respective functions, and Heads of control/ support functions are measured for core control and risk objectives related to their functions and development of their respective functions independent to business performance targets.

The individual allocations of variable compensation components for the designated roles are correlated with the annual individual performance appraisal that considers the extent to which quantitative and qualitative objectives have been met. The objectives for these individuals are clearly identified and can be assessed by indicators that are known to the employee.

The qualitative objectives are tailored to the individual employee, in relation to the employee's professional activity and adapted to the position held. These objectives include the quality of risk management, the means and behaviors used to achieve results such as co-operation, teamwork and human resources management.

The performance appraisal process and the subsequent performance bonus allocation process is managed and documented by group human resources and its conclusions are submitted for approval to the Committee.

The variable compensation awarded to the Approved Persons and Material Risk-Takers is based on the Bank's short- or long-term financial performance as adjusted for all types of risk and are subject to reduction in case of the Bank's poor or negative financial performance. The compensation report for the Bank includes the regulated roles for 2020 who are Approved Persons in business lines – 8 (2019: 6), Approved Persons in control functions – 12 (2019: 9) and no other material risk takers. Other staff, Bahrain operations – 637 (2019: 688).

Compliance with Compensation Rules

AUB Group's compliance to Compensation Rules is aligned to its primary regulator, the Central Bank of Bahrain (CBB) and applies to its subsidiaries and branches in other markets, unless divergence exists with respective local country regulations.

AUB GROUP

Compensation Regulation	Compliance by AUB
External Review	• The Compensation Policy for Material Risk-Takers and Control functions is reviewed annually by the external auditors of the Bank and conferred to be compliant and further inspected by the CBB (last inspection occurred in April 2018) and found to be fully compliant of the regulations with no adverse findings.
Reduction of Bonus Pool	• The Committee at its discretion may propose to reduce or reduce to nil the bonus accrual for the Bank and each line of business and/ or the allocation pool of accrued bonus to businesses if there is a material reduction in the profitability of the Bank or the individual line of business. The Committee shall use its discretion to determine whether the particular business is incurring losses due to a start-up or turnaround situation, in which case, bonus accrual, allocation and pay-out may be allowed to occur.
Malus/ Clawback	• Awards of deferred variable compensation for the designated Approved Persons and Material Risk Takers of the Bank shall be reduced in case of losses by the Bank and/ or business line during the vesting period of deferred compensation awards as a result of Malus and/or Clawback as defined in the HR Policy.
Guaranteed/ Sign-on Bonus	• The Bank does not provide any form of guaranteed bonus as part of the employment offer or contract to any employee. Severance compensation (except notice period for a maximum period of 3 months) is prohibited except when the Bank provides for it on job redundancy or liquidation of a business or on closure of a unit.
Personal Hedging Strategies	• The Bank takes acknowledgements from designated Approved Persons and Material Risk Takers of the Bank in the communications on variable compensation not to use personal hedging strategies or compensation and liability-related insurance to undermine the risk alignment effects embedded in their deferred variable compensation arrangements.

Compensation Regulation	Compliance by AUB
Subsidiary	• The designated Approved Persons and Material Risk Takers of the Bank (as all AUB Group staff) do not take compensation, incentives, performance payments, commission, fees, shares, consideration in kind or other direct benefits of any kind from any projects or investments managed by the Bank or promoted to its customers or potential customers. This applies to all Approved Persons including those appointed as members of the Board of any special purpose vehicles or other operating companies set up by the Bank for projects or investments. Employees of the Bank are not be entitled to any additional compensation from their membership of or attendance at Board or related Committee meetings as a nominee or representative of the Bank or for their participation in any management committees.
Governance of Compensation Policy	• All members of the Committee are Independent or Non-Executive Directors. • The Committee sets the principles, parameters and governance framework of the Group's Compensation Policy applicable to all Group employees and reviews the Bank's compliance to the Board Risk Framework.
Employees in Control functions are independent and are compensated based on functional objectives	• Individuals in Control functions have independent reporting lines through the functions rather than through the business. • Control functions are represented in all senior management committees. • Control functions especially key ones of Risk and Audit have direct reporting lines to their respective Board Committees. • Performance and compensation related recommendations and inputs are taken from respective Board Committees for evaluating performance or setting compensation for heads of Control functions.
Total performance bonus pool does not limit the Bank's ability to strengthen capital base	• Group Performance Bonus Pool is determined based on evaluation of financial performance and compliance to objectives outlined in the Risk Framework. • Funding of the Group's performance bonus pool is based to overall profitability of the Group. Capital adequacy and returns to shareholders are also an important factor in calculation of the bonus pool. • AUB cash dividend payout for 2020 was 26.7% of NPAT (60.1% of NPAT for 2019). Bonus payout to staff represents 3% of NPAT in 2020 (4.6% of NPAT for 2019).
Performance bonus adjusts for all types of current and future risks	• NPAT performance is adjusted for appropriate current and future risks. • The Committee exercises its judgement to ensure the performance bonus pool reflects the overall performance of the Group including compliance to the Board approved Risk Framework.

Details of Compensation paid to Members of the Board of Directors

Total Value of Compensation for the fiscal year:	2020 (Amounts in US$' 000)	2019 (Amounts in US$' 000)
Compensation for the Board of Directors and related committees	1,587	2,141
Others (Expenses for the Board)	35	94

Corporate Governance continued

Details of Compensation Paid to Employees

Amounts in US$ 000	2020				
	Fixed Compensation		Variable Compensation		Total Compensation
	Unrestricted cash and allowances	Unrestricted others [1]	Cash	Deferred Equity Instruments/ Shares	
Approved persons - business lines	4,183	1,991	-	-	6,174
Approved persons – control	3,043	913	-	-	3,956
Other staff – Bahrain operations	33,208	15,734	5,093	-	54,035
Total	**40,434**	**18,638**	**5,093**	**-**	**64,165**

Amounts in US$ 000	2019				
	Fixed Compensation		Variable Compensation		Total Compensation
	Unrestricted cash and allowances	Unrestricted others [1]	Cash	Deferred Equity Instruments/ Shares	
Approved persons - business lines	4,287	1,934	1,192	1,753	9,166
Approved persons – control	3,365	898	866	998	6,127
Other staff – Bahrain operations	35,163	17,249	9,224	-	61,636
Total	**42,815**	**20,081**	**11,282**	**2,751**	**76,929**

1- Others include direct charges such as social security contributions, end of service indemnity accrual charges, life insurance and medical premiums, club memberships, house lease rentals, school fees, vacation air fare, fair value charges for the employee share purchase program and indirect employee expenses such as training, recruitment, Government levies and other costs.

No guaranteed or sign-on bonuses and/ or separation payments have been paid. These tables include employees in service for part of the year.

Deferred Performance Bonus Awards

Awards	2020				
	Cash	Shares		Others	Total
	(US$' 000)	Nos.	(US$' 000)[2]	(US$' 000)	(US$' 000)
Opening balance [1]	-	10,585,919	3,679	-	3,679
Awarded during the year	-	3,344,213	2,751	-	2,751
Exercised/ Sold during the year	-	(13,930,132)	(6,430)	-	(6,430)
Risk Adjustments	-	-	-	-	-
Closing balance	-	-	-	-	-

Awards	2019				
	Cash	Shares		Others	Total
	(US$' 000)	Nos.	(US$' 000)[2]	(US$' 000)	(US$' 000)
Opening balance [1]	-	20,593,277	6,072	-	6,072
Awarded during the year	-	6,605,213	2,587	-	2,587
Exercised/ Sold during the year	-	(16,891,123)	(4,980)	-	(4,980)
Risk Adjustments	-	0	-	-	-
Closing balance	-	**10,307,367**	**3,679**	-	**3,679**

[1] Inclusive of bonus shares issued.
[2] Based on price at award date.

Corporate Banking

In a year of heightened uncertainty and pandemic, the real success of Corporate Banking Group's performance was resilience and embedded support to clients, employees and stakeholders during the lockdowns and in laying the groundwork for the recovery. By adapting successfully to a rapidly changing environment and effectively managing key risks, ongoing investments in technology enabled support to clients under exceptionally challenging conditions. Well-established business continuity measures were enhanced with robust technology platforms and improved digital capabilities to meet the challenges of Covid-19 lockdowns.

Continued support for clients' liquidity and working capital needs provided a financial bridge beyond the crisis, complementing the relief measures announced by Central Banks with the Bank's own Covid-19 financial relief and business support initiatives.

With focus not only on the immediate challenges created by the pandemic but also on positioning the Bank for future success, significant progress was made against strategic objectives, accelerating the digital transformation journey. The pandemic also provided a once-in-a-generation opportunity to transform, connect more deeply with customers to seize these opportunities, and accelerate innovation and growth.

The twin pressures of the Covid-19 pandemic and low oil prices led to weak economic growth across the Bank's key markets and some industries drew to a near total halt. Despite that, CBG maintained stable business momentum and displayed its execution capabilities to manage change in the face of an unprecedented crisis.

Loans and advances are lower by 1.2% compared with 2019, reflecting a prudent lending approach while continuing to support clients by extending facility drawdowns to meet their liquidity and business requirements. Customer deposits and balances grew by 24% year-on-year with continued focus on growing CASA balances, reflecting CBG's aim to reduce the average cost of funding while maintaining liquidity at an optimum level.

To navigate the economic disruption caused by Covid-19 and in line with heightened credit risk profile, CBG adopted a strategy for active identification and management of vulnerable sectors and companies with actions taken to enhance lending criteria and reduce risk profile.

Transaction Banking is at the forefront of Corporate business growth strategy. With the augmented focus, Transaction Banking continued to make significant progress in its digital transformation journey, introducing new products and solutions across various areas including cash management, trade finance and client delivery channel.

Based on clients' preferences for a single bank portal capable of accessing multiple services, the Bank has launched its best-in-class digital experience for corporate clients by consolidating all existing corporate portals with the flagship client delivery channel - B2B, thereby allowing more customers to be served remotely, with faster access and improved security.

B2B solutions were enhanced with the addition of more than 20 new functionalities and features with a multitude of products and services and with strengthened omnichannel experience.

At AUB Bahrain, more than 70% of clients have successfully migrated to digital channels, with increasing business volumes carried out digitally across the businesses. At a group level, the number and value of transactions carried out through B2B has increased by 60% and 25% respectively for 2020 vis-a-vis 2019.

AUB was named the Best Trade Finance Provider Award in Bahrain by Global Finance Magazine, testament to the Bank's commitment to offer best in class products and solutions for its clients.

Further acceleration of the digital transformation programme will provide clients with more integrated and real-time information across all group entities. Prudent investment in upgrading technology and delivery channels will offer clients end-to-end automation of trade finance, cash management processes and centralisation of payment and collections, creating a significant upturn in transaction flows and CASA balances.

Libor Transition: Considering the magnitude, complexity of transition from Libor to Alternative Reference Rates and potential financial impact, the Bank has taken steps to proactively assess and manage evolving transition timetables and execution risks, to coordinate closely with clients and regulators, and to prepare for contract remediation as well as IT and operational work.

As global macro optimism gained momentum during Q4-2020, the Middle East Region is expected to witness a gradual recovery in 2021 and beyond. Recovery of oil prices and government stimulus measures are expected to support an economic rebound. However, uncertainties remain, and the shape of the recovery will be determined by the evolving dynamics of Covid-19, the vaccine rollout programmes, and governments' responses to the pandemic. The pathway to recovery to pre-Covid-19 performance levels will be slow and uneven.

Against this backdrop, CBG is taking measures to build greater business flexibility by accelerating investments in technology, redefine customer journeys and embedding agile and scalable business models. With solid foundation in place, the Bank is well placed to leverage the Group's geographical presence, strong execution capabilities and support sustainable long-term growth.

Retail Banking

The resilience of the banking industry has been tested like never before in 2020. Covid-19 has helped to compound the shift towards digitisation in the Banking sector, highlighting the crucial role of digital customer engagement and setting the tone for future evolution of operational models.

Retail assets grew 6.3% during the year. This growth was commendable due to the muted nature of the Retail borrowing environment driven by the Loan deferral programs in our key markets of Bahrain and Kuwait.

Retail liabilities grew strongly by 12.6% year-on-year with continued focus on growing CASA balances. What is more commendable is that this growth was driven by a stellar 19% increase in CASA balances. The healthy increase occurred across all our key markets with a key focus on our MyHassad portfolio which grew by 20% year-on-year.

AUB redoubled its focus on implementing its digital transformation strategy, with an emphasis on engaging customers virtually. In an immediate response to the pandemic, Retail Banking took several initiatives to help customers fulfil their financial needs safely and digitally. To help customers withdraw cash or shop safely, the entire Card base was converted to contactless, as well as enhanced contactless transaction limits at merchant outlets and ATM withdrawals. On the payments side, AUB Bahrain enabled Point of Sale terminals to accept contactless cards. In addition, all AUB ATMs were upgraded to accept contactless cards. Furthermore, WhatsApp Banking was upgraded to enable customers to interact with the Bank through WhatsApp and view account information. In Bahrain, AUB Debit Cards can now be tokenised and stored on BenefitPay and can be used by the Tap and Go contactless payment method. In Egypt, the ATM network functionality was significantly enhanced with the addition of Mobile Wallet acceptance, Mezza Cards Cash deposit, and more than doubling of Cash Deposit units. Customers in Egypt were introduced to the innovative WhatsAppBanking in addition to the launch of Mobile Banking.

To allow customers to open their accounts without visiting a branch, AUB also launched Bahrain's first digital onboarding platform to allow customers to open accounts using only their Bahraini Smart Cards (CPR). The whole process can be completed in a few minutes and allows customers to fund their accounts and request their debit cards instantly.

Adapting to the new normal, Retail Banking ensured the smooth operation of the branch network as per the directives of the local government while maintaining the utmost regard for the safety of its customers and its employees. AUB, under the guidance of local central banks and in keeping with the spirit of supporting its customers, introduced loan instalment deferrals, and in some cases, interest-free deferrals in Bahrain. Furthermore, AUB actively participated in the CBE's Youth and Savings initiative with several events across the country promoting financial literacy. To further enhance the Branch experience, AUB launched e-KYC in Bahrain and Kuwait to further streamline the account opening process.

AUB Bahrain redesigned its Mazaya offering for Bahraini nationals. By financing up to 120% of property value, AUB is now able to offer a market-leading financing product for Bahrain's Social Housing customers, leading to a significant uptake. The Mazaya program is an initiative introduced by the Ministry of Housing in cooperation with the private sector that aims to provide social housing for citizens.

On the SME front, AUB unveiled a one-of-its-kind proposition to help Bahraini start-ups achieve greater growth. Named Al-Tajer, the new offering serves as a one-stop shop where SMEs can find the right tools to expand by providing access to digital marketplaces, streamline operations and drive down overhead. The product is scheduled to roll out in Kuwait and Egypt soon. As part of expansion of the SME business, AUB Bahrain introduced an innovative financing product for SME Merchants. The POS Lending product enables merchants to access capital based on their Point of Sale turnover. As part of enhancing the digital offering to SMEs, AUB Bahrain has migrated all of its existing Internet banking users to AUB's Business to Business (B2B) platform. The B2B platform supports expanded transaction functionality such as bulk payments and payrolls, as well as providing a built-in approval workflow and processing engine.

The bank's efforts have received commendation and recognition, winning AUB a slew of awards and titles, such as Best Digital Transformation, Best Retail Bank in Bahrain, and Best Retail Bank in Kuwait by several leading global financial publications throughout 2020.

In 2021, AUB seeks to accelerate further its digital transformation in order to ensure its ability to exceed customers' expectations. Building on the work done in 2020, the Bank looks forward to helping its SME customers better navigate the difficult environment, with continued focus on building market-leading propositions for key customer segments, be they Youth, Salaried or Affluent. In addition, investing in the Bank's own employees will ensure that they have the skills to adapt and grow in times of rapid change.

Treasury

International markets entered 2020 with an outlook of cautious optimism that the decade-long economic expansion and bull market could continue slowing but positive economic and earnings growth would push for some moderate returns. The year began with the flaring up of tension between Iran and US, sending oil prices higher and markets lower. But fears of Middle East conflict soon became secondary to the impact of the coronavirus outbreak.

Global economic activity began a rapid decline in March, with some of the sharpest cuts in history from central banks. The Fed announced two rate cuts in quick succession of 50bps and 100bps respectively. The Bank of England followed with two cuts moving the base rate from 75bps to 10bps. As the ECB was already dealing with policy rates in negative territory, hence they provided the necessary push by expanding the QE program instead of moving benchmark rates. Most of the GCC countries followed the cues from US, UK and European central banks and adopted appropriate rate cuts. This led to an extremely low yield environment for clients.

The initial shock of March carried over to Q2, as real GDP growth rates numbers faced double digit declines across the globe. The economic decline in Europe was even more severe, while many economies in Asia, the original epicenter of the pandemic, held up relatively well.

The year also witnessed massive liquidity strain, especially USD liquidity, and only when central banks and governments took considerable measures to support the economy and lending environment did market liquidity start to flow again in the latter part of the year.

The prolonged drama around the US elections and the stretching of the Brexit negotiations in the last quarter of 2020, kept the underlying volatility high in the global markets. The Gulf region had to face the compounded negative combination of the coronavirus outbreak and the collapse in oil prices, leading to a sharp decline in economic growth numbers.

Treasury adapted to the challenging markets of 2020, optimising portfolios to manage the liquidity risk prudently. With the central banks' actions leading to an environment of extreme low yields, innovative structured deposit ideas to the Bank's clientele helped to enhance their yields as well as providing liquidity for the bank.

Innovative hedging solutions for both FX and interest rate risk which were in line with then prevailing market conditions were offered to corporate clients. Given that asset classes were volatile in 2020, the Bank provided private banking clients with investments ideas to monetise this volatility.

With IBOR transition picking up pace, a comprehensive plan was prepared, liaising with other relevant stakeholders in the bank to be well prepared with regard to new replacement "alternate risk-free rates (ARR)" by the end of 2021. This is a key strategic focus area, to position AUB as one of the leading banks to provide clients with a comprehensive suite of ARR-linked products.

Among the challenges ahead is to deal with how the pandemic will evolve. A fair degree of optimism appears to be factored into market prices. However, the sectors which have been hit the hardest by the pandemic remain far behind the rest of the market, and there may be scope for them to make up more ground over the next year. Treasury will monitor how the situation evolves and will provide its clients with suitable hedging and investment ideas.

The actions of central banks of continuing to anchor both short- and longer-term interest rates around their current historic low levels, exemplified by the Fed's new 'flexible average inflation targeting' framework may suggest that they will continue to do whatever is needed to keep financial conditions accommodative for as long as it takes the global economy to stage a full recovery. This backdrop of low rates will provide clients with long term interest rate exposures to hedge their floating rate risk at attractive levels.

For 2021, in the immediate and medium-term, markets will remain volatile, based on how the vaccine rollout and pandemic response across the globe evolves. Treasury will be primed to advise its clients accordingly on hedging and investment possibilities. Focus will continue on carrying out a smooth transition from LIBOR to ARRs for the Bank's clients. with the aim of being ready to provide a full suite of ARR-linked products before the end of 2021. A significant transformation to move towards a digitalised treasury team is in process, with the aim to minimise human intervention on any rule-based workflows.

Private Banking & Wealth Management

2020 was a year of surprises - the speed at which the pandemic escalated, the severity of the lockdowns, the size of the government stimulus measures globally, and the magnitude of the equity market rebound. Perhaps the biggest surprise is that global equities have gained more than 12% since the beginning of the year - an outcome few would have predicted during a global pandemic. With the U.S. election completed and effective vaccines on the way, investors have become bullish, pushing the S&P 500® to record highs.

The economic landscape is in the early post-recession recovery phase of the cycle. This implies an extended period of low-inflation, low-interest rate growth that favours equities over bonds. However there are some near-term risks, with investor sentiment being overly optimistic after the vaccine announcements, making markets vulnerable to negative news events. This could include the renewed lockdowns in Europe and North America as virus cases escalate with a new strain, logistical difficulties in distributing the vaccine. In addition, it could be impacted by possible negative economic growth in early 2021 especially if government support measures are unwound too quickly. Geopolitics could also deliver negative surprises from China, Iran or Russia as the new Biden administration takes overpower in the U.S.

Amidst the spate of forced lockdowns caused by Covid-19, the strategic focus of Private Banking & Wealth Management was to ensure the well-being of the Bank's employees and uninterrupted service delivery to our clients, along with maintaining adequate balance sheet liquidity and continued prudence on costs. The development of a flexible business plan and finalising the digital transformation plan for the division were complementary areas of strategic focus.

During 2020, the division received several prestigious industry-recognised awards:

- The Banker/PWM award for the Best Private Bank in Bahrain & Kuwait.
- Global Finance award for the Best Private Bank in Bahrain and Kuwait.
- Global Award for the Best Islamic Private Bank and Best Private Bank in the Middle East from Private Banker International

We had healthy balance sheet growth which is reflected in assets increasing by 4.7% and also the deposits base by increased overall 5%.

The key challenge in the operating environment will be the return of market corrections and volatility in the markets as multiple stock market indices are trading at all-time highs. Increased pressure on interest margins is expected due to an extended period of lower interest rates. This is as an opportunity to engage with clients and offer capital protected investment solutions and absolute return investments. Exploration of clients' investment ideas that are not correlated to traditional asset classes will continue, in order to deliver positive performance in these volatile market conditions.

In addition, one of the key learning of 2020 has been that business flexibility is of utmost importance, both for the Bank's client base by providing outstanding continuous client experience and also for its employees enabling them to work safely, efficiently and effectively while at the same time delivering the high level of service to our clients.

The product platform was strengthened by entering into strategic partnerships with the U.S.-headquartered, multi-family office, Forbes Family Trust and Principal Group. These partnerships will enable access to world class research and market views along with a healthy pipeline of well-researched new investment ideas for clients.

We are working on several digital transformation initiatives that will enhance our existing processes making them more efficient as well as improving service delivery to our clients and this will be a major focus for 2021 and beyond. Overall the core strategy for Private Banking & Wealth Management will continue to have a clear focus on its strong pillars of client service in both delivery and advice, which will enable us to attract new clients and for our valued clients benefiting from the investment offerings and services provided by partner firms to both preserve and grow their wealth for the future.

Information Technology

In 2020, AUB launched several initiatives to deliver immediate empowerment for its clients through digital products and services. WhatsApp Banking focused on addressing simple banking requirements and answering clients' inquiries at any time and from anywhere. The AUB Debit Cards Tokenisation service, was also launched, which supports clients using the Tap & Go contactless payment technology, implemented by BenefitPay – Bahrain's National Wallet. This capability helps make secure digital payments through POS machines. During the year, the Bank launched its Business 2 Business (B2B) Corporate portal, Avalon, an integration platform that seeks to meet the diverse banking requirements of Corporate Banking clients through the seamless integration with any ERP solution or financial accounting systems the clients may be using.

As part of the Core Banking enhancements, AUB upgraded its Islamic Core Banking System to the newest releases to support the latest technologies. Also upgraded were the Treasury System and Private Banking System to the latest version and applied special enhancements to manage the Upfront Step-up Deposits Product. In line with the Central Bank of Bahrain mandate, the automated Loan Deferment as part of the Covid-19 measures was also implemented.

Enhancement to several internal operational and governance processes, such as the SharePoint-based Documentation System hosting the IT Policies and Procedures, enabled testing automation for enhanced testing coverage. Additionally, upgraded MIS dashboards to track service disruptions, preventive control measures, thereby enhancing the operational effectiveness and governance controls were put in place.

The Bank continued to upgrade its IT infrastructure for all key systems and remote access infrastructure as part of the Covid-19 measures. Increased virtualisation with hyper-converged systems at production and disaster recovery data centres resulted in higher reliability and capacity to handle the continued demand for remote access. Focus on cloud adoption continued by enhancing the cloud footprint and plans were set for re-architecting critical applications to be hosted on the cloud. This paves the way for adopting cloud-native applications and reduces dependencies on the infrastructure within the Bank's data centres located in Bahrain, which in turn provides higher availability for critical applications globally. A portfolio of projects to enhance the customer experience and digital processing across the distribution channels was initiated in 2020, and is scheduled for delivery during 2021.

AUB continued its mission to provide quality and actionable data-to-business units by ensuring the smooth and timely running of Datawarehouse processes. Further automation applied to the upload of manual files via the Data Management Portal and provided Datawarehouse-based VAT extracts for the AUB Dubai branch, IBOR dashboards, and Bond Analytics reporting for Investments. Looking ahead, several key deliverables will result in the extended usage of enterprise data by various Business Units within the Bank.

The Bank successfully operationalised SWIFT GPI for outgoing and incoming payments, providing the online status of electronic payments with added convenience to its customers. A number of additional projects aiming to maintain AUB SWIFT CSP compliance was carried out.

Ahli United Bank Group laid the foundation for the group to accelerate its transformation program and to set the benchmark for how transformation can power the Bank's growth and future success.

Group Human Resources

Amidst the unprecedented Covid-19 pandemic, the two key priorities for the Group Human Resources & Development ("GHR&D") function revolved around monitoring and maintaining employee health and well-being and ensuring seamless yet effective business continuity through remote connectivity without disrupting the Bank's operations and customer services.

HR anchored the core roles of catering to business needs by enabling talent to be managed remotely through technology tools, communicating and sustaining staff engagement playing a key role in the Bank's transformation strategy. Over 60% of AUB's workforce worked remotely at an early stage of the outbreak with minimal interruption to work productivity, a clear demonstration of our ability to respond in an agile manner, maintain business sustainability and fully serve all our customers' needs.

Measures prioritizing the health and safety of our employees by preventing further spread of the virus during the Covid-19 pandemic and ensuring a smooth return to work in office locations included initiatives of:

- HR delivering an online health & vaccine status monitoring portlet available 24X7 on PC and mobile for employees to update their health status on symptoms, infection, isolation status, location, vaccination status and their general health condition;
- The portlet enabled HR and our leadership teams to collect real-time data/ analytics dashboards to plan operations including staffing frontline/ physical positions, safely bring employees back into the office, managing safely distanced workspaces and identify and support high-risk employees based on location, age, and area of work;
- Providing masks and sanitizers at the workplace and availability of ongoing Covid-19 RT-PCR testing for employees;
- Educating employees through online awareness sessions and mobile push notifications on precautionary protocols to prevent the spread of the Covid-19 pandemic and current health updates/ guidelines to stay safe.
- Implementing flexible remote working protocols through implementation of a new remote work access policy as well as an online workforce planning tool with automated notifications to enable seamless remote working capability especially in view of volatile lockdowns in different countries;
- Wellness programs/ interventions through webinars and virtual health camps to ensure the mental, emotional and physical wellbeing of our employees.

AUB employed 3,227 full-time employees covering a diverse 37 nationalities across the group as at December 2020. Participation of women in the workforce increased to 36% from, 35% in 2019. Local participation in the workforce in all markets in which AUB operates is a key strategic and mandatory objective for the Group. All AUB Group banks are compliant to mandated localization ratios in Bahrain, Kuwait and Libya. No set ratios exist for Egypt, UK, Dubai and Iraq to date.

Investment in the continuous professional development of employees continued to be a key objective for the function, with over 76% of AUB employees completing more than 800 online courses in 2020. AUB launched its first summer virtual internship program (in collaboration with the CFA Society) to cultivate young high-caliber talent with skillsets aligned to a modern analytical and execution-focused banking setting. The virtual internship allowed learning flexibility to be maximized with candidates being onboarded virtually, assigned high-impact e-learning courses apart from an intensive virtual rotation across key departments.

Fostering a culture of positive engagement, Group HR & Development will lead the way in the design, measurement and evaluation of proactive workplace initiatives and practices that help attract and retain talent with skills and competencies necessary for growth and sustainability in a fast-paced and disruptive business environment including development programs for current and future leaders/ managers. New and existing businesses will be supported by Group HR & Development to access accurate and real-time employee data, enabling the Bank to be more data-driven to improve efficiency in order to create a competitive advantage.

Providing cutting edge data and technology enabled job roles and career paths and the related training & skill development for our employees and prospective candidates is a key priority for Group HR & Development and vital to driving AUB's transformation priorities, from improving efficiency to growing revenues and business opportunities. The vision of AUB Group HR & Development is to be the employer of choice for potential talent in all our markets by providing structured skill and career development opportunities for their advancement by adapting to new technologies and data insights.

Compliance

AUB continuously strives to improve the level of compliance in all its activities. The Bank has an independent Compliance function and reports to the Audit and Compliance Committee. The Compliance function acts as a focal point for all regulatory compliance and for adapting any best practice compliance principles. The Compliance Department has the responsibility to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and to advise and assist the relevant persons responsible for carrying out regulated activities to comply with the stated obligations under the regulatory system.

Implementing appropriate systems, processes and controls to combat Anti-money laundering and terrorist financing activities form an important activity of the AML Unit within the compliance function. AUB has deployed a risk based automated transaction monitoring system and implemented relevant procedures and controls to facilitate appropriate monitoring and detection mechanism. AUB also has appropriate AML and Compliance policies and monitoring programs. These policies and monitoring programs are reviewed and updated annually and approved by the Board of Directors. The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit & Compliance Committee of the Board. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year and their report is submitted to the CBB. The Central Bank also performs periodic inspections of the Bank's compliance with anti-money laundering regulations.

It is the Bank's policy to set standards for customer protection by maintaining the quality of its customer service and measuring the delivery of service against these standards. The Bank has established a Quality Assurance policy reviewed and updated annually and approved by the Board of Directors. Quality Assurance policy seeks to attain excellence in customer protection bearing in mind regional benchmarks and any applicable regulatory framework in respective jurisdictions. Overall client acquisition and retention is a key goal through attainment/maintenance of high customer service standards set by the Bank on an on-going basis thereby contributing to the Bank's goal of sustainable profit growth.

Risk Management

Risk management involves the identification, analysis, evaluation, acceptance and management of all financial and non-financial risks that could have a negative impact on the Group's performance and reputation. The Risk management function provides oversight and advice on the Board approved risk appetite and strategy, development and maintenance of a support system for management of risks through procedures and training.

The major risks associated with AUB's business are credit risk, market risk (which includes foreign exchange, interest rate and equity price risk), liquidity risk, operational risk and reputational risk. AUB's risk management policies have been developed to:

- identify and analyse these risks,
- set appropriate risk limits and controls,
- measure, monitor and report the risks against approved limits.

While risks that are inherent in the banking business cannot be completely eliminated, the risk management function aims to effectively manage these risks within the tolerance levels approved by the Board while earning competitive returns commensurate to the degree of risk assumed. Risk is evaluated based on the potential impact on income and capital, taking into consideration changes in political, economic and market conditions, and the idiosyncratic factors that impact the risk exposures.

The risk management function relies on the competence, experience and dedication of its professional staff, sound risk management policies and procedures, and ongoing investment in technology and training.

The Board of Directors approves at least annually the Bank's key Risk Management policies based on reviews and recommendations of the risk management function and the relevant management committees. The risk management processes are subject to additional scrutiny by independent internal and external auditors, and the Bank's regulators which help further strengthen the risk management practices.

The risk management and control process is based on detailed policies and procedures that encompass:

- business line accountability for all risks taken. Each business line is responsible for developing a plan that includes adequate risk/ return parameters, as well as risk acceptance criteria;
- a risk function that understands, monitors and independently controls each risk exposure ensuring that the appropriate approvals are obtained and a uniform risk management standard, including objective risk measurement, has been correctly applied to all risk exposures;
- product and business policies, which are clearly understood, monitored and are in line with the overall Board approved risk framework;
- the ongoing assessment of the portfolio against various risk parameters; and
- an integrated limits structure that permits management to monitor, control and assume exposures within approved tolerances.

Credit Risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform its obligations according to agreed terms. It arises principally from lending, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk rating are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Credit risk within the Group is actively managed by a rigorous process from initiation to approval to disbursement. All day-to-day management is in accordance with well-defined credit policies and procedures (CP&P) that detail all credit approval requirements and are designed to identify at an early stage, exposures which require close monitoring. Specific impairment provisions are made against credit exposures where whole or a portion of the credit is considered doubtful of recovery.

If an asset is assessed to be irrecoverable, a mandatory write-off takes place. This is conducted by a risk management process, which is completely independent in reporting terms from the asset generating departments.

Risk rating of individual counterparties plays an important role in the approval and maintenance of credit limits. The risk rating process ensures that the quality of the credit portfolio of the Bank is maintained at the highest possible level and stays within Board approved risk limits. The CP&P includes a robust risk rating system developed by a leading international rating agency, which provides a credit rating for each individual credit based on an extensive set of financial and non-financial parameters. This risk rating system has been validated and calibrated to meet the requirements of Expected Credit Loss computation under IFRS 9. The Group has implemented the necessary automated systems, quantitative models and governance processes to be compliant with IFRS 9.

The risk management function categorizes the credit portfolio by level of risk to monitor the credit quality and to be able to assess the pricing and aid in the prompt identification of problem exposures. Management of material problem exposures is vested with Remedial Management in the respective Group operating entities, all of which report to the Group Risk Management function.

In addition to the Group Risk Management function, credit risk is overseen by the Group Risk Committee (GRC) which is vested with the overall day-to-day responsibility for all matters relating to Group credit risk. The GRC responsibilities include the following:

- formulation and implementation of credit policies and monitoring compliance,
- act as a credit approval authority for credits within its delegated limits,
- recommend to the Executive Committee all policy changes related to credit risk as well as credits falling outside its discretion,
- determine appropriate pricing and security guidelines for all risk asset products,
- review the ongoing risk profile of the Group as a whole and by individual products, business sectors and countries
- ensure the adequacy of specific and collective impairment provisions and make appropriate recommendations to the Executive Committee.

Market Risk
Market risk is the risk that adverse movements in market risk factors including foreign exchange rates, interest rates, credit spreads, commodity prices and equity prices will reduce the Group's income or the value of its portfolios.

Given the Group's ongoing low risk strategy, aggregate market risk levels are low relative to the size of the Bank's balance sheet. A robust control process incorporating well defined limits is applied to effectively manage market risks and monitor daily position limits and stop losses. The Group utilizes Value-at-Risk (VaR) models to estimate potential losses that may arise from adverse market movements in addition to other quantitative and qualitative risk management techniques.

The Group calculates VaR using a one-day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates. VaR limits are delegated by the Board to the Group Asset and Liability Committee (GALCO) and sub-delegated to the ALCO of the Group's subsidiaries.

The Group recognizes that VaR is based on the assumption of normal market conditions and that certain market shocks can result in losses greater than anticipated. Therefore, supplementary risk management techniques such as stress testing form a core part of the Group's risk control processes.

Liquidity Risk
Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. It is measured by estimating the Group's potential liquidity and funding requirements under different stress scenarios.

The Group's liquidity management policies and procedures are designed to ensure that funds are available under all circumstances to meet the funding requirements of the Group not only under adverse conditions but at sufficient levels to capitalize on opportunities for business expansion. Prudent liquidity controls ensure access to liquidity without unexpected cost effects. Liquidity projections based on both normal and stressed scenarios are performed regularly. The control framework also provides for the maintenance of a prudential buffer of liquid, marketable assets and an adequately diversified deposit base in terms of maturity profile and number of counter parties.

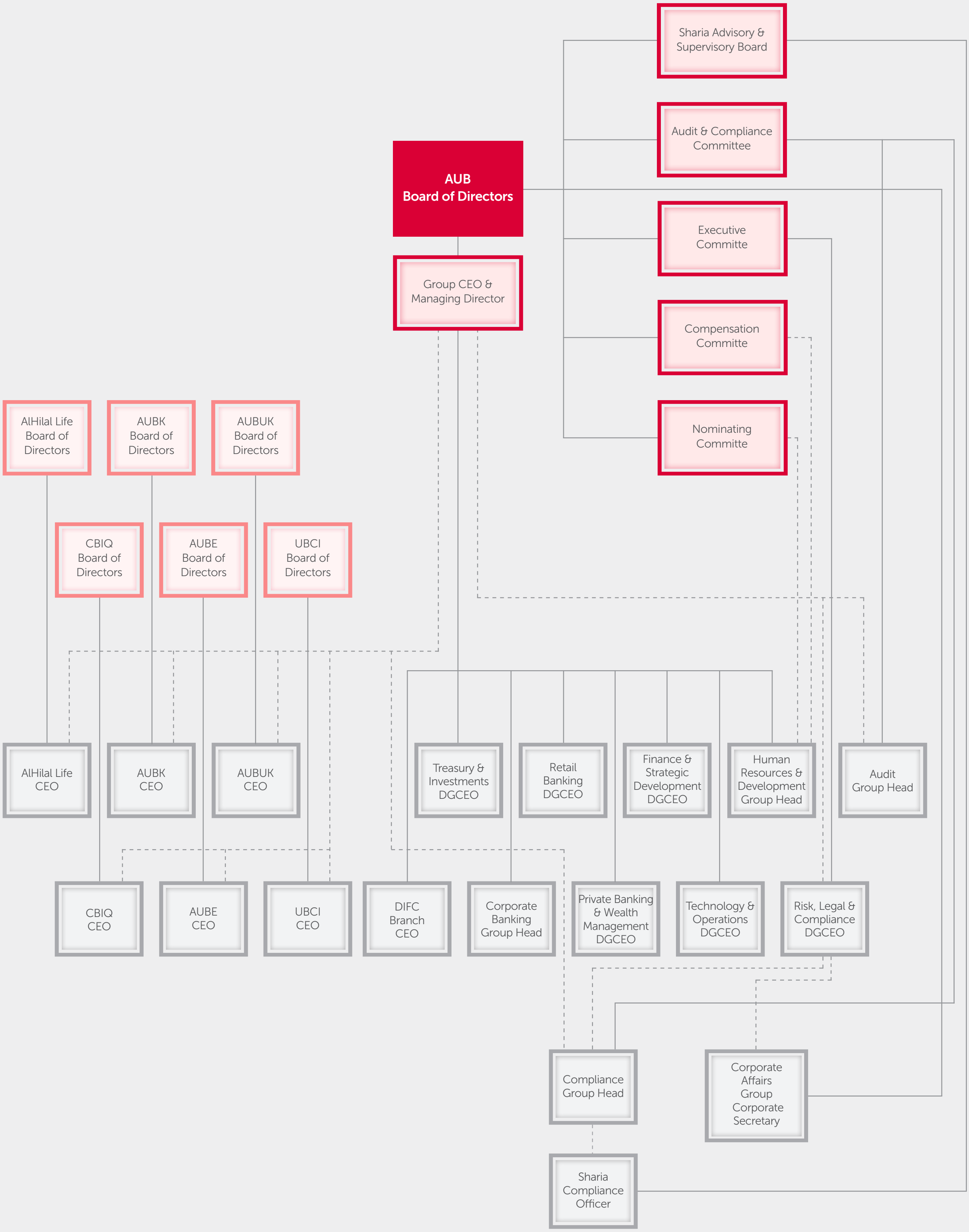
The Group Risk Management function continuously monitors liquidity risk and actively manages the balance sheet to control liquidity. The treasury function at each subsidiary manages this risk with monitoring by the Risk Management department and oversight by its Assets and Liabilities Committee (ALCO). At the Group level, the liquidity risk is managed by the GALCO, which is vested with the overall day-to-day responsibility for all matters relating to Group liquidity.

Operational Risk
Operational Risk is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

Operational risk is managed by the Group Operational Risk Committee (GORC). The Group has adopted an ongoing Operational Risk Self-Assessment (ORSA) process. Assessments are made of the operational risks identified within each function of the Bank and these are reviewed regularly to monitor significant changes and the adequacy of controls. Operational risk incident and loss data is collected and reported to senior management on a regular basis. There were 6 instances involving a total of 946 EFTS time-out incidents during the year, which resulted in a penalty of BD 9,330/- payable to the CBB. The Group also collates and reviews various key risk indicators (KRIs) to facilitate detection of deficiencies or potential failures in controls and procedures.

The Group's independent audit function regularly evaluates operational procedures and advises senior management and the Board of any potential problems. Additionally, the Group maintains adequate insurance coverage and business continuity contingency plans utilizing offsite data storage and backup systems. The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time. The adequacy of the Bank's business continuity plans is confirmed by a programme of regular testing with oversight being provided by GORC.

Group Management Structure



Environmental, Social and Governance (ESG)

Ahli United Bank (AUB) has contributed to economic and social developments in Bahrain, Kuwait, United Arab Emirates, United Kingdom, Egypt, Iraq, Oman and Libya, financing infrastructure, industrial and commercial projects, and despite the repercussions of the Novel Corona Virus 'Covid-19' pandemic, the Bank continued to provide its customers with high quality services while ensuring the safety of all its staff and customers.

Environmental

AUB adopted the Equator Principles (EP) in May 2011. EPs provide a risk management framework for determining, assessing and managing the environmental and social risk of AUB's clients. AUB has put in place performance standards within its risk framework to assess and evaluate Social and Environmental (S&E) risks associated with financing, known as the Social and Environment Management System (SEMS). The SEMS policy is as follows:

- The Bank shall continually endeavour to implement effective social and environmental management practices in all its activities, products and services, with a focus on the applicable national laws on environmental, health, safety and social issues.
- The Bank will finance projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable national laws, and will make best efforts to ensure that all projects are operated in compliance with the applicable regional laws, World Bank Group performance standards and the exclusion list during the currency of the Bank's financing.
- The Bank will also ensure that client companies understand the policy commitments made by the Bank in this area.
- In instances where the Bank is a minority investor, AUB will make all reasonable efforts for the applicable performance requirements to be met by the client.

AUB became a signatory to UNEP-FI in January 2020 and is committed to implement Principles of Responsible Banking over a four-year period. AUB will align its business strategy to be consistent with, and contribute to, individuals' needs and society's goal as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Digital Transformation

In order to reduce its own carbon footprint, AUB Group has launched multiple digital transformation programmes and digital projects across multiple business lines and customer engagement channels since 2019.

In 2020, AUB introduced various new digital features on its internet banking system (B2B) and onboarded most of its existing clients to the platform. The B2B platform is used for online transaction and cash management, in addition to several other product offerings. Over 350 major companies in Bahrain, along with 200 regional corporate clients now rely on AUB's B2B channel as their mission critical platform and as a result significantly reducing their carbon footprint. Also, the Bank launched enhanced mobile banking, robotic process automation, workflow automation and customer onboarding, using agile delivery capabilities while leveraging cloud platforms wherever possible to create a road map for the next generation of systems that embrace customer-centric design. Using the Open Banking paradigm is another initiative implemented, facilitating collaboration with third parties and innovative Fintech Players in Bahrain and the other countries where the Bank operates.

Further digital offerings to retail customers include account opening and relationship creation, whereby clients are able to open new accounts with the Bank from the comfort and safety of their own homes. Migration to digital services accounted for 70% of new business in 2020, with early adaptation and acceptance of the new service. Updates on KYC digitally allows customers to maintain up-to-date information, avoiding any service interruption, and encouraging the use of safe remote interaction.

AUB Group has set ambitious targets for 2021, reinforcing its commitment to digitalisation and developing efficient systems with customer-centric features that will continue to drive reduction in operating costs, resulting in enhanced profitability for the Bank and its customers, and thereby enhancing its shareholder value.

Social

Economic Opportunities and Social Investments

Tamkeen is the Bahrain Government's agency for developing and promoting the private sector and is its main engine for economic and sustainable growth. The Bank collaborated with Tamkeen to offer financing to the SME segment, sponsored by Tamkeen. AUB also launched the Tamweel+

Scheme, which is dedicated to financing expansion plans of medium-to-large entities with no cap on the size of the entity. The scheme is Sharia-compliant and allows offering Islamic financing products within a range of BD 1 million to a maximum of BD 2.5 million, whereby Tamkeen will subsidise 70% of the annual profit rate, capped at 8%, with a repayment period of up to 10 years.

During 2020, the Bank donated US$ 4.7 million to various Governmental bodies in the region to support the humanitarian and relief efforts in the wake of Covid-19 pandemic.

On the social front, AUB continues to support the educational and healthcare sectors by providing financing and various banking services to hospitals, pharmacies, schools and other educational institutions.

Workforce and Customers Wellbeing

With the start of the Covid-19 crisis, AUB took proactive steps to safeguard the health and safety of its employees, customers and the community, to reduce the risk of exposure and to ensure business continuity.

- At all AUB offices, multiple measures were introduced, including thermal temperature scanning of all staff and visitors, weekly sanitisation and disinfection misting and easy access to hand sanitisers.
- International Business Travel restricted.
- Encouragement of video conferencing facilities via MS-Teams and other video conferencing applications instead of face-to-face meetings.
- Remote working facility provided to ensure that staff work with adequate social distancing.
- Launch of AUB Digital Wellness Programme to spread awareness of and tackle the not-so-obvious impact of Covid-19.
- Created a 'Health Advisory' page on Group HR Communications for management and staff.

Data Privacy and Security

The Bank ensures protecting customer privacy and securing personal information with the highest care to gain the trust and confidence of its customers. Numerous security and privacy measures have been implemented to safeguard customers and facilitate transactions across different platforms: online, mobile, and ATMs. Staff have been provided with privacy awareness training. Internal audits on information security are conducted multiple times during the year, while an external audit is performed annually.

AUB was the first bank to be PCI-DSS certified in Bahrain in 2009, and maintained compliance with the PCI-DSS for the eleventh year in 2020, demonstrating its commitment to the security of card payments in the communities to which the Bank belongs. Being ISO27001 certified for more than 10 years, AUB has adhered to the highest international security practices in maintaining its customer data confidentiality and system security across all of its banking services. Business operations in response to the Covid-19 pandemic were sustained by the prompt introduction of a safe, work-from-home, operating model and secure technologies that enabled employees to serve the customers and the community.

Governance

AUB Board of Directors is committed to implement the best practices of Corporate Governance standards in conducting its affairs and the management of the Bank. The Bank has established Governance policies to provide a framework for setting the principles of effective Governance across Ahli United Bank, B.S.C., and its subsidiaries, which provide a basis for a performance of high quality, solid and sound financial standing as well as sustainable growth, taking into consideration the following:

- International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision;
- Corporate governance principles issued by the Ministry of Industry and Commerce in Bahrain as 'The Corporate Governance Code'; and as incorporated in the High-level Controls Module of the Central Bank of Bahrain; and
- Respective Central Bank regulations in the countries where the Bank operates.

The guiding principle is the perseverance of independence in the absolute sense as well as in the views of the investing public. The Bank maintains and enforces written policies, procedures and systems of supervision (related to fair disclosure) reasonably designed to:

- ensure the fair and timely release of material information about the Bank.
- ensure that the information it releases about the Bank is factually correct, clear and transparent.
- ensure that the information it releases does not intentionally or unintentionally mislead investors.
- prevent dealing in the shares of the Bank based on undeclared or unrevealed information, by those who are, by virtue of their position, aware of such information.
- ensure prevention and controls against anti-bribery and corruption practices.

- ensure appropriate and prompt disclosures relating to gifts, compliments, conflicts of interest, and outside business interests.

Outlook

The bank will continue to broaden the scope of ESG initiatives in 2021 and beyond. It will continue to closely monitor the local and international market conditions to identify the impacts on the banking sector in general and the Bank in particular, to take proactive measures with focus on the undernoted objectives as part of its strategic growth path going forward:

- Lead in digitalisation by digitalising processes and services, as well as touchpoints where clients interact with the Bank.
- Implement modern technology to facilitate access to the segment of new generations and attract this segment that seek technological solutions.
- Adopt a smart branch network to Improve customer satisfaction levels through specialised services, modern technology and strategic locations.
- Verify compliance with the regulatory requirements and enhance the level of relationship with the Bank’s customers.
- Implement the best standards of Corporate Governance in all operational aspects.
- Support the Government of Bahrain in its commitment to develop renewable energy resources and shift the country toward more efficient consumption of energy in consultation with the Sustainable Energy Authority (SEA).
- Continue to provide its products and services that add social and human values within the framework of social responsibility programs.

Group Management

ADEL A. EL-LABBAN

Group Chief Executive Officer and Managing Director

Director since 30 July 2000. Holds a Masters in Economics (Highest Honors) from the American University in Cairo, 1980, Bachelors in Economics (Highest Honors) from American University in Cairo, 1977.

Group Chief Executive Officer & Managing Director, Ahli United Bank B.S.C., Bahrain; Deputy Chairman, United Bank for Commerce & Investment S.A.C., Libya; Director, Ahli United Bank (UK) PLC; and Director, Ahli United Bank K.S.C.P., Kuwait.

Formerly: Chief Executive Officer and Director, United Bank of Kuwait P.L.C., UK; Managing Director, Commercial International Bank, Egypt S.A.E.; Chairman, Commercial International Investment Company, Egypt; First Deputy Chairman, Ahli Bank S.A.O.G., Oman; Vice Chairman, Middle East Financial Investment Co., Saudi Arabia; Deputy Chairman, Ahli United Bank S.A.E., Egypt; Deputy Chairman, Commercial Bank of Iraq; Director, Ahli United Bank Limited, UAE; Vice President, Corporate Finance, Morgan Stanley, USA; Assistant Vice President, Arab Banking Corporation, Bahrain; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; Director, Kuwait & Middle East Financial Investment Co., Kuwait; and Director, Bahrain Association of Banks, Bahrain.

(Total years of experience: 42 years)

SANJEEV BAIJAL

Deputy Group Chief Executive Officer - Finance and Strategic Development

Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c), Bahrain; Director, Ahli United Bank K.S.C.P., Kuwait; Second Deputy Chairman, Ahli Bank S.A.O.G., Oman; Previous experience as Group Head of Finance, Ahli United Bank B.S.C., Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain; Held various positions at Ernst & Young, Bahrain and Price Waterhouse in India; Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA).

(Total years of experience: 37 years)

KEITH GALE

Deputy Group Chief Executive Officer - Risk, Legal and Compliance

Director, Ahli United Bank K.S.C.P. Kuwait; Director, Ahli United Bank S.A.E., Egypt; Director, Ahli United Bank (UK) P.L.C.; Director, Ahli Bank S.A.O.G., Oman; Previously Group Head of Risk Management, Ahli United Bank, Bahrain; Former Head of Credit and Risk at ABC International Bank P.L.C.; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young. Associate Member of the Institute of Chartered Accountants England & Wales (ACA) and holds a BA (Hons) in Accounting and Finance from the University of Lancaster, UK .

(Total years of experience: 40 years)

SUVRAT SAIGAL

Deputy Group Chief Executive Officer – Retail Banking

Director, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c), Bahrain. Former: Head of Mass Segment and Products, First Abu Dhabi Bank, UAE; Head of Global Retail, National Bank of Abu Dhabi, UAE; Head of Consumer Banking, Barclays, India; Head of Strategy, Marketing & Consumer Experience, Citibank, Australia; Citibanking Head, Asia Pacific, Citibank N.A., Singapore; Cards Head, Citibank N.A., Japan. Held various management positions with Citibank in Singapore, USA, India and Saudi Arabia. Holds a Bachelor of Engineering from Delhi College of Engineering, India.

(Total years of experience: 31 years)

GEOFF STECYK

Deputy Group Chief Executive Officer - Operations and Technology

Former: Chief Operating Officer, Rakbank, UAE; Group Chief Technology Officer, Maybank Berhad, Malaysia; Vice President – National Head of Bancassurance, AIA China; Executive Vice President – Business Integration, Southern Bank Berhad, Malaysia; Co-Director and Founder, Asiapace Limited, Malaysia, Hong Kong and Singapore; General Manager, Southern Bank Unit Trust, Malaysia; Financial Consultant, Southern Bank Unit Trust, Malaysia; Business Development Officer, Investors Group, Canada. Holds a Bachelor of Commerce, Marketing/ Finance from University of Alberta, Canada.

(Total years of experience: 29 years)

Group Management continued

DAVID O'LOAN
Deputy Group Chief Executive Officer - Treasury and Investments

Former: Director, Ahli United Bank K.S.C.P., Kuwait; Group Treasurer for J. Sainsbury Plc, UK; Deputy Group Treasurer, RBS Group, UK; Senior Vice President, Swiss Re Asset Management, Switzerland; Investment Director, Standard Life Investments, UK; Head of Treasury, BGB (Ireland) plc, Ireland; Manager, Citibank N.A, Ireland. Fellow of the Association of Chartered Certified Accountants, holds a Master of Science degree in Treasury & Investment from Dublin City University and an MBA from University of Edinburgh.

(Total years of experience: 27 years)

MARK HIRST
Deputy Group Chief Executive Officer - Private Banking and Wealth Management

Former: Chief Executive Officer & Head of Private Banking, Standard Chartered Bank, Switzerland; Chairman of CS UK Ltd & Market Area Head UK/ International - Credit Suisse Group, Switzerland; Executive Board Member & Market Area Head Middle East & Africa - Deutsche Bank, Switzerland; CEO - Deutsche Bank International Ltd, Channel Islands; CEO & Chief Investment Officer – RBC Global Asset Management UK Ltd; Head of Asset Allocation & Senior Portfolio Manager - Manufactures Life International Investment Office, UK. Economist - Confederation of British Industry, UK. Holds a Masters in International Management from McGill University in Canada, Diploma in International Practicing Management from INSEAD, Bachelor of Science from University of Swansea and is a Chartered Fellow of the Institute of Directors, member of the CFA Institute and STEP.

(Total years of experience: 38 years)

IMAN AL-MADANI
Group Head – Human Resources & Development, CGM

Former Group Head of Human Resources & Head of Human Resources, Bank of Kuwait & Middle East (BKME). Former Assistant General Manager Human Resources, Burgan Bank, Kuwait. Certified Corporate Governance Officer (CCGO) from the London Business School. Holds a Bachelor of Science in Mathematics from the University of Denver, USA and an Associate Degree in Computer Science, Lane College, Oregon State, USA.

(Total years of experience: 37 years)

OTHMAN HIJAZI
Group Head – Corporate Banking

Vice Chairman, Commercial Bank of Iraq; Board member, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Board Member, Al Ahli Real Estate Company WLL, Bahrain; Director, Property Company One & Two Ltd, UK . Former: Executive Director International Corporates – Origination and Customers Coverage – Saudi and Kuwait Markets, Standard Chartered Bank, UAE; Executive Director – Head of Local Corporate Business – Origination and Customer Coverage – Sharjah and Northern Emirates, Standard Chartered Bank, UAE; Senior Relationship Manager – Business Banking Group, Abu Dhabi Commercial Bank, UAE; Relationship Manager, Commercial Bank International, UAE. Holds a Masters in Finance from University of Western Sydney, Australia.

(Total years of experience: 27 years)

SAMI TAMIM
Chief Executive Officer – AUBUK

Director, Arab Bankers Association, UK. Formerly: Deputy CEO – Private Banking and Wealth Management, Ahli United Bank (UK) PLC; Executive Director, UBS, London; Director, Citibank, UK; Senior Vice President, Coutts Bank, Geneva; Managing Director, Bank of Beirut, UK; Head of Private Banking, SAMBA, UK. Holds a Bachelor Degree in Economics from the American University of Beirut and is a Chartered Wealth Manager and Fellow of the Chartered Institute for Securities & Investment, London.

(Total years of experience: 36 years)

JEHAD AL-HUMAIDHI
Acting Chief Executive Officer – Ahli United Bank, Kuwait

Director, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c); Vice Chairman, Ci Net, Kuwait; Vice Chairman, KNET, Kuwait. Former DCEO - Banking Support, Ahli United Bank K.S.C.P; Former Senior General Manager of IT & Operations, Ahli United Bank K.S.C.P, Kuwait. Held various managerial positions in Ahli United Bank Kuwait. Holds a BSC Mathematics from Kuwait University and minor in Economics.

(Total years of experience: 36)

HALA SADEK
Chief Executive Officer – Ahli United Bank, Egypt

Director, Ahli United Bank Egypt S.A.E. Former Senior Deputy CEO – Risk, Finance & Operations / Executive Director, Ahli United Bank Egypt S.A.E.; Former Senior General Manager – Head of Risk Management, Ahli United Bank Egypt S.A.E; Former Head of Risk Asset Management Group, Commercial International Bank, Egypt; Former Assistant General Manager – Corporate Banking Group, Commercial International Bank, Egypt. Holds a Bachelor degree in Economics from Faculty of Economics & Political Science Cairo University, Egypt.

(Total years of experience: 32)

NOURI ALDUBAYSI
Chief Executive Officer - Commercial Bank of Iraq

Director, Commercial Bank of Iraq P.S.C., Iraq. Former Deputy General Manager, Al Rasheed Bank, Iraq. Held senior management positions with Rafidain Bank and Al Rasheed Bank, Iraq. Holds a degree in Accounting from International Institute of Accountancy in Lebanon.

(Total years of experience: 57 years)

AYMAN EL GAMMAL
Chief Executive Officer – United Bank for Commerce & Investment, Libya

Former Assistant Managing Director and Head of Investments, National Investment Bank, Egypt, Former Managing Director, Asset Management - Private Equity, NAEEM Holdings, Egypt, Former Managing Director, EFG Hermes Private Equity, Egypt, Former Executive Director, Commercial International Investment Company, Former Assistant General Manager, Commercial International Bank (CIB), Egypt. Former board member in various companies and banks representing employers' investments. Holds a BA in Business from Cairo University, Egypt.

(Total years of experience: 37 years)

VIVEK KASTWAR
Acting Chief Executive Officer – Ahli United Bank B.S.C. (DIFC Branch)

Former: Head of Corporate Banking, AUB B.S.C. (DIFC Branch), UAE; Unit Head – Corporate Banking, Ahli United Bank, Bahrain; Vice President & Knowledge Manager, Yes Bank Ltd, India; Regional Manager, ICICI Bank Ltd, India; Manager – Credit Risk Management, Chinatrust Commercial Bank (CTCB), India; Assistant Manager – Corporate Finance, Gujarat Lease Financing Limited, India; Senior Financial Analyst, SIRCON, India. Holds a Masters in Business Administration (MBA) from Prestige Institute of Management and Research in India and GMPe from Indian Institute of Management.

(Total years of experience 25)

SAID HATHOUT
Chief Executive Officer – Al Hilal Life & Al Hilal Takaful

Former Chief Operating Officer, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Operations and IT Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Regional Operations Director, ACE Life Insurance Company, Former Chief Operations Officer, ACE Life Insurance Company Egypt; Former Life Administration Manager, Arabia Insurance Company S.A.L.; Lebanon. Holds a Master's Degree in Business Administration and a Bachelor Degree in Business Marketing from the Lebanese American University in Lebanon.

(Total years of experience: 23 years)

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Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C.

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Building a better working world

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Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Ahli United Bank B.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)

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

Key audit matters (continued)

1. Expected Credit Loss on loans and advances

Key audit matter	How our audit addressed the key audit matter
The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 Financial Instruments ("IFRS 9") is significant and complex. Furthermore, the COVID-19 global pandemic impacted the management's determination of ECL as it required the application of a significant level of judgment and estimation uncertainty, which may materially change the estimates in future periods. Also, as a result of regulatory payment holidays due to COVID-19, significant judgment and estimation uncertainty is made in relation to the determination of the significant increase in the credit risk and consequent staging of customers. IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, in addition, the impact of the COVID-19 global pandemic and the Group's exposure to loans and advances which form a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus. As at 31 December 2020, the Group's gross loans and advances amounted to US$ 21,715 million and the related ECL amounted to US$ 995 million. Refer to the accounting policies, disclosures of loans and advances and credit risk management in notes 2, 7 and 32 to the consolidated financial statements.	Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. We involved our internal specialists where their specific expertise was required. Our key audit procedures focused on the following: • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness of the data used in the ECL calculation. • We assessed: o the Group's ECL policy including determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9 and considering the regulatory guidelines issued to address the COVID-19 global pandemic; o the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the Group's ECL policy; and o the basis of determination of the management overlays considering the impact of the COVID-19 global pandemic against the requirements of the Group's ECL policy.

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

Key audit matters (continued)

1. Expected Credit Loss on loans and advances (continued)

Key audit matter	How our audit addressed the key audit matter
	• We reviewed a sample of credit files and performed procedures to assess: o timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; o the process of collateral valuation; and o ECL recalculation. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL for loans and advances as per the applicable financial reporting standards.

2. Impairment of goodwill

Key audit matter	How our audit addressed the key audit matter
Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in-use based on estimated future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group's recognised goodwill of US$ 430 million as at 31 December 2020, this audit area is considered a key audit risk. Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 2, and allocation of goodwill to CGUs in note 13 to the consolidated financial statements.	We obtained an understanding of management's processes for determining the recoverable amount for annual goodwill impairment testing. With the assistance of our internal valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management's assumptions and discussed our results with management. We considered the adequacy of the disclosures in the consolidated financial statements in relation to goodwill impairment.

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

Other information included in the Group's 2020 Annual Report

Other information consists of the information included in the Group's 2020 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C. (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

From the matters communicated with the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the 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;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2020 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

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

Ernst & Young

Partner's registration no. 115
22 February 2021
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 2020

	Note	2020 US$ '000	2019 US$ '000
Interest income	3a	**1,452,812**	1,843,953
Interest expense	3b	**653,457**	892,453
Net interest income		**799,355**	951,500
Fees and commissions - net	4	**103,669**	127,305
Trading income	5	**74,249**	44,081
Investment income and others		**84,643**	81,757
Share of results from associates	9	**50,020**	30,886
Fees and other income		**312,581**	284,029
OPERATING INCOME		**1,111,936**	1,235,529
Provision for credit losses and others	7g	**254,918**	54,417
NET OPERATING INCOME		**857,018**	1,181,112
Staff costs		**175,574**	199,077
Depreciation		**32,724**	34,454
Other operating expenses		**117,553**	120,218
OPERATING EXPENSES		**325,851**	353,749
PROFIT BEFORE TAX AND ZAKAT		**531,167**	827,363
Tax expense and zakat	22	**44,695**	38,538
NET PROFIT FOR THE YEAR		**486,472**	788,825
Net profit attributable to non-controlling interests		**34,228**	58,324
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE BANK		**452,244**	730,501
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:			
Basic and diluted earnings per ordinary share (US cents)	23	**4.3**	7.2

Meshal AbdulAziz Alothman
Chairman

Mohammed J. Al-Marzooq
Deputy Chairman

Adel A. El-Labban
Group Chief Executive Officer
& Managing Director

The attached notes 1 to 44 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2020

	2020 US$ '000	2019 US$ '000
Net profit for the year	**486,472**	788,825
Other comprehensive income (OCI)		
Items that will not be reclassified subsequently to consolidated statement of income		
Net change in fair value of equity investments measured at fair value through OCI	**(78)**	(6,307)
Net change in pension fund reserve	**(6,292)**	11,107
Net change in property revaluation reserve	**1,221**	227
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**(82,532)**	39,949
Net change in fair value of debt instruments measured at fair value through OCI	**(14,715)**	24,537
Transfer to consolidated statement of income arising on debt instruments held as fair value through OCI	**(9,464)**	1,126
Net change in fair value of cash flow hedges	**(16,602)**	(20,116)
Other comprehensive (loss) / income for the year	**(128,462)**	50,523
Total comprehensive income for the year	**358,010**	839,348
Total comprehensive income attributable to non-controlling interests	**23,093**	67,080
Total comprehensive income attributable to the owners of the Bank	**334,917**	772,268

The attached notes 1 to 44 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2020

	Note	2020 US$ '000	2019 US$ '000
ASSETS			
Cash and balances with central banks	6a	**1,747,560**	1,366,978
Treasury bills and deposits with central banks	6b	**2,333,852**	2,202,340
Deposits with banks		**3,532,689**	4,683,260
Loans and advances	7	**20,719,878**	20,742,360
Non-trading investments	8	**9,608,309**	9,133,881
Investment in associates	9	**303,127**	315,011
Investment properties	10	**185,715**	229,803
Interest receivable, derivative and other assets	11	**857,232**	823,714
Premises and equipment	12	**296,847**	295,549
Goodwill and other intangible assets	13	**485,958**	487,155
TOTAL ASSETS		**40,071,167**	40,280,051
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	14	**4,218,417**	5,023,915
Borrowings under repurchase agreements	15	**3,618,069**	2,891,532
Customers' deposits	16	**25,182,585**	25,518,123
Term debts	17	**175,000**	-
Interest payable, derivative and other liabilities	18	**1,830,706**	1,457,090
Subordinated liabilities	19	**10,032**	27,862
TOTAL LIABILITIES		**35,034,809**	34,918,522
EQUITY			
Ordinary share capital	20b	**2,412,972**	2,193,611
Reserves		**1,588,668**	2,071,916
Equity attributable to the owners of the Bank		**4,001,640**	4,265,527
Perpetual Tier 1 Capital Securities	20d	**600,000**	600,000
Non-controlling interests		**434,718**	496,002
TOTAL EQUITY		**5,036,358**	5,361,529
TOTAL LIABILITIES AND EQUITY		**40,071,167**	40,280,051

Meshal AbdulAziz Alothman
Chairman

Mohammed J. Al-Marzooq
Deputy Chairman

Adel A. El-Labban
Group Chief Executive Officer
& Managing Director

The attached notes 1 to 44 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2020

	Note	2020 US$ '000	2019 US$ '000
OPERATING ACTIVITIES			
Profit before tax and zakat		**531,167**	827,363
Adjustments for:			
Depreciation		**32,724**	34,454
Investment income and others		**(72,504)**	(68,548)
Provision for credit losses and others	7g	**254,918**	54,417
Fair value of Employee Share Purchase Plan (ESPP) charge	21h	**-**	1,851
Share of results from associates	9	**(50,020)**	(30,886)
Operating profit before changes in operating assets and liabilities		**696,285**	818,651
Changes in:			
Mandatory reserve deposits with central banks		**27,673**	10,175
Treasury bills and deposits with central banks		**(530,924)**	(17,664)
Deposits with banks		**986,593**	(1,520,499)
Loans and advances		**(307,187)**	(1,294,825)
Interest receivable, derivative and other assets		**(50,575)**	(74,576)
Deposits from banks		**(805,498)**	1,271,123
Borrowings under repurchase agreements		**726,537**	1,059,398
Customers' deposits		**(335,538)**	1,858,088
Interest payable, derivative and other liabilities		**(119,738)**	22,546
Net cash flows generated from operations		**287,628**	2,132,417
Income tax and zakat paid		**(45,070)**	(36,374)
Net cash flows from operating activities		**242,558**	2,096,043
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(2,469,664)**	(3,292,698)
Proceeds from sale or redemption of non-trading investments		**2,471,414**	2,127,726
Additional investment in subsidiary	2.3	**(58,158)**	-
Net decrease in investment properties		**44,720**	40,529
Net increase in premises and equipment		**(34,384)**	(45,913)
Dividends received from associates		**15,364**	13,603
Net cash flows used in investing activities		**(30,708)**	(1,156,753)
FINANCING ACTIVITIES			
Distribution on Perpetual Tier 1 Capital Securities	21j	**(36,428)**	(38,500)
Additional term debts	17	**175,000**	-
Repayment of subordinated liabilities		**(17,996)**	(165,000)
Dividends and other appropriations paid		**(432,658)**	(390,585)
Dividends paid to non-controlling interests		**(26,845)**	(31,706)
Issuance of ESPP and Mandatory Purchase Plan (MSP) shares		**-**	4,200
Movement in treasury shares		**-**	21,950
Net cash flows used in financing activities		**(338,927)**	(599,641)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(127,077)**	339,649
Net foreign exchange difference		**(28,047)**	13,927
Cash and cash equivalents at 1 January		**3,132,123**	2,778,547
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,976,999**	3,132,123
Additional cash flow information:			
Interest received		**1,483,350**	1,840,294
Interest paid		**771,577**	854,144

The attached notes 1 to 44 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

	Attributable to the owners of the Bank											
			Reserves									
	Ordinary share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note (21h)] US$ '000	Total reserves US$ '000	Equity attributable to the owners US$ '000	Perpetual Tier 1 Capital Securities US$ '000	Non-controlling interests US$ '000	Total US$ '000
Balance at 1 January 2020	2,193,611	-	766,230	659,531	611,207	439,722	(404,774)	2,071,916	4,265,527	600,000	496,002	**5,361,529**
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	-	(25,428)	-	-	(25,428)	(25,428)	-	-	**(25,428)**
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	**(11,000)**
Ordinary share dividend paid [note 21(i)]	-	-	-	-	-	(438,722)	-	(438,722)	(438,722)	-	-	**(438,722)**
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(26,845)	**(26,845)**
Donations	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	**(1,000)**
Bonus shares issued	219,361	-	-	-	(219,361)	-	-	(219,361)	-	-	-	**-**
Net loss on loan contract modification (note 2.2)	-	-	-	-	(98,449)	-	-	(98,449)	(98,449)	-	(9,506)	**(107,955)**
Arising on additional acquisition in a subsidiary (note 2.3)	-	-	(13,187)	-	-	-	-	(13,187)	(13,187)	-	(44,971)	**(58,158)**
Transfer from OCI reserve	-	-	-	-	(1,527)	-	-	(1,527)	(1,527)	-	(9)	**(1,536)**
Movement in associates	-	-	-	-	(9,364)	-	-	(9,364)	(9,364)	-	-	**(9,364)**
Movement in subsidiaries	-	-	20	-	(2,907)	-	-	(2,887)	(2,887)	-	(286)	**(3,173)**
Total comprehensive income for the year	-	-	-	-	452,244	-	(117,327)	334,917	334,917	-	23,093	**358,010**
Transfer to statutory reserve [note 21(c)]	-	-	-	45,224	(45,224)	-	-	-	-	-	-	**-**
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	-	(120,649)	120,649	-	-	-	-	-	**-**
Proposed donations	-	-	-	-	(2,000)	2,000	-	-	-	-	-	**-**
Balance at 31 December 2020	**2,412,972**	**-**	**753,063**	**704,755**	**530,302**	**122,649**	**(522,101)**	**1,588,668**	**4,001,640**	**600,000**	**434,718**	**5,036,358**

The attached notes 1 to 44 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2020

	Attributable to the owners of the Bank											
			Reserves									
	Ordinary share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note (21h)] US$ '000	Total reserves US$ '000	Equity attributable to the owners US$ '000	Perpetual Tier 1 Capital Securities US$ '000	Non-controlling interests US$ '000	Total US$ '000
Balance at 1 January 2019	1,992,541	(13,190)	763,660	586,481	634,672	399,838	(455,301)	1,929,350	3,908,701	600,000	463,307	4,972,008
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	-	(27,500)	-	-	(27,500)	(27,500)	-	-	(27,500)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	-	(8,240)	-	-	(8,240)	(8,240)	-	(2,760)	(11,000)
Ordinary share dividend paid [note 21 (i)]	-	-	-	-	1,082	(398,838)	-	(397,756)	(397,756)	-	-	(397,756)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(31,706)	(31,706)
Donations	-	-	-	-	-	(1,000)	-	(1,000)	(1,000)	-	-	(1,000)
Bonus shares issued	199,419	-	-	-	(199,419)	-	-	(199,419)	-	-	-	-
Additional shares issued	1,651	-	2,549	-	-	-	-	2,549	4,200	-	-	4,200
Sale of treasury shares	-	13,190	-	-	-	-	8,760	8,760	21,950	-	-	21,950
Fair value amortisation of share based transactions	-	-	-	-	1,851	-	-	1,851	1,851	-	-	1,851
Transfer from OCI reserve	-	-	-	-	(1,195)	-	-	(1,195)	(1,195)	-	(79)	(1,274)
Movement in associates	-	-	-	-	(7,773)	-	-	(7,773)	(7,773)	-	-	(7,773)
Movement in subsidiaries	-	-	21	-	-	-	-	21	21	-	160	181
Total comprehensive income for the year	-	-	-	-	730,501	-	41,767	772,268	772,268	-	67,080	839,348
Transfer to statutory reserve [note 21(c)]	-	-	-	73,050	(73,050)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	-	(438,722)	438,722	-	-	-	-	-	-
Proposed donations	-	-	-	-	(1,000)	1,000	-	-	-	-	-	-
Balance at 31 December 2019	2,193,611	-	766,230	659,531	611,207	439,722	(404,774)	2,071,916	4,265,527	600,000	496,002	5,361,529

The attached notes 1 to 44 form part of these consolidated financial statements

1 CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed in note 2.3 below (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors dated 22 February 2021.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis as modified for the re-measurement at fair value of freehold land included in "Premises and equipment", certain financial instruments [as detailed below in note 2.7(c)] and all derivative financial instruments. In addition, as fully discussed below in note 2.7(h)(i), carrying values of recognised assets that are designated as hedged items in fair value hedges are adjusted to the extent of the fair value attributable to the risk being hedged. The consolidated financial statements are presented in US Dollars, which is also the Bank's functional currency and all values are rounded-off to the nearest thousands, except where otherwise indicated.

2.2 Framework and statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the CBB, including CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, required 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, directly in equity instead of profit or loss as required by IFRS 9 Financial Instruments (IFRS 9). 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 and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount recognized in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

For the purpose of these consolidated financial statements, the financial information of banking subsidiaries has been adjusted to align with the above framework.

During the year, based on a regulatory directive issued by the CBB and the Central Bank of Kuwait (the "CBK") as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to US$ 114.4 million arising from the 6-month payment holidays provided to financing customers without charging additional interest has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows relating to financing exposures amounting to US$ 4.3 billion calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification.

Further, as per the regulatory directive financial assistance amounting to US$ 6.5 million (representing specified reimbursement of a portion of staff costs, waiver of levies and utility charges) received from the governments, in response to its COVID-19 support measures, has been recognized directly in equity under retained earnings. The net impact of above two adjustments amounting to US$ 98.4 million has been debited to retained earnings and US$ 9.5 million adjusted in non-controlling interest.

2 ACCOUNTING POLICIES (continued)
2.2 Framework and statement of compliance (continued)
The above framework forms the basis of preparation and presentation of the consolidated financial statements of the Group and is hereinafter referred to as 'IFRS as modified by CBB'.

The consolidated financial statements of the Group have been prepared in accordance with IFRS as modified by CBB and in conformity with the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above-mentioned modifications to accounting policies, all other accounting policies remain the same and have been consistently applied in these consolidated financial statements. The change in accounting policies, as explained above, did not result in any change to the financial information reported for the comparative year.

2.3 Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2020 and 2019. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Bank is exposed, or has rights, to variable returns from its involvement from its investee and has the ability to affect those returns through its power over the investee. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicates that there are any change to elements of control. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

All material intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full upon consolidation. The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities.

The following are the Bank's principal subsidiaries:

		Group's nominal holding	
Name	**Incorporated in**	**2020**	2019
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	**100.0%**	100.0%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	**67.3%**	67.3%
Ahli United Bank (Egypt) S.A.E. ("AUBE")**	Arab Republic of Egypt	**95.7%**	85.5%
Commercial Bank of Iraq P.S.C. ("CBIQ")	Republic of Iraq	**75.0%**	75.0%
Al Ahli Real Estate Company W.L.L. ("AREC")	Kingdom of Bahrain	**100.0%**	100.0%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	**100.0%**	100.0%

* Effective holding 74.9% (2019: 74.9%)

** During the year, the Group increased its holding in AUBE by 10.2% to 95.7%. Cash consideration of US$ 58.2 million was paid to the non-controlling shareholders.

2.4 New standards and amendements effective for the year
The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except for changes in framework as set out in note 2.2 and for the items below.

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

2 **ACCOUNTING POLICIES** (continued)

2.4 **New standards and amendements effective for the year** (continued)

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

  The current LIBOR linked interest rate benchmarks are expected to cease progressively from the end of year 2021. In order to alleviate uncertainties that this change may have on the accounting of hedging relationships that are based on LIBOR benchmark rates, the IASB issued the Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7, that primarily includes a number of reliefs, which allows reporting entities to continue to account for hedging relationships on the basis of current LIBOR linked interest rate benchmarks.

- Amendments to IAS 1 and IAS 8: Definition of Material

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

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the consolidated financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

- Amendments to IFRS 16 COVID-19 Related Rent Concessions

  'On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

2.5 **New standards and interpretations 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.

- Interest Rate Benchmark Reform (Phase 2)

  On 27 August 2020 the IASB published 'Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2). IBOR reform Phase 2 provides temporary reliefs to address the accounting issues which arise upon the replacement of an Inter-Bank Offered Rate (an IBOR) with an alternative nearly risk-free rate (an RFR). The amendment is effective for annual reporting periods beginning on or after 1 January 2021 with earlier adoption permitted.

  The impact of the replacement of inter-bank offered rates ('IBORs') with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending past FY2021, when it is likely that publication of these IBORs will cease progressively. The Group is currently assessing the impact of the Group's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

The Group is currently evaluating the impact of this new standard. The Group intends to adopt this new standard on the effective date.

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and 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.

The most significant uses of judgement and estimates applied in the preparation of these financial statements are as follows:

i) Business model

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and
- Management's strategy in terms of earning contractual interest revenues or generating capital gains.

ii) Measurement of the expected credit loss (ECL) allowances

The measurement of the ECL for financial assets measured at amortised cost and debt instruments measured at Fair Value Through Other Comprehensive Income (FVTOCI) 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;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;
- Determination of associations between macroeconomic variables such as, gross domestic product, oil prices and unemployment levels on the one hand and default and loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weightings of forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

iii) Pension plans

Estimates and assumptions are used in determining the Group's pension liabilities. The cost of the defined benefit pension plan and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

iv) Going concern

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

v) Fair value of financial instruments

Estimates are also made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such estimates.

vi) Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The key assumptions and estimates used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 13.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the management, extrapolated for five year projections using nominal projected gross domestic product growth rates in the respective countries in which they operate. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these business segments.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

vii) COVID-19 Impact

COVID-19 pandemic has severely impacted various economies globally, causing disruption to business and economic activities and resulting in significant uncertainties in the operating environment. Global financial markets have also experienced enhanced levels of volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

Meanwhile, during the year, oil prices have witnessed unprecedented volatility and the overall decline in average oil prices is expected to have medium to long-term impact on economies.

In preparing these consolidated financial statements, significant judgements were made by the management in applying the Group's accounting policies. While the key performance metrics are subject to current economic volatility, these are considered to represent management's best assessment based on available or observable information.

The level of estimation uncertainty has increased since Q1/2020 as a result of the economic disruption and consequential impact of the COVID-19 pandemic as explained in note 43.

The Group has performed an assessment of the relevant macro-economic information based on the available guidance of regulators and IFRS, which has resulted in changes to the expected credit loss methodology and valuation estimates and judgements as at and for the year ended 31 December 2020.

Accordingly, the Group has updated inputs and assumptions used for the determination of ECL in response to uncertainties caused by COVID-19 and oil prices volatility. Under IFRS 9, financial assets are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a significant increase in credit risk (SICR) since origination. A SICR occurs when there has been a significant increase to the risk of a default. The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or non-temporary.

2 **ACCOUNTING POLICIES** (continued)

2.6 **Significant accounting judgements and estimates** (continued)

vii) COVID-19 Impact (continued)

Considering that the situation is evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. This volatility has been reflected through adjustments in the established regression relationships. Management overlays are applied to the model outputs if consistent with the objective of SICR and to address the current market conditions. Furthermore, the Group continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors.

2.7 Summary of significant accounting policies

The principal accounting policies which are consistently applied in the preparation of these consolidated financial statements, except for those detailed in note 2.2 and 2.4, are set out below.

a) Investments in associates

Associate companies are companies in which the Group exercises significant influence but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate companies are accounted for using the equity method. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates' accounting policies materially conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

b) Foreign currency translation

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the relevant functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in "trading income" in the consolidated statement of income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary investments classified as FVTOCI measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and the differences are included in other comprehensive income as part of the fair value adjustment of the respective items, unless these non-monetary investments items are designated as Fair Value Through Profit or Loss (FVTPL) or are part of an effective hedging strategy, in which case it is recorded in the consolidated statement of income.

(ii) Group companies

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not US Dollars are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

c) Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value plus, for an item not recorded at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest rate method and taken to interest income or interest expense as appropriate.

(i) Date of recognition

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

(ii) Treasury bills and deposits with central banks

Treasury bills and deposits with central banks are initially recognised at amortised cost. Premiums and discounts are amortised to their maturity using the effective interest rate method.

(iii) Deposits with banks and other financial institutions and loans and advances

Deposits with banks (including nostro accounts) and other financial institutions and loans and advances are financial assets with fixed or determinable payments and fixed maturities. Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the borrower, in some instances with improved security and with no other concessions. These assets are risk rated in accordance with the Group's policy on internal credit rating as explained in note 32 (c). After initial recognition, these are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for credit losses and others" and in an ECL allowance account in the consolidated balance sheet. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

(iv) Debt instruments

Debt instruments are measured at amortised cost using the effective interest rate method if:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument.

Debt instruments are measured at FVTOCI when both the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the solely payments of principal and interest (SPPI) test.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

If either of these two criteria is not met, the financial assets are classified and measured at FVTPL. Additionally, even if the financial asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL based on the business model.

The Group accounts for any changes in the fair value in the consolidated statement of income for assets classified as "FVTPL".

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

c) Financial Instruments (continued)

(v) Equity investments

Investments in equity instruments are classified as FVTPL, unless the Group designates an equity investment as FVTOCI on initial recognition. At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as FVTOCI. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

(vi) Other financial instruments

A financial asset is classified as FVTPL, if:

- it has been acquired principally for the purpose of selling in the near term;
- 'on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

(vii) Derivatives (other than hedging instruments)

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

Derivatives embedded in other financial instruments are not separated from the host contract and the entire contract is considered in order to determine its classification. These financial instruments are classified as FVTPL and the changes in fair value of the entire hybrid contract are recognised in the consolidated statement of income.

(viii) Deposits, term debt and subordinated liabilities

These financial liabilities are carried at amortised cost, less amounts repaid.

d) Derecognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

e) Repurchase agreements

Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in "borrowings under repurchase agreements". The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

f) Determination of fair value

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 an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the balance sheet date.

The fair value of liabilities with a demand feature is the amount payable on demand.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

f) Determination of fair value (continued)

The fair value of interest-bearing financial assets and financial liabilities that are not quoted in an active market and are not payable on demand is determined by a discounted cash flow model using the current market interest rates for financial instruments with similar terms and risk characteristics.

For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially similar, or is determined using net present valuation techniques. Equity securities classified under Level 3 are valued based on discounted cash flows and dividend discount models.

The fair value of unquoted derivatives is determined either by discounted cash flows or option-pricing models.

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 assets or liabilities.

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 as disclosed in note 38.

g) Impairment of financial assets

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 - Financial Instruments (IFRS 9), for the following categories of financial instruments that are not measured at FVTPL:

- Amortised cost financial assets;
- Debt securities classified as FVTOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts, letters of credit and acceptances.

ECL allowances are recognised for financial instruments that are not measured at FVTPL and are reflected in provisions for credit losses. Equity investments are not subject to impairment assessments.

Expected credit loss model

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from date of initial recognition. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

ECL allowances are the product of the PD, EAD and LGD. The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and interest. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc. Management overlays are applied to the model outputs if consistent with the objective of SICR.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination as described below:

Stage 1 – Measures and recognizes credit loss allowance equal to 12-month ECL for financial instruments for which credit risk has not significantly increased since initial recognition. All investment grade assets are deemed to be Stage 1 as per AUB's policy under the low credit risk presumption, except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

g) Impairment of financial assets (continued)

Expected credit loss model (continued)

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: As per CBB, all restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments considered to be credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Exposures which are classified as Stage 2 are not moved back to Stage 1 unless a minimum cooling-off period of six months has elapsed from the date when the exposure qualifies to be reclassified, except for restructured facilities for which a minimum cooling-off period of twelve months is applied. Further, no exposure classified in Stage 3 is moved to Stage 2 till a period of twelve months has elapsed from the date on which the account qualifies for reclassification.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of PiT PD. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. The forecast economic variables are applied to established regression relationships to determine PiT PD. Macro-economic factors taken into consideration mainly include crude oil related variables, gross domestic product, unemployment and real estate indices. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Definition of default

Financial assets that are subject to ECL measurement are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

Financial assets are written-off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVTOCI is recognised as an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to consolidated income statement. The accumulated loss recognised in OCI is recycled to the consolidated income statement upon derecognition of the assets.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

h) Hedge accounting

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. These derivatives are stated at fair value. Derivatives with positive market values are included in "interest receivable, derivative and other assets" and derivatives with negative market values are included in "interest payable, derivative and other liabilities" in the consolidated balance sheet.

At inception of the hedge relationship, the Group formally designates and documents the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, management objectives and strategy for undertaking the hedge. The methods that will be used to assess the effectiveness of the hedging relationship form part of the Group's documentation.

Also at the inception of the hedge relationship, the Group undertakes a formal assessment to ensure the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are regarded as effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they were designated. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

For the purposes of hedge accounting, hedges are classified into two categories: (i) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (ii) cash flow hedges, which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost or at FVTOCI, the difference between the carrying value of the hedged item on termination and the value at which it would have been carried without being hedged is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.

(ii) Cash flow hedges

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the consolidated statement of income as "trading income".

The gains or losses on effective cash flow hedges recognised initially in OCI are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the consolidated statement of income for the year.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

h) Hedge accounting (continued)

(ii) Cash flow hedges (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in OCI remains in OCI until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income for the year.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging transactions are highly effective in offsetting changes in the fair value or cash flows of the respective hedged items. In case of cash flow hedges, the Group makes an assessment of a whether the forecasted transaction is highly probable to occur in order to ascertain whether any variations in those cash flows could affect the profit and loss.

i) Offsetting financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis.

j) 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. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. Recognition of interest income is suspended on loans and advances where interest and / or principal is overdue by 90 days or more. If the Stage 3 financial asset is cured and no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

(ii) Fees and commissions

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling those obligations.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

k) Business combinations, goodwill and other intangible assets

Business combinations are accounted for using the purchase method of accounting. Assets and liabilities acquired are recognised at the acquisition date fair values with any excess of the cost of acquisition over the net assets acquired being recognised as goodwill. Changes in parent's ownership interest in a subsidiary that do not result in loss of control are treated as transactions between equity holders and are reported in equity.

2 ACCOUNTING POLICIES (continued)
2.7 Summary of significant accounting policies (continued)
k) Business combinations, goodwill and other intangible assets (continued)
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets are measured on initial recognition at their fair values on the date of recognition. Following initial recognition, intangible assets are carried at originally recognised values less any accumulated impairment losses.

Impairment of goodwill and intangible assets with indefinite life is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill and intangible assets with indefinite life acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format determined in accordance with IFRS 8 - Operating Segments.

l) Premises and equipment
Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers. Fair value is determined by using unobservable valuation inputs. The resultant revaluation surplus is recognised, as a separate component under equity. Revaluation deficit, if any, is recognised in the consolidated statement of income, except that a deficit directly offsetting a previously recognised surplus on the same asset is directly offset against the surplus in the revaluation reserve in equity.

Premises and equipment are stated at cost, less accumulated depreciation and impairment, if any.

Depreciation on buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Freehold buildings	40 to 50 years
- Fixtures and improvements	Over the lease period or up to 10 years
- Other premises and equipment	Up to 10 years

m) Investment properties
Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group are classified as investment properties. Investment properties are remeasured at cost less accumulated depreciation (depreciation for buildings based on an estimated useful life of 40 years using the straight-line method) and accumulated impairment. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or when sale is completed.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

n) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits, together with those deposits with banks and other financial institutions and treasury bills having an original maturity of three months or less. These cash and cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

o) Provisions

Provisions are recognised when the Group has a present obligation arising from a past event and the costs to settle the obligation are both probable and able to be reliably estimated.

p) Employee benefits

Defined benefit pension plan

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if any) both excluding interest are recognised immediately in OCI.

Defined contribution plans

The Group also operates a defined contribution plan, the costs of which are recognised in "staff costs" in the period to which they relate.

q) Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

Deferred taxation is provided for using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

r) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not incorporated in the consolidated balance sheet.

s) Non-controlling interests

Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

t) Perpetual Tier 1 Capital Securities

Perpetual Tier 1 Capital Securities of the Group are recognised under equity in the consolidated balance sheet and the corresponding distribution on those securities are accounted as a debit to the retained earnings.

u) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the period that are approved after the balance sheet date are shown as an appropriation and reported in the consolidated statement of changes in equity, as an event after the balance sheet date.

v) Treasury shares

Own equity instruments that are acquired are recognised at consideration paid and deducted from equity. Any surplus/deficit arising from the subsequent sale of treasury shares is included in capital reserve under equity.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

w) Employees' share purchase plan

The Group operates an employees' share purchase plan for certain eligible employees. The difference between the issue price and the fair value of the shares at the grant date is amortised over the vesting period in the consolidated statement of income with a corresponding effect to equity.

x) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss that is incurred because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The expected loss allowance on financial guarantees is measured on the basis of expected payment to be made to the holder less any amounts that the Group expects to recover. Any change in a liability relating to guarantees is recognised in the consolidated statement of income.

y) Repossessed assets

Repossessed assets are assets acquired in settlement of debt. These assets are carried at the lower of their repossessed value or their fair value and reported under "other assets" in the consolidated balance sheet.

z) Leases

Right-of-use assets (Group as lessee)

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the consolidated balance sheet.

Lease liabilities (Group as lessee)

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated balance sheet.

aa) Islamic banking

The Islamic banking activities of the Group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board.

Earnings prohibited by Sharia

The Islamic operation is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account, where the Islamic operation uses these funds for charitable purposes.

2 ACCOUNTING POLICIES (continued)
2.7 Summary of significant accounting policies (continued)
aa) Islamic banking (continued)

Commingling of funds

The funds of Islamic operation are not commingled with the funds of the conventional operations of the Group.

ab) Islamic products

Murabaha

An agreement whereby the Group sells to a customer commodities, real estate and certain other assets at cost plus an agreed profit mark up whereby the Group (seller) informs the purchaser of the price at which the asset had been purchased and also stipulates the amount of profit to be recognized.

Ijara

A lease agreement between the Group (lessor) and the customer (lessee), whereby the Group earns profit by charging rentals on assets leased to customers.

Tawarruq

A sales agreement whereby a customer buys commodities from the Group on a deferred payment basis and then immediately resells them for cash to a third party.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In the case of normal loss, the Rab-Ul-Mal would bear the loss of its funds while the Mudarib would bear the loss of its efforts. However, in the case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group acts as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

Istisna'a

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Income from Murabaha, Tawarruq and Istisna'a are recognised on an effective profit rate, which is established on the initial recognition of the asset and is not revised subsequently.

Income from Ijara is recognized over the term of the Ijara agreement so as to yield a constant rate of return on the net investment outstanding.

Income / (loss) on Mudaraba financing is based on expected results adjusted for actual experience as applicable, while similarly the losses are charged to income.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

ac) Equity of unrestricted investment account holders' share of profit

The profit computed after taking into account all income and expenses at the end of a financial year is distributed between equity of unrestricted investment account holders which include Mudaraba depositors and the Group's shareholders. The share of profit of the equity of unrestricted investment account holders is calculated on the basis of their average deposit balances over the year, after reducing the agreed and declared Mudarib fee.

Equity of unrestricted investment account holders do not bear the expenses relating to non compliance with Shari'a regulations.

3 NET INTEREST INCOME

(a) INTEREST INCOME

	2020 *US$ '000*	*2019* *US$ '000*
Treasury bills	88,539	98,442
Deposits with banks	46,584	122,510
Loans and advances	947,543	1,203,401
Non-trading investments	370,146	419,600
	1,452,812	1,843,953

(b) INTEREST EXPENSE

	2020 US$ '000	2019 US$ '000
Deposits from banks		
(including borrowings under repurchase agreements)	127,459	192,933
Customers' deposits	525,663	693,678
Subordinated liabilities	207	5,842
Term debt	128	-
	653,457	892,453
	799,355	951,500

4 FEES AND COMMISSIONS - NET

	2020 US$ '000	2019 US$ '000
Fees and commission income		
- Transaction banking services	99,366	117,911
- Management, performance and brokerage fees*	15,131	19,951
Fees and commission expense	(10,828)	(10,557)
	103,669	127,305

* This includes US$ 4.6 million (2019: US$ 10.5 million) of fee income relating to trust and other fiduciary activities.

5 TRADING INCOME

	2020 US$ '000	2019 US$ '000
Foreign exchange	**65,977**	39,196
Proprietary trading	**8,272**	4,885
	74,249	44,081

6(a) CASH AND BALANCES WITH CENTRAL BANKS

	2020 US$ '000	2019 US$ '000
Cash and balances with central banks, excluding mandatory reserve deposits (note 24)	**834,735**	702,532
Mandatory reserve deposits with central banks	**912,825**	664,446
	1,747,560	1,366,978

6(b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS

	2020 US$ '000	2019 US$ '000
Central Bank of Bahrain	**844,520**	727,542
Central Bank of Kuwait	**905,114**	1,137,879
Central Bank of Egypt	**584,218**	306,165
Central Bank of Iraq	**-**	30,754
	2,333,852	2,202,340

The deposits with central banks and treasury bills are local currency denominated and are match funded by underlying respective local currencies. Deposit with Central Bank of Kuwait includes US$ 578.2 million (2019: US$ 854.3 million) as mandatory reserve.

7 LOANS AND ADVANCES

	2020		2019	
a) By industry sector	**US$ '000**	**%**	US$ '000	%
Consumer / personal	**2,907,071**	**13.4**	2,741,426	12.7
Residential mortgage	**1,732,675**	**8.0**	1,710,385	8.0
Trading and manufacturing	**5,985,032**	**27.6**	5,717,748	26.5
Real estate	**5,973,545**	**27.5**	5,529,821	25.7
Banks and other financial institutions	**897,366**	**4.1**	1,153,099	5.4
Services	**3,665,405**	**16.9**	3,999,375	18.6
Government / public sector	**203,291**	**0.9**	150,611	0.7
Others	**350,217**	**1.6**	509,659	2.4
	21,714,602	**100.0**	21,512,124	100.0
Less: ECL allowances (Stage 1 and 2)	**(514,931)**		(413,259)	
Less: ECL allowances (Stage 3)	**(479,793)**		(356,505)	
	20,719,878		20,742,360	

7 LOANS AND ADVANCES (continued)

b) By geographic region	2020 US$ '000	2020 %	2019 US$ '000	2019 %
Kingdom of Bahrain	**4,057,085**	**18.7**	3,821,623	17.8
State of Kuwait	**10,581,088**	**48.7**	10,486,465	48.7
Other GCC countries	**2,500,139**	**11.5**	2,751,961	12.8
United Kingdom	**1,966,530**	**9.1**	1,988,072	9.2
Arab Republic of Egypt	**2,331,023**	**10.7**	2,120,162	9.9
Europe (excluding United Kingdom)	**61,794**	**0.3**	138,774	0.6
Asia (excluding GCC countries)	**35,268**	**0.2**	98,150	0.5
Others	**181,675**	**0.8**	106,917	0.5
	21,714,602	**100.0**	21,512,124	100.0
Less: ECL allowances (Stage 1 and 2)	**(514,931)**		(413,259)	
Less: ECL allowances (Stage 3)	**(479,793)**		(356,505)	
	20,719,878		20,742,360	

c) Credit quality of loans and advances	2020 Stage 1 US$ '000	2020 Stage 2 US$ '000	2020 Stage 3 US$ '000	2020 Total US$ '000
High standard grade				
Retail	**3,577,701**	**162,672**	**-**	**3,740,373**
Corporate	**8,673,203**	**677,119**	**-**	**9,350,322**
Standard grade				
Retail	**175,180**	**135,478**	**-**	**310,658**
Corporate	**5,493,856**	**2,260,530**	**-**	**7,754,386**
Credit impaired				
Retail	**-**	**-**	**101,748**	**101,748**
Corporate	**-**	**-**	**457,115**	**457,115**
	17,919,940	**3,235,799**	**558,863**	**21,714,602**
Less: ECL allowances	**(138,970)**	**(375,961)**	**(479,793)**	**(994,724)**
	17,780,970	**2,859,838**	**79,070**	**20,719,878**

	2019 Stage 1 US$ '000	2019 Stage 2 US$ '000	2019 Stage 3 US$ '000	2019 Total US$ '000
High standard grade				
Retail	3,437,377	102,297	-	3,539,674
Corporate	9,348,355	449,367	-	9,797,722
Standard grade				
Retail	156,129	189,020	-	345,149
Corporate	5,397,441	2,017,347	-	7,414,788
Credit impaired				
Retail	-	-	66,665	66,665
Corporate	-	-	348,126	348,126
	18,339,302	2,758,031	414,791	21,512,124
Less: ECL allowances	(100,805)	(312,454)	(356,505)	(769,764)
	18,238,497	2,445,577	58,286	20,742,360

Refer note 32 for further details on credit quality of loans and advances.

7 LOANS AND ADVANCES (continued)

d) Age analysis of past due but not credit impaired loans and advances

	2020			
	Up to 30 days US$ '000	**31 to 60 days US$ '000**	**61 to 89 days US$ '000**	**Total US$ '000**
Retail	**87,626**	**20,283**	**26,823**	**134,732**
Corporate	**35,027**	**3,751**	**88,760**	**127,538**
	122,653	**24,034**	**115,583**	**262,270**

	2019			
	Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	156,560	42,348	25,796	224,704
Corporate	79,638	27,495	18,518	125,651
	236,198	69,843	44,314	350,355

The past due loans and advances up to 30 days include those that are only past due by a few days. None of the above past due loans are considered to be credit impaired.

e) Individually credit impaired loans and advances	2020		
	Retail US$ '000	**Corporate US$ '000**	**Total US$ '000**
Gross credit impaired loans and advances	**101,748**	**457,115**	**558,863**
ECL allowances (Stage 3)	**(86,486)**	**(393,307)**	**(479,793)**
	15,262	**63,808**	**79,070**
ECL coverage on credit impaired loans and advances	**85.0%**	**86.0%**	**85.9%**
Gross loans and advances	**4,152,779**	**17,561,823**	**21,714,602**
Credit impaired loans and advances ratio	**2.5%**	**2.6%**	**2.6%**

	2019		
	Retail US$ '000	Corporate US$ '000	Total US$ '000
Gross credit impaired loans and advances	66,665	348,126	414,791
ECL allowances (Stage 3)	(56,798)	(299,707)	(356,505)
	9,867	48,419	58,286
ECL coverage on credit impaired loans and advances	85.2%	86.1%	85.9%
Gross loans and advances	3,951,488	17,560,636	21,512,124
Credit impaired loans and advances ratio	1.7%	2.0%	1.9%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2020 amounts to US$ 313.2 million (31 December 2019: US$ 290.8 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US$ 385.4 million as at 31 December 2020 (31 December 2019: US$ 218.9 million) with no significant additional impact on ECL during the year.

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances

A reconciliation of the loss allowances for loans and advances by class is as follows:

i) Loss allowances for loans and advances - Retail

	2020			
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total US$ '000**
At 1 January 2020	**25,948**	**7,956**	**56,798**	**90,702**
Transfer from Stage 1	**(2,268)**	**812**	**1,456**	**-**
Transfer from Stage 2	**816**	**(3,886)**	**3,070**	**-**
Net remeasurement of ECL allowances	**22,723**	**5,467**	**27,318**	**55,508**
Amounts written-off *	**-**	**-**	**(2,928)**	**(2,928)**
Exchange rate and other adjustments	**331**	**(124)**	**772**	**979**
At 31 December 2020	**47,550**	**10,225**	**86,486**	**144,261**

	2019			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2019	36,613	9,535	61,277	107,425
Transfer from Stage 1	(4,607)	2,450	2,157	-
Transfer from Stage 2	-	(3,502)	3,502	-
Net remeasurement of ECL allowances	(6,092)	(450)	16,769	10,227
Amounts written-off *	-	-	(27,028)	(27,028)
Exchange rate and other adjustments	34	(77)	121	78
At 31 December 2019	25,948	7,956	56,798	90,702

ii) Loss allowances for loans and advances - Corporate

	2020			
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total US$ '000**
At 1 January 2020	**74,857**	**304,498**	**299,707**	**679,062**
Transfer from Stage 1	**(2,478)**	**2,227**	**251**	**-**
Transfer from Stage 2	**339**	**(23,650)**	**23,311**	**-**
Net remeasurement of ECL allowances	**18,327**	**82,121**	**75,809**	**176,257**
Amounts written-off *	**-**	**-**	**(6,178)**	**(6,178)**
Exchange rate and other adjustments	**375**	**540**	**407**	**1,322**
At 31 December 2020	**91,420**	**365,736**	**393,307**	**850,463**

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances (continued)

ii) Loss allowances for loans and advances - Corporate (continued)

	2019			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2019	88,453	355,797	263,571	707,821
Transfer from Stage 1	(3,111)	3,067	44	-
Transfer from Stage 2	-	(97,898)	97,898	-
Net remeasurement of ECL allowances	(11,660)	43,578	44,868	76,786
Amounts written-off *	-	-	(114,030)	(114,030)
Exchange rate and other adjustments	1,175	(46)	7,356	8,485
At 31 December 2019	74,857	304,498	299,707	679,062

* Represents the full carrying value of the loans written-off.

g) Provision for credit losses and others

The net charge for provision in the consolidated statement of income is as follows:

	2020 US$ '000	2019 US$ '000
Net remeasurement of ECL on loans and advances (note 7f)	**231,765**	87,013
Recoveries from loans and advances during the year (from fully provided loans written-off in previous years)	**(16,505)**	(30,587)
Net remeasurement of ECL for non-trading investments (note 8c)	**15,403**	(2,316)
Net remeasurement of ECL on off-balance sheet exposures and others	**1,004**	(12,151)
Net other provision charges	**23,251**	12,458
	254,918	54,417

8 NON-TRADING INVESTMENTS

a) By Sector

	2020			
	Held at amortised cost US$ '000	Held at FVTOCI US$ '000	Held at FVTPL US$ '000	Total US$ '000
Quoted investments				
GCC government bonds and debt securities	2,643,879	240,566	-	2,884,445
Other government bonds and debt securities	498,504	287,254	-	785,758
GCC government entities' securities	1,147,118	192,050	-	1,339,168
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,325,367	149,381	-	1,474,748
- issued by corporate bodies	2,594,915	312,394	-	2,907,309
Equity instruments	-	26,985	2,083	29,068
	8,209,783	1,208,630	2,083	9,420,496
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	15,480	101,817	-	117,297
Equity instruments	-	93,007	4,451	97,458
	15,480	194,824	4,451	214,755
Total	8,225,263	1,403,454	6,534	9,635,251
Less: ECL allowances	(26,942)	-	-	(26,942)
	8,198,321	1,403,454	6,534	9,608,309

	2019			
	Held at amortised cost US$ '000	Held at FVTOCI US$ '000	Held at FVTPL US$ '000	Total US$ '000
Quoted investments				
GCC government bonds and debt securities	2,204,604	231,710	-	2,436,314
Other government bonds and debt securities	744,219	179,096	-	923,315
GCC government entities' securities	1,067,542	240,532	-	1,308,074
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,292,804	219,415	-	1,512,219
- issued by corporate bodies	2,399,403	254,008	-	2,653,411
Equity instruments	-	26,512	115,446	141,958
	7,708,572	1,151,273	115,446	8,975,291
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	13,898	68,747	-	82,645
Equity instruments	-	84,087	2,998	87,085
	13,898	152,834	2,998	169,730
Total	7,722,470	1,304,107	118,444	9,145,021
Less: ECL allowances	(11,140)	-	-	(11,140)
	7,711,330	1,304,107	118,444	9,133,881

8 NON-TRADING INVESTMENTS (continued)

a) By Sector (continued)

The fair value of the non-trading investments held at amortised cost is US$ 8,209.5 million as at 31 December 2020 (31 December 2019: US$ 7,876.4 million) of which US$ 8,193.9 million is classified under Level 1 of fair value hierarchy (31 December 2019: US$ 7,862.5 million) and US$ 15.6 million is classified under Level 2 of fair value hierarchy (31 December 2019: US$ 13.9 million).

Income from FVTPL investments for the year amounted to US$ 30.6 million (2019: US$ 40.8 million).

b) Credit quality of non-trading investments

	2020			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
High standard grade	**6,508,714**	**-**	**-**	**6,508,714**
Standard grade	**2,904,951**	**95,060**	**-**	**3,000,011**
	9,413,665	**95,060**	**-**	**9,508,725**
Less: ECL allowances	**(21,171)**	**(5,771)**	**-**	**(26,942)**
	9,392,494	**89,289**	**-**	**9,481,783**
Equity instruments at fair value				**126,526**
				9,608,309

	2019			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
	8,716,976	199,002	-	8,915,978
Less: ECL allowances	(9,407)	(1,733)	-	(11,140)
	8,707,569	197,269	-	8,904,838
Equity instruments at fair value				229,043
				9,133,881

Refer note 32 for further details on credit quality of non-trading investments.

c) Movements in ECL allowances

	2020			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2020	**9,407**	**1,733**	**-**	**11,140**
Transfer from Stage 1	**(42)**	**42**	**-**	**-**
Transfer from Stage 2	**131**	**(131)**	**-**	**-**
Net remeasurement of ECL allowances	**12,219**	**3,184**	**-**	**15,403**
Exchange rate and other adjustments	**(544)**	**943**	**-**	**399**
At 31 December 2020	**21,171**	**5,771**	**-**	**26,942**

8 NON-TRADING INVESTMENTS (continued)

c) Movements in ECL allowances (continued)

	2019			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2019	9,729	3,722	-	13,451
Transfer from Stage 1	(84)	84	-	-
Net remeasurement of ECL allowances	(243)	(2,073)	-	(2,316)
Exchange rate and other adjustments	5	-	-	5
At 31 December 2019	9,407	1,733	-	11,140

9 INVESTMENT IN ASSOCIATES

The associates of the Group are:

Name	**Incorporated in**	**Group's nominal holding**	
		2020	2019
Ahli Bank S.A.O.G. (ABO)	Sultanate of Oman	**35.0%**	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	**40.0%**	40.0%
Middle East Financial Investment Company (MEFIC)	Kingdom of Saudi Arabia	**40.0%**	40.0%

The summarised financial information of the Group's associates was as follows:

	2020 US$ '000	2019 US$ '000
Total assets	**7,425,146**	7,222,669
Total liabilities	**6,296,424**	6,028,896
Share of results for the year (Group's share)	**50,020**	30,886
Net comprehensive loss for the year (Group's share)	**(1,331)**	(7,436)

9 INVESTMENT IN ASSOCIATES (continued)

Financial information of ABO, being the material associate is provided below. The information is based on amounts as reported in financial statements of ABO.

	2020 US$ 'million	2019 US$ 'million
Ahli Bank S.A.O.G.		
Balance sheet related information		
Loans and advances	**5,763.4**	5,337.6
Total assets	**7,019.4**	6,541.6
Customers' deposits	**4,999.2**	4,446.0
Total liabilities	**6,010.7**	5,530.7
Income statement related information		
Total operating income	**185.7**	181.2
Net profit for the year	**62.3**	80.6
Dividends received during the year	**14.3**	13.6
Cash flow related information		
Net cash from (used in) operating activities	**104.9**	(229.3)
Net cash used in investing activities	**(70.8)**	(116.6)
Net cash from financing activities	**7.0**	163.0

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2020 is US$ 190.5 million (31 December 2019: US$ 185.7 million).

10 INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2020, the fair value of the investment properties is US$ 198.9 million (31 December 2019: US$ 281.4 million). Investment properties were valued by independent valuers using unobservable valuation inputs and are classified under Level 3 of the fair value hierarchy.

Movements for the year are as follows:

	2020 US$ '000	2019 US$ '000
At 1 January	**229,803**	265,794
Additions	**15,187**	9,296
Disposals	**(56,654)**	(44,401)
Depreciation, impairment and other movements	**(2,621)**	(886)
At 31 December	**185,715**	229,803

11 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2020 US$ '000	2019 US$ '000
Interest receivable	**209,921**	240,459
Derivative assets (note 28)	**166,662**	105,489
Tax assets (note 22)	**632**	65
Repossessed real estate assets	**343,187**	318,252
Prepayments and others	**136,830**	159,449
	857,232	823,714

Interest receivable include US$ 24.8 million (2019: US$ 20.7 million) relating to financial assets classified as FVTOCI and US$ 185.1 million (2019: US$ 219.8 million) relates to assets held at amortised cost.

12 PREMISES AND EQUIPMENT

The net book values of the Group's premises and equipment are:

	2020 US$ '000	2019 US$ '000
Freehold land	**93,927**	92,747
Freehold buildings	**31,814**	26,215
Fixtures and improvements	**32,469**	33,469
IT equipment and others	**79,552**	67,210
Capital work-in-progress	**15,393**	28,875
Right-of-use assets	**43,692**	47,033
	296,847	295,549

Freehold land is revalued by independent valuers annually close to year end using significant valuation inputs based on unobservable inputs and is classified under Level 3 of the fair value hierarchy. During the years ended 31 December 2020 and 2019, there have been no movements in Level 3 freehold land other than valuation changes.

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	2020			2019		
	Goodwill US$ '000	**Intangible assets US$ '000**	**Total US$ '000**	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**432,417**	**54,738**	**487,155**	429,305	49,014	478,319
Exchange rate adjustments	**(2,273)**	**1,076**	**(1,197)**	3,112	5,724	8,836
At 31 December	**430,144**	**55,814**	**485,958**	432,417	54,738	487,155

Goodwill:

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is shown under note 30.

Key assumptions used in estimating recoverable amounts of cash-generating units

The discount rate used in goodwill impairment testing was 6.6% to 16.9% (2019: 8.1% to 17.8%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

13 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Intangible assets:

Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. Based on an annual impairment assessment of the intangible assets, no indications of impairment were identified (2019: same). The fair values of a banking license are determined at the time of acquisition by discounting the future expected profits from their acquisition and their projected terminal value.

14 DEPOSITS FROM BANKS

	2020 US$ '000	2019 US$ '000
Demand and call deposits	**135,885**	186,298
Time deposits	**4,082,532**	4,837,617
	4,218,417	5,023,915

15 BORROWINGS UNDER REPURCHASE AGREEMENTS

The Group has collateralized borrowing lines of credit with various financial institutions through repurchase arrangements, amounting to US$ 7.7 billion (31 December 2019: US$ 7.4 billion).

As at 31 December 2020, the borrowings under these agreements were US$ 3.6 billion (31 December 2019: US$ 2.9 billion) and the fair value of investment securities that had been provided as collateral was US$ 4.3 billion (31 December 2019: US$ 3.2 billion).

16 CUSTOMERS' DEPOSITS

	2020 US$ '000	2019 US$ '000
Current and call accounts	**5,399,932**	4,686,902
Saving accounts	**2,837,387**	2,303,610
Time deposits	**16,945,266**	18,527,611
	25,182,585	25,518,123

17 TERM DEBTS

	2020 US$ '000	2019 US$ '000
Bilateral Term Debts:		
- repayable in December 2022	**100,000**	-
- repayable in December 2023	**75,000**	-
	175,000	-

18 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2020 US$ '000	2019 US$ '000
Interest payable	**149,373**	267,493
Accruals and other payables*	**180,333**	180,092
Derivative liabilities (note 28)	**1,014,416**	497,373
Other credit balances**	**413,320**	438,593
Tax liabilities (note 22)	**50,252**	49,641
ECL allowances***	**23,012**	23,898
	1,830,706	1,457,090

* Accruals and other payables include US$ 43.1 million (31 December 2019: US$ 46.6 million) relating to lease liabilities.

** Other credit balances mainly includes insurance related technical provisions, unearned fees and other sundry creditors.

*** This represents ECL allowances on financial contracts such as guarantees and undrawn commitments.

19 SUBORDINATED LIABILITIES

These borrowings are subordinated to the claims of all other creditors of the respective entities.

	2020 US$ '000	2019 US$ '000
- 10 year subordinated debt (repaid on 20 January 2020)	**-**	17,997
- Repayable on 24 July 2025	**10,032**	9,865
	10,032	27,862

20 EQUITY

	2020 US$ '000	2019 US$ '000
(a) Authorised:		
Share capital		
10,000 million shares (2019: 10,000 million shares) of US$ 0.25 each	**2,500,000**	2,500,000

Available for issuance of ordinary shares and various classes of preference shares.

	2020 US$ '000	2019 US$ '000
(b) Issued and fully paid:		
Ordinary share capital (US$ 0.25 each)	**2,412,972**	2,193,611
Number of shares (millions)	**9,651.9**	8,774.4

20 EQUITY (continued)

Movement in ordinary shares	2020 (number in millions)	2019 (number in millions)
Opening balance as at 1 January	**8,774.4**	7,970.2
Add: issuance of additional shares	**-**	6.6
Add: issuance of bonus shares	**877.5**	797.6
Closing balance as at 31 December	**9,651.9**	8,774.4

(c) Employee Share Purchase Plan and Mandatory Share Plan

The Employee Share Purchase Plan (ESPP) and Mandatory Share Plan (MSP) were setup during 2005 and 2014 respectively after obtaining necessary approvals from shareholders and regulatory authorities.

ESPP

Movements in ordinary shares under ESPP	2020 (number in thousands)	2019 (number in thousands)
Opening balance	**126,015**	187,851
Bonus shares issued during the year	**9,566**	16,654
Exercised during the year	**(58,355)**	(78,490)
Closing balance	**77,226**	126,015

MSP

Under the MSP scheme, the MSP Trust procures and provide for shares to satisfy options to be issued under the MSP Scheme as part of the annual performance bonus deferred share awards. These shares are entitled to cash dividend and bonus share issues.

Movements in ordinary shares under MSP	2020 (number in thousands)	2019 (number in thousands)
Opening balance	**10,307**	18,805
Bonus shares issued during the year	**279**	1,788
Awarded during the year	**3,344**	6,605
Exercised during the year	**(13,930)**	(16,891)
Closing balance	**-**	10,307

(d) Perpetual Tier 1 Capital Securities and Sukuk

	2020 US$ '000	2019 US$ '000
Issued by the Bank [20d(i)]	**400,000**	400,000
Issued by the subsidiary [20d(ii)]	**200,000**	200,000
	600,000	600,000

(i) Basel III compliant Additional Tier I Perpetual Capital Securities issued by the Bank during 2015 carries an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. On completion of the initial 5 year period, during the year, distribution rate was reset to 5.839% .These securities are perpetual, subordinated and unsecured. The Capital Certificates are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

20 EQUITY (continued)

(d) Perpetual Tier 1 Capital Securities and Sukuk (continued)

(ii) During 2016, Ahli United Bank K.S.C.P, a subsidiary of the Bank, issued a US$ 200 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk that bears a profit rate of 5.5%, which are eligible to be classified under equity. The Capital Certificates are subordinated, unsecured and carry a Periodic Distribution Amount, payable semi-annually in arrears, until the first call date (25 October 2021). The Periodic Distribution Amounts in respect of the Capital Certificates may be cancelled (in whole or in part) at the sole discretion of the issuer on a non-cumulative basis. The Capital Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. These certificates have no maturity date and are callable (in whole but not in part) at par at the option of the issuer on the first call date and on every distribution payment date thereafter, subject to certain conditions.

21 RESERVES

a) Share premium

The share premium arising on the issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL).

b) Capital reserve

As required under BCCL, any profit on the sale of treasury stock is transferred to a capital reserve. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

c) Statutory reserve

As required under BCCL and the Bank's Articles of Association, 10% of the net profit is transferred to a statutory reserve on an annual basis. The Bank 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.

d) Property revaluation reserve

The revaluation reserve arising on revaluation of freehold land is not distributable except in such circumstances as stipulated in the BCCL.

e) Foreign exchange translation reserve

It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

f) Other comprehensive income reserve (OCI Reserve)

This reserve represents changes in the fair values of equity and debt instruments that are classified as fair value through other comprehensive income.

g) Cash flow hedge reserve

This reserve represents the effective portion of gain or loss on the Group's cash flow hedging instruments.

21 RESERVES (continued)

h) Movements in other reserves

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes: OCI reserve	Cumulative changes: Cash flow hedge reserve	Cumulative changes: ESPP reserve	Cumulative changes: Pension fund reserve	Total other reserves
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2020	**17,240**	**35,395**	**(402,456)**	**21,331**	**(37,137)**	**-**	**(39,147)**	**(404,774)**
Currency translation adjustments	**-**	**-**	**(71,468)**	**-**	**-**	**-**	**-**	**(71,468)**
Transfers to consolidated statement of income	**-**	**-**	**-**	**(9,226)**	**(435)**	**-**	**-**	**(9,661)**
Net fair value movements	**-**	**-**	**-**	**(16,180)**	**(16,167)**	**-**	**-**	**(32,347)**
Transfers to retained earnings	**-**	**-**	**-**	**1,527**	**-**	**-**	**-**	**1,527**
Fair value movements and others	**-**	**-**	**-**	**-**	**-**	**-**	**(6,292)**	**(6,292)**
Revaluation of freehold land	**-**	**914**	**-**	**-**	**-**	**-**	**-**	**914**
Balance at 31 December 2020	**17,240**	**36,309**	**(473,924)**	**(2,548)**	**(53,739)**	**-**	**(45,439)**	**(522,101)**

	Capital reserve	Property revaluation reserve	Foreign exchange translation reserve	Cumulative changes: OCI reserve	Cumulative changes: Cash flow hedge reserve	Cumulative changes: ESPP reserve	Cumulative changes: Pension fund reserve	Total other reserves
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2019	8,480	35,225	(435,370)	3,639	(17,021)	-	(50,254)	(455,301)
Currency translation adjustments	-	-	32,914	-	-	-	-	32,914
Transfers to consolidated statement of income	-	-	-	1,126	(1,294)	-	-	(168)
Sale of treasury shares	8,760	-	-	-	-	-	-	8,760
Net fair value movements	-	-	-	15,371	(18,822)	-	-	(3,451)
Transfers to retained earnings	-	-	-	1,195	-	(1,851)	-	(656)
Fair value movements and others	-	-	-	-	-	1,851	11,107	12,958
Revaluation of freehold land	-	170	-	-	-	-	-	170
Balance at 31 December 2019	17,240	35,395	(402,456)	21,331	(37,137)	-	(39,147)	(404,774)

Foreign currency translation risk primarily arises from Group's investments in diverse countries. Assets and liabilities of the Group's subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting periods. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income prorated between non-controlling interests and equity owners.

The Group undertakes hedging of such net investment in foreign operations to mitigate any currency risk in a number of ways including borrowing in the underlying currency, structural hedging in the form of holding US Dollar long position to the extent possible and forward contracts.

i) Dividends proposed and paid

	2020 US$ '000	2019 US$ '000
Proposed for approval at the forthcoming Annual General Assembly of Shareholders Meeting		
Total cash dividend proposed on the ordinary shares	**120,649**	438,722
Cash dividend on each ordinary share (US cents per share)	**1.25**	5.0
Bonus share issue	**5%**	10%

21 RESERVES (continued)

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

	2020 US$ '000	2019 US$ '000
Distribution on the Perpetual Tier 1 Capital Securities	**25,428**	27,500
Distribution on the Perpetual Tier 1 Sukuk	**11,000**	11,000
	36,428	38,500

22 TAXATION AND ZAKAT

	2020 US$ '000	2019 US$ '000
Consolidated balance sheet (note 11 and note 18):		
- Current tax asset	**581**	-
- Deferred tax asset	**51**	65
	632	65
- Current tax liability	**(30,779)**	(29,446)
- Deferred tax liability	**(19,473)**	(20,195)
	(50,252)	(49,641)
Consolidated statement of income		
- Current tax expense on foreign operations	**44,544**	40,075
- Zakat expense arising from subsidiary operations	**1,144**	1,899
- Deferred tax expense on foreign operations	**(993)**	(3,436)
	44,695	38,538

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBUK and AUBE. Tax rate at AUBE is 22.5% (2019: 22.5%) and AUBUK is 19.0% (2019: 19.0%).

23 EARNINGS PER SHARE

Basic and diluted earnings per ordinary share are calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less distribution on Perpetual Tier 1 Capital Securities, by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in basic and diluted earnings per ordinary share computations:

	2020 US$ '000	2019 US$ '000
Net profit for basic and diluted earnings per ordinary share computation		
Net profit attributable to Bank's equity shareholders	**452,244**	730,501
Less: Share of Perpetual Tier 1 Capital Securities and sukuk distributions	**(33,668)**	(35,740)
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	**418,576**	694,761
Basic and diluted earnings per ordinary share (US cents)	**4.3**	7.2

23 EARNINGS PER SHARE (continued)

	Number of shares (in millions) 2020	2019
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	**9,651.9**	9,651.9
Weighted average number of ordinary shares for diluted earnings per share	**9,651.9**	9,651.9

24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	2020 US$ '000	2019 US$ '000
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	**834,735**	702,532
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	**2,142,264**	2,429,591
	2,976,999	3,132,123

25 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are subject to ECL assessments. Share of profit from associates and investment in associates are shown separately under the consolidated statement of income and consolidated balance sheet respectively.

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	2020 US$'000					
				Senior Management		
	Major shareholders	*Associates*	*Non-Executive Directors*	*Management Directors[2]*	*Others*	*Total*
Interest income	**-**	**126**	**6,306**	**61**	**3**	**6,496**
Interest expense	**94,379**	**356**	**147**	**104**	**6**	**94,992**
Fees and commissions	**-**	**1,228**	**1,291**	**18**	**2**	**2,539**
Deposits with banks	**-**	**15,570**	**-**	**-**	**-**	**15,570**
Loans and advances	**-**	**-**	**144,053**	**379**	**-**	**144,432**
Derivatives assets	**-**	**8,853**	**-**	**-**	**-**	**8,853**
Deposits from banks	**-**	**17,086**	**-**	**-**	**-**	**17,086**
Customers' deposits[1]	**3,674,177**	**-**	**30,405**	**8,715**	**396**	**3,713,693**
Subordinated liabilities	**10,032**	**-**	**-**	**-**	**-**	**10,032**
Commitments and contingent liabilities	**-**	**7,436**	**84,461**	**-**	**-**	**91,897**
Short term employee benefits	**-**	**-**	**-**	**12,193**	**2,622**	**14,815**
End of service benefits	**-**	**-**	**-**	**2,044**	**166**	**2,210**
Directors' fees and related expenses[3]	**-**	**-**	**1,622**	**-**	**-**	**1,622**

25 RELATED PARTY TRANSACTIONS (continued)

	2019 US$'000					
				Senior Management		
	Major shareholders	Associates	Non-Executive Directors	Management Directors[2]	Others	Total
Interest income	-	3,039	7,852	152	41	11,084
Interest expense	177,294	1,390	125	64	27	178,900
Fees and commissions	-	2,864	2,631	12	1	5,508
Deposits with banks	-	13,432	-	-	-	13,432
Loans and advances	-	-	184,307	3,111	581	187,999
Derivatives assets	-	4,238	-	-	-	4,238
Deposits from banks	-	93,363	-	-	-	93,363
Customers' deposits[1]	6,769,750	-	21,934	7,196	1,815	6,800,695
Subordinated liabilities	9,866	-	-	-	-	9,866
Commitments and contingent liabilities	-	29,936	153,666	-	-	183,602
Short term employee benefits	-	-	-	12,678	1,916	14,594
End of service benefits	-	-	-	1,865	127	1,992
Directors' fees and related expenses[3]	-	-	2,235	-	-	2,235

[1] Customers' deposits include deposits from GCC government-owned institutions amounting to US$ 3,637 million (31 December 2019: US$ 6,730 million).

[2] AUB Group Management Directors (Employees) who are appointed by the shareholders of AUB to the AUB Board to represent management or by AUB to the boards of any of its subsidiaries or affiliates or their related committees, are excluded from receiving any additional remuneration for their membership of or attendance at board or related committee meetings as per their contractual arrangements.

[3] Directors fees and related expenses for 2019 were approved by the shareholders in the annual general meeting on 19 March 2020 and the same for 2020 will be presented for shareholders' approval at the forthcoming annual general meeting in March 2021.

The consolidated statement of income includes a Nil fair value amortisation charge (2019: US$ 0.44 million) relating to share based transactions.

26 EMPLOYEE BENEFITS

The Group operates Defined Benefit and Defined Contribution retirement benefit schemes for its employees in accordance with the local laws and regulations in the countries in which it operates. The costs of providing retirement benefits including current contributions, are charged to the consolidated statement of income.

Defined benefit plans

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US$ 8,100 thousand (2019: US$ 8,914 thousand).

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. In accordance with the amended IAS-19 Employee Benefits, the Group immediately recognizes the actuarial gains and losses relating to 'Defined Pension Benefit' scheme through consolidated statement of changes in equity.

Defined contribution plans

The Group contributed US$ 9,465 thousand (2019: US$ 8,780 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

27 MANAGED FUNDS

Funds administrated on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2020 was US$ 2,339.3 million (2019: US$ 2,568.7 million).

28 DERIVATIVES

In the ordinary course of business, the Group 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.

Derivatives include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations 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 potential favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. 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 favourable or unfavourable.

The table below shows the net fair values of derivative financial instruments held for trading.

	2020		*2019*	
	Derivative assets	***Derivative liabilities***	*Derivative assets*	*Derivative liabilities*
	US$ '000	***US$ '000***	*US$ '000*	*US$ '000*
Derivatives held for trading:				
- Interest rate swaps	**107,626**	**103,697**	54,217	49,273
- Forward foreign exchange contracts	**35,118**	**87,265**	15,892	42,127
- Options	**810**	**873**	1,036	1,036
	143,554	**191,835**	71,145	92,436

The table below shows the net fair values of derivative financial instruments held for hedging.

	2020			*2019*		
	Derivative assets US$ '000	***Derivative liabilities US$ '000***	***Notional amounts US$ '000***	*Derivative assets US$ '000*	*Derivative liabilities US$ '000*	*Notional amounts US$ '000*
Derivatives held as fair value hedges:						
- Interest rate swaps on amortised cost instruments	**20,824**	**732,789**	**7,522,521**	31,395	354,497	7,841,580
- Interest rate swaps on FVTOCI instruments	**865**	**32,254**	**485,620**	2,471	10,520	628,082
Derivatives held as cash flow hedges:						
- Interest rate swaps	**1,419**	**57,137**	**198,863**	197	39,920	217,937
- Forward foreign exchange contracts	**-**	**401**	**14,875**	281	-	14,665
	23,108	**822,581**	**8,221,879**	34,344	404,937	8,702,264

Major financial counterparties with whom the Group has entered into above derivative contracts are covered through margin monies for the fair values of contracts outstanding.

28 DERIVATIVES (continued)

In respect of derivative assets above, the Group has US$ 36.1 million (2019: US$ 48.0 million) of liabilities that can be offset through master netting arrangements. These master netting arrangements create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of counterparties or following other predetermined events.

Fair value hedges

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2020 is negative US$ 743.4 million (2019: Negative US$ 331.2 million) which is offset by gain recognised on the hedged item at 31 December 2020, attributable to the hedged risk of US$ 743.4 million (2019: US$ 331.2 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2020 and 2019 respectively.

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and advances amounting to US$ 228.2 million (31 December 2019: US$ 228.8 million), non-trading investments amounting to US$ 7,044.7 million (31 December 2019: US$ 7,067.0 million), Borrowings under repurchase agreements amounting to US$ 331.5 million (31 December 2019: US$ 145.0 million) and customer deposits amounting to US$ 1,135.4 million (31 December 2019: US$ 1,619.6 million). The net fair value amounting to US$ 743.4 million (31 December 2019: US$ 331.2 million) is included in the carrying amount of the hedged items.

Cash flow hedges

The time periods in which the hedged cash flows are expected to occur and their impact on the consolidated statement of income is as follows:

	3 months or less US$ '000	*More than 3 months up to 1 year US$ '000*	*More than 1 year up to 5 years US$ '000*	*More than 5 years US$ '000*	*Total US$ '000*
At 31 December 2020					
Net cash flows	**869**	**(5,716)**	**(20,112)**	**(28,780)**	**(53,739)**
At 31 December 2019					
Net cash flows	600	(2,860)	(12,439)	(22,438)	(37,137)

No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2020 and 2019.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses interest rate swaps and forward rate agreements to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as derivatives held for hedging purposes.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures.

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits available and generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances (standby facilities) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standby facilities would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

The Group has the following credit related commitments:

	2020 US$ '000	2019 US$ '000
Contingent liabilities:		
Guarantees	**2,710,332**	2,671,283
Acceptances	**244,546**	177,977
Letters of credit	**390,673**	381,452
	3,345,551	3,230,712
Maturity of contingent liabilities is as follows:		
Less than one year	**2,511,668**	2,330,480
Over one year	**833,883**	900,232
	3,345,551	3,230,712
Irrevocable commitments:		
Undrawn loan commitments	**222,380**	575,702

Also, refer to note 18 for ECL allowances and note 35 for additional liquidity disclosures.

30 SEGMENT INFORMATION

For management purposes, the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
Corporate banking	Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers.
Treasury and investments	Principally providing money market, trading and treasury services, as well as management of the Group's investments and funding.
Private banking	Principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

30 SEGMENT INFORMATION (continued)

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Year ended 31 December 2020:					
Net interest income	206,090	320,369	219,239	53,657	799,355
Fees and commissions-net	28,027	58,626	3,128	13,888	103,669
Other operating income	3,315	15,200	190,266	131	208,912
OPERATING INCOME	237,432	394,195	412,633	67,676	1,111,936
Provision for credit losses and others	43,355	173,778	32,503	5,282	254,918
NET OPERATING INCOME	194,077	220,417	380,130	62,394	857,018
Operating expenses	116,589	91,286	86,726	31,250	325,851
PROFIT BEFORE TAX AND ZAKAT	77,488	129,131	293,404	31,144	531,167
Tax expense and zakat					44,695
NET PROFIT FOR THE YEAR					486,472
Less: Attributable to non-controlling interests					34,228
NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK					452,244
Inter segment interest included in net interest income above	230,412	(286,098)	24,841	30,845	-

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
As at 31 December 2020:					
Segment assets	3,533,793	16,152,564	16,327,557	2,114,089	38,128,003
Goodwill	155,243	100,544	94,859	79,498	430,144
Other intangible assets	15,146	20,038	18,270	2,360	55,814
Investment in associates					303,127
Unallocated assets					1,154,079
TOTAL ASSETS					40,071,167
Segment liabilities	6,774,789	7,372,469	15,275,013	3,781,832	33,204,103
Unallocated liabilities					1,830,706
TOTAL LIABILITIES					35,034,809

30 SEGMENT INFORMATION (continued)

	Retail banking	Corporate banking	Treasury and investments	Private banking	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Year ended 31 December 2019:					
Net interest income	210,748	404,835	263,409	72,508	951,500
Fees and commissions-net	38,983	66,145	3,650	18,527	127,305
Other operating income	3,407	19,470	133,705	142	156,724
OPERATING INCOME	253,138	490,450	400,764	91,177	1,235,529
Provision for credit losses and others	6,811	49,146	(2,316)	776	54,417
NET OPERATING INCOME	246,327	441,304	403,080	90,401	1,181,112
Operating expenses	128,045	91,076	101,058	33,570	353,749
PROFIT BEFORE TAX AND ZAKAT	118,282	350,228	302,022	56,831	827,363
Tax expense and zakat					38,538
NET PROFIT FOR THE YEAR					788,825
Less: Attributable to non-controlling interests					58,324
NET PROFIT ATTRIBUTABLE TO THE OWNERS' OF THE BANK					730,501
Inter segment interest included in net interest income above	281,891	(406,227)	73,884	50,452	-

	Retail banking	Corporate banking	Treasury and investments	Private banking	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Year ended 31 December 2019:					
Segment assets	3,325,396	16,347,868	16,665,760	2,019,598	38,358,622
Goodwill	155,185	100,422	97,285	79,525	432,417
Other intangible assets	14,854	19,652	17,917	2,315	54,738
Investment in associates					315,011
Unallocated assets					1,119,263
TOTAL ASSETS					40,280,051
Segment liabilities	6,016,102	5,938,250	17,908,738	3,598,342	33,461,432
Unallocated liabilities					1,457,090
TOTAL LIABILITIES					34,918,522

Geographic segmentation

Although the management of the Group is based primarily on business segments, the Group's geographic segmentation is based on the countries where the Bank and its subsidiaries are incorporated. Thus, the operating income generated by the Bank and its subsidiaries based in the GCC are grouped as "GCC Countries", while those generated by the Bank's subsidiaries located outside the GCC region is grouped under "Others". Similar segmentation is followed for the distribution of total assets. The following table shows the distribution of the Group's operating income and total assets by geographical segments:

30 SEGMENT INFORMATION (continued)

Geographic segmentation (continued)

	Operating income		Total assets	
	2020 US$ '000	2019 US$ '000	**2020 US$ '000**	2019 US$ '000
GCC Countries	**720,263**	809,605	**26,519,194**	26,768,450
Others	**391,673**	425,924	**13,551,973**	13,511,601
Total	**1,111,936**	1,235,529	**40,071,167**	40,280,051

Net profit from Bahrain onshore operations is US$ 63.3 million (2019: US$ 102.3 million), which represents 14% (2019: 14%) of the Group's net profit attributable to the owners of the Bank.

31 RISK MANAGEMENT

The Board of Directors (BOD) seeks to optimise the Group's performance by enabling the various business units to realize the Group's business strategy and meet agreed business performance targets by operating within the BOD approved Group Risk Framework covering risk parameters.

The Group Risk Committee, Group Investment Committee, Group Assets & Liability Committee and Group Operational Risk Committee are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (including the Corporate Governance committee) has oversight over Group's audit, compliance and operational risk.

The BOD approves the Group Risk Framework on an annual basis. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports. The Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) operational risk, and (v) legal risk as detailed in notes 32 to 37.

32 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives, this is limited to positive fair values. The Group attempts to mitigate credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

a) Concentration risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group manages its credit risk exposure so as to avoid over concentration to a particular sector or geographic location. It also obtains security where appropriate. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

The principal collateral types are as follows:

- In the personal sector – cash, mortgages over residential properties and assignments over salary income;
- In the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- In the commercial real estate sector – charges over the properties being financed; and
- In the financial sector – charges over financial instruments, such as debt securities and equities.

32 **CREDIT RISK** (continued)

a) **Concentration risk** (continued)

The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Details of the concentration of the loans and advances by industry sector and geographic region are disclosed in note 7(a) and 7(b) respectively.

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 33.

b) **Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	Gross maximum exposure 2020 US$ '000	Gross maximum exposure 2019 US$ '000
Balances with central banks	**1,620,575**	1,221,112
Treasury bills and deposits with central banks	**2,333,852**	2,202,340
Deposits with banks	**3,532,689**	4,683,260
Loans and advances	**20,719,878**	20,742,360
Non-trading investments	**9,481,783**	8,904,838
Interest receivable, derivative and other assets	**459,430**	452,863
Total	**38,148,207**	38,206,773
Contingent liabilities	**3,345,551**	3,230,712
Undrawn loan commitments	**222,380**	575,702
Total credit related commitments	**3,567,931**	3,806,414
Total credit risk exposure	**41,716,138**	42,013,187

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

32 CREDIT RISK (continued)

c) Credit quality of financial assets

The tables below shows distribution of financial assets before ECL allowances:

	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 31 December 2020				
Balances with central banks:				
High standard grade	**1,620,575**	**-**	**-**	**1,620,575**
Treasury bills and deposits with central banks:				
High standard grade	**1,749,635**	**-**	**-**	**1,749,635**
Standard grade	**585,014**	**-**	**-**	**585,014**
Deposits with banks:				
High standard grade	**3,355,808**	**12,582**	**-**	**3,368,390**
Standard grade	**160,349**	**5,379**	**-**	**165,728**
Loans and advances:				
High standard grade	**12,250,904**	**839,791**	**-**	**13,090,695**
Standard grade	**5,669,036**	**2,396,008**	**-**	**8,065,044**
Credit impaired	**-**	**-**	**558,863**	**558,863**
Non-trading investments:				
High standard grade	**6,508,714**	**-**	**-**	**6,508,714**
Standard grade	**2,904,951**	**95,060**	**-**	**3,000,011**
Credit related contingent items:				
High standard grade	**5,210,268**	**183,347**	**-**	**5,393,615**
Standard grade	**2,111,577**	**204,830**	**-**	**2,316,407**
Credit impaired*	**-**	**-**	**53,005**	**53,005**

	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 31 December 2019				
Balances with central banks:				
High standard grade	1,221,112	-	-	1,221,112
Treasury bills and deposits with central banks:				
High standard grade	1,871,600	-	-	1,871,600
Standard grade	331,015	-	-	331,015
Deposits with banks:				
High standard grade	4,508,219	-	-	4,508,219
Standard grade	161,842	13,544	-	175,386
Loans and advances:				
High standard grade	12,785,732	551,664	-	13,337,396
Standard grade	5,553,570	2,206,367	-	7,759,937
Credit impaired	-	-	414,791	414,791
Non-trading investments:				
High standard grade	6,319,300	50,882	-	6,370,182
Standard grade	2,397,676	148,120	-	2,545,796
Credit related contingent items:				
High standard grade	5,466,541	140,879	-	5,607,420
Standard grade	2,177,005	326,516	-	2,503,521
Credit impaired*	-	-	62,511	62,511

* After application of credit conversion factors, credit impaired contingent items amounted to US$ 25,364 thousand (31 December 2019: US$ 29,475 thousand).

Except for non-trading investments that are classified as FVTOCI or FVTPL, all the above financial instruments are carried at amortised cost.

32 CREDIT RISK (continued)

c) Credit quality of financial assets (continued)

It is the Group's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed below can be equated to the following risk rating grades, which are either internally applied or external ratings mapped to internal ratings.

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk
Credit impaired	Risk rating 8 to 10	Substandard through to loss

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk. Refer to note 2.7(g) for detailed ECL measurement methodology.

There are no financial assets which are past due but not impaired as at 31 December 2020 and 2019 other than those disclosed under note 7(d).

33 CONCENTRATION ANALYSIS

The distribution of assets, liabilities and contingent liabilities on behalf of customers by geographic region and industry sector was as follows:

	2020			2019		
	Assets US$ '000	**Liabilities US$ '000**	**Contingent liabilities on behalf of customers US$ '000**	Assets US$ '000	Liabilities US$ '000	Contingent liabilities on behalf of customers US$ '000
Geographic region:						
Kingdom of Bahrain	**6,983,862**	**4,976,040**	**981,801**	6,567,334	4,990,295	924,615
State of Kuwait	**13,054,962**	**15,709,765**	**1,357,283**	13,567,056	18,397,588	1,450,019
Other GCC countries	**6,480,370**	**2,989,061**	**202,764**	6,634,060	2,212,339	205,159
United Kingdom (UK)	**3,909,726**	**2,237,987**	**4,893**	3,617,402	1,422,431	32,164
Arab Republic of Egypt	**3,917,520**	**3,362,846**	**503,850**	3,250,254	2,845,449	325,172
Europe (excluding UK)	**975,229**	**2,556,656**	**207,273**	1,626,146	2,179,813	218,583
Asia (excluding GCC)	**2,079,646**	**2,171,664**	**77,534**	1,823,995	1,806,067	61,257
United States of America	**1,459,780**	**71,978**	**6,683**	1,733,719	69,963	11,601
Rest of the World	**1,210,072**	**958,812**	**3,470**	1,460,085	994,577	2,142
	40,071,167	**35,034,809**	**3,345,551**	40,280,051	34,918,522	3,230,712
Industry sector:						
Banks and other financial institutions	**12,126,345**	**15,373,807**	**259,894**	13,080,144	17,651,767	336,813
Consumer/personal	**2,802,240**	**7,463,845**	**15,707**	2,657,801	6,979,360	4,314
Residential mortgage	**1,696,614**	**-**	**1,331**	1,705,991	-	1,237
Trading and manufacturing	**7,440,233**	**2,427,774**	**1,382,072**	7,148,141	1,878,701	1,343,770
Real estate	**5,942,534**	**601,415**	**1,131**	5,641,453	679,286	1,176
Services	**4,497,836**	**3,487,268**	**1,591,745**	4,695,139	3,107,946	1,475,967
Government/public sector	**5,215,266**	**4,382,811**	**50,276**	4,846,079	3,921,239	39,490
Others	**350,099**	**1,297,889**	**43,395**	505,303	700,223	27,945
	40,071,167	**35,034,809**	**3,345,551**	40,280,051	34,918,522	3,230,712

34 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, equity prices, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives. The Group classifies exposures to market risk into either trading or non-trading portfolios. Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses. The data given below is representative of the information during the year.

i) Value-at-Risk

The Group calculates historical simulation VaR using a one day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management. Actual outcomes are compared to the VaR model derived predictions on a regular basis as a means of validating the assumptions and parameters used in the VaR calculation.

The table below summarises the risk factor composition of the VaR including the correlative effects intrinsic to the trading book:

	Foreign exchange US$ '000	*Interest rate US$ '000*	*Effects of correlation US$ '000*	*Total US$ '000*
31 December 2020	**1,504**	**3**	**(0)**	**1,507**
31 December 2019	331	(21)	0	310

ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the interest rate gaps to within the limits established by the Bank's Board of Directors.

34 **MARKET RISK** (continued)

The table below provides an analysis of the Group's interest rate risk exposure:

ii) **Interest rate risk** (continued)

	2020			
	Less than 3 months US$ '000	**Three months to one year US$ '000**	**Over one year US$ '000**	**Total US$ '000**
Treasury bills and deposits with central banks	**1,434,238**	**899,614**	**-**	**2,333,852**
Deposits with banks	**3,431,299**	**101,390**	**-**	**3,532,689**
Loans and advances	**16,500,408**	**2,599,544**	**1,619,926**	**20,719,878**
Non-trading investments	**519,586**	**426,873**	**8,535,324**	**9,481,783**
	21,885,531	**4,027,421**	**10,155,250**	**36,068,202**
Deposits from banks	**3,560,540**	**577,877**	**80,000**	**4,218,417**
Borrowings under repurchase agreements	**3,454,269**	**163,800**	**-**	**3,618,069**
Customers' deposits	**15,968,947**	**6,646,604**	**2,567,034**	**25,182,585**
Term debts	**175,000**	**-**	**-**	**175,000**
Subordinated liabilities	**10,032**	**-**	**-**	**10,032**
	23,168,788	**7,388,281**	**2,647,034**	**33,204,103**
On balance sheet gap	**(1,283,257)**	**(3,360,860)**	**7,508,216**	**2,864,099**
Off balance sheet gap	**5,451,804**	**1,028,993**	**(6,480,797)**	
Total interest sensitivity gap	**4,168,547**	**(2,331,867)**	**1,027,419**	
Cumulative interest sensitivity gap	**4,168,547**	**1,836,680**	**2,864,099**	

	2019			
	Less than 3 months US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Treasury bills and deposits with central banks	1,409,650	792,690	-	2,202,340
Deposits with banks	4,064,118	619,142	-	4,683,260
Loans and advances	16,012,744	3,007,901	1,721,715	20,742,360
Non-trading investments	387,428	1,568,589	6,948,821	8,904,838
	21,873,940	5,988,322	8,670,536	36,532,798
Deposits from banks	4,403,891	550,158	69,866	5,023,915
Borrowings under repurchase agreements	2,456,647	434,885	-	2,891,532
Customers' deposits	15,348,975	7,843,785	2,325,363	25,518,123
Subordinated liabilities	27,862	-	-	27,862
	22,237,375	8,828,828	2,395,229	33,461,432
On balance sheet gap	(363,435)	(2,840,506)	6,275,307	
Off balance sheet gap	5,276,338	1,412,037	(6,688,375)	
Total interest sensitivity gap	4,912,903	(1,428,469)	(413,068)	
Cumulative interest sensitivity gap	4,912,903	3,484,434	3,071,366	

34 MARKET RISK (continued)

ii) Interest rate risk (continued)

The following table demonstrates the sensitivity of the Group's net interest income for the next one year, to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2020 and 2019 including the effect of hedging instruments.

Sensitivity analysis - interest rate risk

		2020 US$ '000	2019 US$ '000
At 25 bps - increase (+) / decrease (-)	+/-	**8,830**	11,302

iii) Currency risk

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

The risk management process manages the Group's exposure to fluctuations in foreign exchange rates (currency risk) through the asset and liability management process. It is the Group's policy to reduce its exposure to currency fluctuations to acceptable levels as determined by the Board of Directors. The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored periodically and hedging strategies are used to ensure positions are maintained within the established limits.

The Group's significant net exposures arising out of banking operations as of the consolidated balance sheet date and the effect of change in currency rate by + 1% on the consolidated statement of income is presented below:

	(Loss) / Gain		***Net exposures***	
	2020 US$ '000	*2019 US$ '000*	***2020 US$ '000***	*2019 US$ '000*
Great Britain Pound	**(105)**	(105)	**(10,505)**	(10,487)
Euro	**(54)**	(86)	**(5,398)**	(8,647)
Egyptian Pound	**1,433**	1,283	**143,322**	128,294
Iraqi Dinar	**(1,373)**	(1,398)	**(137,276)**	(139,796)
Kuwaiti Dinar	**69**	(259)	**6,910**	(25,850)

Sensitivity analysis - currency risk

All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 34 (i).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported in the "foreign exchange translation reserve" in note 21(h).

iv) Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board of Directors has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Risk Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio.

34 **MARKET RISK** (continued)

iv) **Equity price risk** (continued)

The effect on equity valuations (as a result of a change in the fair value of equity investments held as FVTPL) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

		Effect on Income Statement	
Market indices	**Changes in equity indices %**	**2020 US$ '000**	2019 US$ '000
Saudi Stock Exchange (Tadawul)	**+/- 10%**	7	13,589

35 LIQUIDITY RISK

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The management of the Group's liquidity and funding is the responsibility of the Group Asset and Liability Committee (GALCO) under the chairmanship of the Deputy Group Chief Executive Officer Treasury and Investments supported by the Group Treasurer, and is responsible for ensuring that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that wholesale market access is coordinated and controlled.

The Group maintains a stable funding base comprising core retail and corporate customer deposits and institutional balances, augmented by wholesale funding and portfolios of highly liquid assets, which are diversified by currency and maturity, in order to enable the Group to respond quickly to any unforeseen liquidity requirements.

The Group subsidiaries and affiliates maintain a strong individual liquidity position and manage their liquidity profiles so that cash flows are balanced and funding obligations can be met when due.

Treasury limits are set by the GALCO and allocated as required across the various group entities. Specifically GALCO and the Group Treasurer are responsible for:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within predetermined caps;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

During COVID-19, the Group further diversified its funding sources and enhanced its liquidity position. Governments, monetary authorities, regulators and financial institutions, including AUB, have taken and continue to take actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and provide financial aid to individual, small business, commercial and corporate clients. The Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 16.1%, Liquidity Coverage Ratio (LCR) of 103.2% and Net Stable Funding Ratio (NSFR) of 117.0% as at 31 December 2020.

35 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2020 and 2019 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

31 December 2020	Upto three months US$ '000	Over three months to one year US$ '000	Above one year US$ '000	Undated US$ '000	Total US$ '000
Assets					
Cash and balances with central banks	1,747,560	-	-	-	1,747,560
Treasury bills and deposits with central banks	1,444,084	889,768	-	-	2,333,852
Deposits with banks	3,431,367	101,322	-	-	3,532,689
Loans and advances	8,926,427	2,954,383	8,839,068	-	20,719,878
Non-trading investments	4,640,911	3,529,981	1,437,417	-	9,608,309
Investment in associates	-	-	-	303,127	303,127
Investment properties	-	-	-	185,715	185,715
Interest receivable, derivative and other assets	399,984	429,768	27,480	-	857,232
Premises and equipment	2,731	8,192	32,769	253,155	296,847
Goodwill and other intangible assets	-	-	-	485,958	485,958
Total	20,593,064	7,913,414	10,336,734	1,227,955	40,071,167
Liabilities					
Deposits from banks	2,869,495	309,620	1,039,302	-	4,218,417
Borrowings under repurchase agreements	170,591	2,382,389	1,065,089	-	3,618,069
Customers' deposits	9,661,697	4,760,665	10,760,223	-	25,182,585
Term debts	-	-	175,000	-	175,000
Interest payable, derivative and other liabilities	1,393,840	267,700	169,166	-	1,830,706
Subordinated liabilities	-	-	10,032	-	10,032
Total	14,095,623	7,720,374	13,218,812	-	35,034,809
Net liquidity gap	6,497,441	193,040	(2,882,078)	1,227,955	5,036,358

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

35 LIQUIDITY RISK (continued)

31 December 2019	Upto three months US$ '000	Over three months to one year US$ '000	Above one year US$ '000	Undated US$ '000	Total US$ '000
Assets					
Cash and balances with central banks	1,366,978	-	-	-	1,366,978
Treasury bills and deposits with central banks	1,414,922	787,418	-	-	2,202,340
Deposits with banks	4,064,195	619,065	-	-	4,683,260
Loans and advances	8,305,095	3,313,962	9,123,303	-	20,742,360
Non-trading investments	4,932,780	2,823,913	1,377,188	-	9,133,881
Investment in associates	-	-	-	315,011	315,011
Investment properties	-	-	-	229,803	229,803
Interest receivable, derivative and other assets	378,664	413,802	31,248	-	823,714
Premises and equipment	2,891	8,672	34,687	249,299	295,549
Goodwill and other intangible assets	-	-	-	487,155	487,155
Total	20,465,525	7,966,832	10,566,426	1,281,268	40,280,051
Liabilities					
Deposits from banks	3,551,657	549,433	922,825	-	5,023,915
Borrowings under repurchase agreements	319,993	1,690,464	881,075	-	2,891,532
Customers' deposits	8,790,513	4,981,680	11,745,930	-	25,518,123
Interest payable, derivative and other liabilities	923,568	336,516	197,006	-	1,457,090
Subordinated liabilities	17,997	-	9,865	-	27,862
Total	13,603,728	7,558,093	13,756,701	-	34,918,522
Net liquidity gap	6,861,797	408,739	(3,190,275)	1,281,268	5,361,529

35 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations. However, the Group's expected cash flows on these instruments vary significantly from this analysis. In particular, customer deposits are expected to maintain stable or increased balances.

	Up to one month US$ '000	**One month to three months US$ '000**	**Over three months to one year US$ '000**	**Over one year to five years US$ '000**	**Over five years US$ '000**	**Total US$ '000**
As at 31 December 2020						
Deposits from banks	**1,691,393**	**1,182,678**	**312,244**	**1,081,586**	**-**	**4,267,901**
Borrowings under repurchase agreements	**23,550**	**147,393**	**2,402,281**	**1,107,778**	**-**	**3,681,002**
Customers' deposits	**12,059,857**	**5,215,829**	**5,293,239**	**2,882,742**	**20,775**	**25,472,442**
Term debts	**-**	**-**	**-**	**182,436**	**-**	**182,436**
Subordinated liabilities	**-**	**-**	**-**	**10,349**	**-**	**10,349**
Interest payable	**59,703**	**44,525**	**33,237**	**11,908**	**-**	**149,373**
Total	**13,834,503**	**6,590,425**	**8,041,001**	**5,276,799**	**20,775**	**33,763,503**
Credit related commitments	**4,806**	**12,740**	**42,701**	**120,320**	**41,813**	**222,380**
Derivatives (net)	**(847,692)**	**-**	**-**	**-**	**-**	**(847,692)**

	Up to one month US$ '000	One month to three months US$ '000	Over three months to one year US$ '000	Over one year to five years US$ '000	Over five years US$ '000	Total US$ '000
As at 31 December 2019						
Deposits from banks	1,958,371	1,604,009	558,015	980,480	-	5,100,875
Borrowings under repurchase agreements	55,644	265,521	1,715,887	934,076	-	2,971,128
Customers' deposits	11,759,074	3,532,386	7,629,519	2,952,935	23,589	25,897,503
Subordinated liabilities	18,072	-	-	-	12,327	30,399
Interest payable	104,473	73,294	70,578	19,148	-	267,493
Total	13,895,634	5,475,210	9,973,999	4,886,639	35,916	34,267,398
Credit related commitments	3,955	69,295	189,823	231,462	81,167	575,702
Derivatives (net)	(391,884)	-	-	-	-	(391,884)

36 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

37 LEGAL RISK

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks. The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions. The Group Legal Policy is reviewed on a periodic basis.

38 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values. Please refer note 8 for the fair value of non-trading investments carried at amortised cost.

The Group's primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2020			
	Level 1 US$ '000	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Equity instruments at fair value	**176**	**87,911**	**38,439**	**126,526**
Debt instruments (FVTOCI)	**1,181,645**	**101,817**	**-**	**1,283,462**
Derivative assets	**-**	**166,662**	**-**	**166,662**
Derivative liabilities	**-**	**1,014,416**	**-**	**1,014,416**

	2019			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Equity instruments at fair value	113,760	75,830	39,453	229,043
Debt instruments (FVTOCI)	1,124,761	68,747	-	1,193,508
Derivative assets	-	105,489	-	105,489
Derivative liabilities	-	497,373	-	497,373

During the years ended 31 December 2020 and 2019, there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

The significant inputs for valuation of equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds, it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated balance sheet or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There were no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

39 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the Group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.1% as of 31 December 2020 (31 December 2019: 16.4%).

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circular OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit is reduced to 80% until 31 December 2021, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2020 is 117.0% (31 December 2019: 117.0%).

	2020 US$ '000	2019 US$ '000
Available Stable Funding:		
Regulatory capital	**5,539,056**	5,579,449
Retail and SME deposits	**6,381,437**	5,745,209
Wholesale funding	**12,707,451**	13,085,627
Others	**480,576**	515,344
Total Available Stable Funding (A)	**25,108,520**	24,925,629
Required Stable Funding:		
High-Quality Liquid Assets (HQLA)	**1,798,935**	1,768,970
Performing loans	**13,552,637**	14,247,078
Securities (other than HQLA)	**2,734,716**	2,421,235
Derivative contracts and margins	**587,712**	309,961
Others	**2,405,618**	2,237,933
Off-Balance sheet items	**388,174**	326,416
Total Required Stable Funding (B)	**21,467,792**	21,311,593
NSFR (%) (A/B)	**117.0%**	117.0%

40 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB, the Financial Services Compensation Scheme, UK and Central Bank of Iraq.

Kingdom of Bahrain: Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits issued by the CBB in accordance with Resolution No. (34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of Bahraini Dinar 20,000 as set out by CBB requirements. A periodic contribution, as mandated by the CBB, is paid by the Bank under this scheme.

40 DEPOSIT PROTECTION SCHEME (continued)

United Kingdom: Customers' deposits in AUBUK are covered under the Financial Services Compensation Scheme, up to a limit of GBP 85,000 per customer. No up-front contribution is currently mandated under this scheme and no liability is due unless any member bank of the scheme is unable to meet its depository obligations.

Republic of Iraq: Customers' deposits held with the Bank in the Iraq are covered by the Regulation Protecting Deposits issued by the Central Bank of Iraq in accordance with Resolution No. (121) of 2018 up to a maximum limit of IQD 25 million per customer and an overall limit of IQD 150 million per Bank.

41 ISLAMIC BANKING AND INSURANCE ACTIVITIES

The Group's Shari'a compliant Islamic activities are offered through its Islamic Banking subsidiary AUBK, Takaful subsidiary of AHL, Islamic Banking associate UBCI and dedicated Islamic banking branches/windows at AUB Bahrain and AUBUK. The results of its Islamic Banking activities are presented below.

BALANCE SHEET AS AT 31 DECEMBER	Note	2020 US$ '000	2019 US$ '000
ASSETS			
Cash and balances with central banks		**538,486**	348,484
Deposits with central banks		**905,115**	1,137,879
Deposits with banks	(a)	**726,540**	1,317,839
Receivable balances from Islamic financing	(b)	**12,503,119**	12,255,286
Financial investments		**2,040,424**	1,558,585
Investment in associates		**25,647**	35,370
Investment properties		**60,543**	96,452
Profit receivable and other assets		**115,315**	116,645
Premises and equipment		**132,924**	135,533
TOTAL ASSETS		**17,048,113**	17,002,073
LIABILITIES			
Deposits from banks	(c)	**1,479,484**	2,715,320
Customers' deposits	(d)	**12,419,055**	11,186,926
Repurchase agreements with banks		**25,011**	-
Profit payable and other liabilities		**286,289**	382,189
Restricted investment accounts		**25,793**	48,854
		14,235,632	14,333,289
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**696,276**	574,597
TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**14,931,908**	14,907,886
TOTAL EQUITY		**2,116,205**	2,094,187
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY		**17,048,113**	17,002,073

41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER	Note	2020 US$ '000	2019 US$ '000
Net income from Islamic financing	(e)	337,767	407,469
		337,767	407,469
Fees and commissions - net		31,170	45,145
Other operating income		21,189	38,411
Foreign exchange gains		11,792	10,310
OPERATING INCOME		401,918	501,335
Provision for financing receivables and others		102,187	33,772
NET OPERATING INCOME		299,731	467,563
Staff costs		62,942	78,531
Depreciation		13,553	18,313
Other operating expenses		40,341	44,175
OPERATING EXPENSES		116,836	141,019
PROFIT BEFORE TAX AND ZAKAT		182,895	326,544
Tax expense and zakat		5,366	9,416
PROFIT BEFORE THE SHARE OF PROFIT OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS		177,529	317,128
Less: Share of profit of equity of unrestricted investment account holders		5,880	13,704
NET PROFIT FOR THE YEAR		171,649	303,424
Attributable to:			
Owners of the Bank		146,836	257,116
Non-controlling interests		24,813	46,308
		171,649	303,424

Notes

	2020 US$ '000	2019 US$ '000
(a) Deposits with banks		
Murabaha finance with other banks	399,483	719,735
Wakala with banks	256,488	503,339
Current accounts and others	70,569	94,765
	726,540	1,317,839

41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

Notes (continued)

	2020 US$ '000	2019 US$ '000
(b) Receivable balances from Islamic financing		
Tawarruq receivables	**7,961,610**	7,628,157
Murabaha receivables	**3,090,890**	3,194,888
Ijara receivables	**1,904,929**	1,768,191
Others	**24,636**	28,588
Less: Allowance for impairment	**(478,946)**	(364,538)
	12,503,119	**12,255,286**

	2020 US$ '000	2019 US$ '000
(c) Deposits from banks		
Murabaha	**930,442**	1,430,159
Wakala	**541,399**	1,277,834
Current accounts	**7,643**	7,327
	1,479,484	2,715,320

	2020 US$ '000	2019 US$ '000
(d) Customers' deposits		
Wakala	**7,405,693**	7,369,709
Murabaha	**3,604,791**	2,608,485
Current accounts	**1,408,571**	1,208,732
	12,419,055	11,186,926

	2020 US$ '000	2019 US$ '000
(e) Net income from Islamic financing		
Income from Tawarruq	**248,152**	325,972
Income from Murabaha	**203,209**	260,526
Income from Ijara	**85,341**	89,807
Income from financial investments	**63,695**	58,166
Income from Islamic financing	**600,397**	734,471
Profit expense on Wakala	**131,346**	194,558
Profit expense on Mudaraba and others	**131,284**	132,444
Less: Distribution to depositors	**262,630**	327,002
Net income from Islamic financing	**337,767**	407,469

42 SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests are provided below:

Name	Incorporated in	2020	2019
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	**25.1%**	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	**4.3%**	14.5%

	2020 US$ '000	2019 US$ '000
Accumulated material non-controlling interests as at 31 December:		
Ahli United Bank K.S.C.P.	**359,929**	370,806
Ahli United Bank (Egypt) S.A.E.	**22,091**	68,004
Profit allocated to material non-controlling interests:		
Ahli United Bank K.S.C.P.	**24,813**	46,308
Ahli United Bank (Egypt) S.A.E.	**3,148**	10,636

Summarised financial information of AUBK and AUBE is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

42 SUBSIDIARIES (continued)

	2020 US$ '000	2019 US$ '000
Ahli United Bank K.S.C.P. (AUBK)		
Balance sheet related information		
Loans and advances	**10,267,715**	9,954,936
Non-trading investments	**1,294,285**	1,000,622
Total assets	**14,410,546**	14,352,392
Customers' deposits	**11,833,856**	11,251,727
Total liabilities	**12,751,179**	12,649,176
Income statement related information		
Total operating income	**295,681**	352,915
Net profit attributable to shareholders	**96,905**	181,107
Total comprehensive income attributable to shareholders	**97,565**	179,880
Dividends paid to non-controlling interest	**22,713**	21,913
Cash flow related information		
Net cash from operating activities	**410,017**	572,479
Net cash used in investing activities	**(211,976)**	(50,862)
Net cash used in financing activities	**(101,878)**	(98,387)
Ahli United Bank (Egypt) S.A.E. (AUBE)		
Balance sheet related information		
Loans and advances	**1,887,793**	1,637,102
Non-trading investments	**599,999**	567,191
Total assets	**3,583,362**	2,947,865
Customers' deposits	**2,966,155**	2,327,950
Total liabilities	**3,061,726**	2,470,232
Income statement related information		
Total operating income	**162,933**	128,749
Net profit attributable to shareholders	**77,012**	78,484
Total comprehensive income attributable to shareholders	**71,033**	93,679
Dividends paid to non-controlling interests	**4,132**	5,952
Cash flow related information		
Net cash from (used in) operating activities	**131,186**	(504,353)
Net cash used in investing activities	**(8,618)**	(5,483)
Net cash used in financing activities	**(36,585)**	(49,318)

43 IMPACT OF COVID-19 OUTBREAK

The Group considered the potential impact of the uncertainties caused by the COVID-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

Significant increase in credit risk

The Group considered the following aspects to assess if there was a significant increase in credit risk or objective evidence of impairment in the light of COVID-19 situation.

43 IMPACT OF COVID-19 OUTBREAK (continued)

- Temporary financial difficulties of the customers are distinguished from longer-term or permanent impact;
- Customers operating in certain sectors or industries are likely to be more severely impacted;
- Deferral of instalments or profit payments on financing facilities will not automatically trigger significant increase in credit risk;
- Retail facilities to certain customer segment are more likely to have significant increase in credit risk arising from job losses and pay cuts; and
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available.

The above assessment has resulted in staging downgrade of certain exposures and increase in ECL.

Macro-economic factors

The Group considered of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainty stemming from fast evolving COVID-19, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic environment. The Group applied a high probability weightage to the severe scenario combined with the revised forecasts of macro-economic factors. The uncertainties in the current market caused by the pandemic, may not be fully captured in the modelled results, and therefore a higher level of expert credit judgement has been applied on the ECL estimates. These adjustments resulted in significant increase in the amount of ECL charge for the year ended 31 December 2020.

Other impacts

The Group considered the potential impact of the current economic volatility on the reported amounts in the Group's consolidated financial statement. The reported amounts best represent management's assessment based on observable information. The impact of the highly uncertain economic environment remains judgemental and the Group will accordingly continue to reassess its position and the related impact on a regular basis.

44 TRANSACTION WITH KUWAIT FINANCE HOUSE K.S.C.P. (KFH)

The shareholders of KFH in its AGM/EGM held on 20 January 2020 approved the pursuit of the acquisition of AUB through a firm voluntary conditional offer to acquire 100% of the issued and paid up shares of the Bank by way of a share swap at the exchange ratio of 2.325581 AUB shares for each KFH share following approval by the Bank's Board of Directors on 12 September 2019. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer and the proposed acquisition remains subject to conditions precedent and all relevant regulatory and shareholder approvals.

However, subsequently the proposed acquisition procedures were suspended until December 2020 due to the prevailing unprecedented circumstances relating to the Covid-19 pandemic. During December 2020, the AUB Board of Directors, in consultation with KFH Board of Directors, and subject to necessary regulatory approvals, has agreed to extend the suspension period for the resumption of the acquisition of AUB by KFH until completion of KFH's updated assessment to be conducted by the international advisor appointed by KFH in this respect.

SUPPLEMENTARY FINANCIAL INFORMATION
At 31 December 2020

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

Supplementary Public Disclosure- Financial Impact of COVID-19 For Year Ended 31 December 2020

As part of the objective to maintain enhanced transparency amidst the current implications of Coronavirus (COVID-19) and pursuant to the Central Bank of Bahrain instructions under circular: OG/259/2020 dated 14 July 2020, the AUB Group herein provides additional supplementary information pertaining to the financial impact of COVID-19 on its consolidated financial statements for the year ended 31 December 2020.

As noted in our H l /2020 and Q3/2020 supplementary disclosures, the COVID-19 pandemic has severely impacted the global economy, causing wide spread disruption to business and economic activities resulting in significant uncertainties in the operating environment. Global financial markets have also experienced very high levels of volatility. Various governments and central banks have responded with monetary and fiscal interventions to stabilize economic and market conditions. The impact on regional economies was further exacerbated by the collapse in oil and gas prices in 2020.

The Central Bank of Bahrain (CBB) and Central Bank of Kuwait (CBK) announced payment holiday for 6 months to eligible customers by CBB and CBK; Further, the modification loss, calculated as the difference between the net present value of the modified cash flows using the original effective interest/profit rate and the current carrying value of the financial assets, on the date of modification, is to be debited to retained earnings.

The Central Bank of Bahrain initially announced certain relief measures to combat the effects of COVID- 19 during QI /2020 and Q2/2020: These measures included the following:

- Concessionary repo facility to eligible banks at zero percent rate by the CBB;
- Reduction of the cash reserve ratio from 5% to 3% by the CBB;
- Reduction of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) from 100% to 80% up to 31 December 2020 by the CBB;
- Aggregate of the modification loss and incremental expected credit losses (ECL) provision for stage 1 and stage 2 from March to December 2020 is to be added back to Tier 1 capital for the two years ending 3 1 December 2020 and 31 December 2021 and to deduct this amount proportionately from Tier 1 capital on an annual basis over the three-year period from 1 January 2022 to 31 December 2024 by CBB;
- The CBB directed banks to offer customers additional four months' installments deferment options (up to 31 December 2020) with interest charge in a circular dated 21 September 2020.
- The CBB issued a circular on 29 December 2020, directing banks to offer customers additional six months' installments deferment options (up to 30 June 2021) with interest charge. Further, the central bank extended the regulatory concessionary measures up to 31 December 2021, i.e. reduced levels of LCR (100% to 80%), NSFR (100% to 80%), SMEs risk weight (from 75% to 25%), cash reserve ratio (5% to 3%), merchant fees, cooling off period for transferring exposures from stage 3 to stage 2, relaxation concerning the days past due for ECL staging criteria from stage I to stage 2 of 74 days, and relaxation requirement on LTV ratio for residential mortgages.

The table below summarizes the overall impact of the above for 2020:

Overall Impact on 31 December 2020 Consolidated Financial Statements

	Net Impact (In US$ millions)		
	Consolidated Statement of Income	Consolidated Balance Sheet (Assets)	Group's Equity attributable to Owners
Modification Loss	-	(104.9)	(104.9)
Bahrain Government Grants	-	-	6.5
Reduction in Cash Reserve with CBB	-	65.9	-
CBB Concessionary Repo Facility	Not availed	Not availed	Not availed

SUPPLEMENTARY FINANCIAL INFORMATION
At 31 December 2020

Other COVID-19 Impacts:
Pursuant to the COVID-19 pandemic outbreak, whilst funding conditions remained under pressure both regionally and globally, AUB effectively managed its liquidity requirements and maintained healthy liquidity contingency buffers through tapping diversified and multiple sources offunds including utilization of repo lines, albeit at a higher cost. Furthermore, with the downward trend in benchmark interest rates in AUB's key operating markets in response to the rate cuts by the US Federal Reserve in H2/2019 followed by the COVID -l 9 induced further steep rate cuts in Q1/2020 together with a weak business environment resulted in a lower Net Interest Income by US$ 152.1 million (-16.0%), reducing the overall AUB Group NP AT for the year 2020.

Fees and Commissions decreased by US$ 23.6 million (-l8.6%) consequent to the overall subdued economic activity levels.

Incremental Stage I and Stage 2 ECL gross provision charges of US$ 145.0 million were taken on performing risk assets as a precautionary measure in accordance with IFRS 9 during 2020 taking into consideration the direction of macro-economic variables and assessed management overlays to cover any inherent Significant Increase in Credit Risk (SICR) in specific sectors and in the overall portfolio given the uncertain and evolving impact of the COVID-19 pandemic.

As a result, AUB Group reported a net profit attributable to its equity shareholders of US$ 452.2 million for 2020, representing a decrease of 38.1%, as compared to US$ 730.5 million achieved in 2019.

Other Comprehensive Loss for 2020 was US$ 128.5 million mainly due to:

- Foreign currency translation loss movement relating to strategic investments of (-) US$ 82.5 million;
- Reduction in market value of hedges due to fluctuations in interest rate by (-) US$ 16.6 million;
- Reduction in market value of Debt and Equity investments classified as Fair Value through Other Comprehensive Income FVOCI by (-) US$ 24.3 million.

The above movements are temporary and variable in nature and unrealized.

The AUB Group also made total donations amounting to US$ 4.7 million in the region to support humanitarian and relief efforts in the wake of COVID-19 pandemic.

In order to ensure the health and safety of the AUB customers and staff during the COVID-19 pandemic period, major changes to infrastructure in all group-wide offices and branches were made to facilitate implementation of social distancing norms, precautionary equipment and materials as well as health support / advices were provided to customers and staff, periodic disinfection of office and branch premises continue to be undertaken in compliance with respective governmental guidelines and regulations. Additional expenditure incurred for the year 2020 for these exceptional measures was US$ 2.1 million.

The Group has also invested in its operational and technical capabilities to provide easy continuous access to its clients to securely conduct their business needs on a remote basis as well as to enhance the ability and training of its staff to handle their responsibilities from remote locations in a controlled manner as required by pandemic conditions.

The above supplementary information should not be relied upon for any other purposes. Since the COVID-19 situation is uncertain and its consequences are still evolving, its impact on the financial results of the bank is presented as assessed on the date of preparation of this information. Circumstances may change which may result in this information becoming out of date or requiring appropriate modification. It is also important to note that this information has not been subject to audit by the external auditors and does not form part of the consolidated financial statements for 2020.

Pillar III Disclosures - Basel III

Contents

INTRODUCTION TO THE CENTRAL BANK OF BAHRAIN'S BASEL III GUIDELINES

The Central Bank of Bahrain (the "CBB") Basel III Guidelines, based upon the Bank for International Settlements (BIS) Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', were applicable from 1 January 2015. Basel III is structured around three 'Pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review and Evaluation Process and the Internal Capital Adequacy Assessment Process (ICAAP); and Pillar III - Market Discipline.

Group Structure

The public disclosures under this section have been prepared in accordance with the CBB rules concerning Public Disclosure Module ("PD Module"), section PD-1: Annual Disclosure Requirements. The disclosures under this section are applicable to Ahli United Bank B.S.C. (the "Bank"), which is the parent bank incorporated in the Kingdom of Bahrain. The Bank operates under a retail banking license issued by the CBB. The Bank and its subsidiaries (as detailed under note 2.3 to the audited consolidated financial statements) are collectively known as the "Group".

Pillar I – Minimum Capital Requirements

Pillar I deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%. This includes, mandatory Capital Conservation Buffer (CCB) of 2.5%.

The Group ensures that each subsidiary maintains sufficient capital levels for their respective legal and regulatory compliance purposes.

Credit risk

Basel III provides two approaches (Standardised approach and Internal Rating Based approach) to the calculation of credit risk regulatory capital. The Standardised approach which the Bank has adopted, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Market risk

The Bank has adopted the Standardised approach for determining the market risk capital requirement.

Operational risk

Under the Basic Indicator Approach (BIA), which the Bank has adopted for operational risk, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar II – The Supervisory Review and Evaluation Process and Internal Capital Adequacy Assessment Process (ICAAP)

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.

Accordingly, this involves both the Bank and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar I. Part of the Pillar II process is the Internal Capital Adequacy Assessment Process (ICAAP) which is the Bank's self assessment of risks not captured by Pillar I and based on CBB guidelines and ICAAP module under CBB rulebook.

As part of the CBB's Pillar II guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios. The Bank is currently required to maintain a 12.5 per cent minimum capital adequacy ratio at the Group level.

Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PILLAR III QUANTITATIVE AND QUALITATIVE DISCLOSURES

For the purpose of computing regulatory minimum capital requirements, the Group follows the rules as laid out under the CBB Rulebook module Capital Adequacy (CA) Module. Accordingly:

a) All subsidiaries as per note 2.3 to the audited consolidated financial statements are consolidated on a line by line basis in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). Non-controlling interest arising on consolidation is incorporated under respective tiers of capital as per the CBB rules. The Group has an equity investment in insurance subsidiary, Al Hilal Life B.S.C.(c), which is deducted from regulatory capital as per the CBB rules;

b) Investments in associates as reported under note 9 to the audited consolidated financial statements are treated as "Significant Investment in Financial Entities". They are risk weighted/deducted from Capital as per CBB Basel III guidelines;

c) Goodwill and intangibles are deducted from Tier 1 Capital;

d) Subordinated term debt, as reported under liabilities in the consolidated balance sheet, are reported as part of Tier 2 capital, subject to maximum thresholds and adjusted for remaining life; and

e) Expected credit losses (Stages 1 and 2) to the extent of maximum threshold of 1.25% of Credit Risk Weighted Assets are included under Tier 2 Capital.

1. CAPITAL STRUCTURE

TABLE - 1

	US$ '000		
A. NET AVAILABLE CAPITAL	**CET 1**	**AT 1**	**Tier 2**
NET AVAILABLE CAPITAL	4,020,075	561,434	471,514
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + AT 1 + Tier 2)			5,053,023
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			28,888,717
Market Risk Weighted Exposures			365,542
Operational Risk Weighted Exposures			2,056,433
TOTAL RISK WEIGHTED EXPOSURES			**31,310,692**
CET 1 and Capital Conservation Buffer (CCB)			12.8%
Tier 1 - Capital Adequacy Ratio (CET 1, AT 1 & CCB)			14.6%
Total - Capital Adequacy Ratio			**16.1%**

By virtue of CBB's circular OG/226/2020 dated 21 June 2020 as part of Covid-19 relief measures, for the purposes of capital adequacy computations and for prudential reporting to the CBB, the Group has added back the modification loss, net of the financial assistance from Government and aggregate Stage 1 and Stage 2 ECL provision charge for the year ended 31 December 2020 to the Common Equity Tier (CET1) capital. Refer to appendix I for details.

B. CAPITAL ADEQUACY RATIO

As at 31 December 2020, the capital adequacy ratio of banking subsidiaries under Basel III, unless mandated otherwise were:

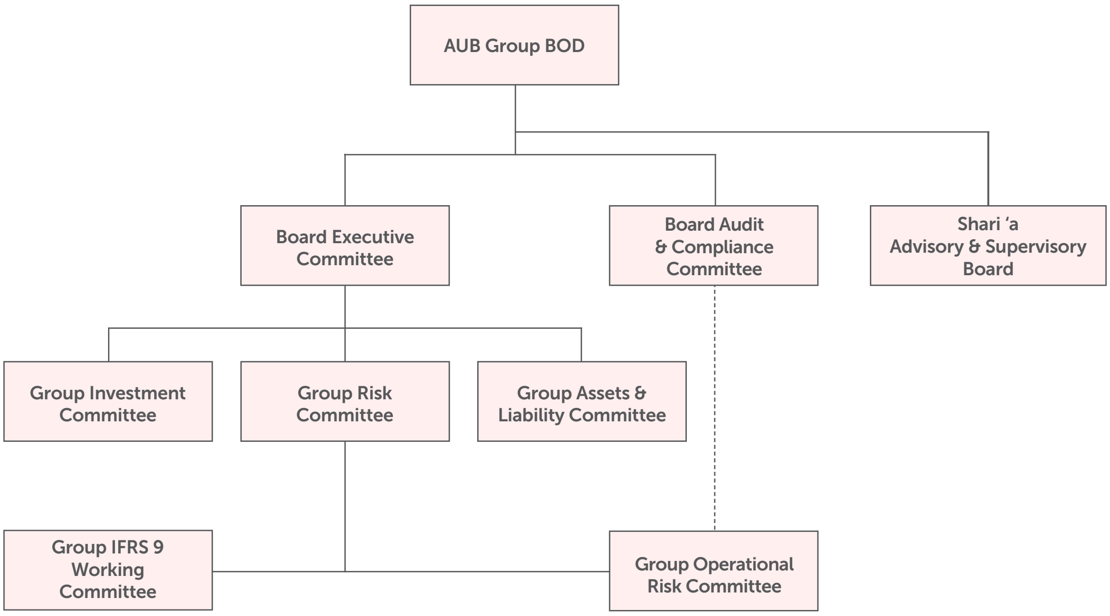
	Subsidiaries			
	Ahli United Bank K.S.C.P. (AUBK)	**Ahli United Bank (U.K.) PLC (AUBUK)**	**Ahli United Bank (Egypt) S.A.E. (AUBE)**	**Commercial Bank of Iraq P.S.C. (CBIQ)**
Tier 1 - Capital Adequacy Ratio	14.5%	19.1%	19.3%	73.6%
Total - Capital Adequacy Ratio	15.7%	19.2%	19.6%	73.7%

2. GROUP RISK GOVERNANCE STRUCTURE

Risk Governance

The Group's Board of Directors (BOD) seek to optimise the Group's performance by enabling the various Group business units to realize the Group's business strategy and meet agreed business performance targets within the BOD approved Group Risk Framework covering risk parameters.

AUB Group Risk Governance Structure



The above Group committees are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (incorporating the Corporate Governance committee) has oversight over Group's Audit, Compliance and Operational Risk.

2. GROUP RISK GOVERNANCE STRUCTURE (continued)

Risk Management Framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The BOD receives quarterly risk updates including detailed risk exposures analysis reports. The Board authorises appropriate credit, legal, compliance, liquidity, market, operational and information security risk policies that form part of its risk management framework, based on the recommendation of management on an annual basis. The Bank has established various committees that review and assess all risk issues. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The Risk management group of the Bank is independent of the business lines and provides the necessary support to senior management and the business units in all areas of risk management

The Deputy Group CEO – Risk, Legal & Compliance reports directly to the Executive Committee (sub-committee of the BoD responsible for risk functions) and administratively to the Group CEO. The Risk group comprises a Credit Risk department (responsible for independent pre-approval analysis of credit / investment proposals as well as risk policy and procedures management), Credit Administration department (responsible for post approval implementation and follow up), Liquidity and Market risk department, Operational risk department, Remedial Asset Management, Risk Reporting and the Information Security risk department. Approval authorities are delegated to different functionaries in the hierarchy (on a dual sign-off basis with both business line and risk line signatories) as well as various committees depending on the amount, type of risk and nature of operations or risk.

Internal Audit is responsible for the independent review of risk management and the Group's risk control environment. The Group Audit & Compliance Committee considers the adequacy and effectiveness of the Group risk control framework and receives quarterly updates on any control, regulatory and compliance related issues.

3. CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a financial obligation under a contract. It arises principally from lending, trade finance and treasury activities. Credit risk also arises where assets are held in the form of debt securities, the value of which may fall.

The Group has policies and procedures in place to monitor and manage these risks and the Group Risk Management function provides high-level centralized oversight and management of credit risk. The specific responsibilities of Group Risk Management are to:

- Set credit policy and risk appetite for credit risk exposure to specific market sectors;
- Control exposures to sovereign entities, banks and other financial institutions and set risk ratings for individual exposures. Credit and settlement risk limits to counterparties in these sectors are approved and managed by Group Risk Management, to optimize the use of credit availability and avoid risk concentration;
- Control cross-border exposures, through the centralized setting of country limits with sub-limits by maturity and type of business;
- Manage large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography remain within internal and regulatory limits in relation to the Group's capital base;
- Maintain the Group's Internal Risk Rating framework;
- Manage watchlisted and criticised asset portfolios and recommend appropriate level of provisioning and write-offs;
- Maintain the Expected Credit Loss impairment models across the Group entities;
- Recommend Expected Credit loss provisions to the Group IFRS 9 Working Committee;
- Report to the Group Risk Committee, Board Audit & Compliance Committee and the BOD on all relevant aspects of the Group's credit risk portfolio. Regular reports include detailed analysis of:
  - risk concentrations;
  - corporate and retail portfolio performance;
  - specific higher-risk portfolio segments, e.g. real estate;
  - individual large impaired accounts, and details of impairment allowances; and
  - country limits, cross-border exposures.
- Specialised management and control of all non-performing assets;
- Manage and direct credit risk management systems initiatives; and
- Interface, for credit-related issues, with external parties including the CBB, rating agencies, investment analysts, etc.

All credit proposals are subjected to a thorough comprehensive risk assessment which examines the customer's financial condition and trading performance, nature of the business, quality of management and market position. In addition, AUB's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set. Exposure limits are based on the aggregate exposure to the counterparty and any connected entities across the AUB Group. All credit exposures are reviewed at least annually.

3. CREDIT RISK MANAGEMENT (continued)

Counterparty Exposure Class

The CBB's capital adequacy framework for the standardised approach to credit risk sets the following counterparty exposure classes and the risk weightings to be applied to determine the risk weighted assets:

Exposure Class	Risk Weighting Criteria
Sovereign Portfolio	Exposures to governments of GCC (refer table 4 for definition of GCC) member states and their central banks {including International organization and Multilateral Development Banks (MDBs)} are zero % risk weighted. Other sovereign exposures denominated in the relevant domestic currency are also zero % risk weighted. All other sovereign exposures are risk weighted based on their external credit ratings.
Public Sector Entity [PSE] Portfolio	Bahrain PSEs and domestic currency claims on other sovereign PSEs (which are assigned a zero % risk weighting by their own national regulator) are assigned a zero % risk weighting. All other PSEs are risk weighted based on their external credit ratings.
Banks Portfolio	Exposures to banks are risk weighted based on their external credit ratings, with a preferential weighting given to short term exposures (i.e. with an original tenor of 3 months or less).
Investment company Portfolio	Exposures to investment companies which are supervised by the CBB are treated in the same way as exposures to banks but without the preferential short term exposure weighting.
Corporate Portfolio	Exposures to corporates are risk weighted based on their external credit rating. Unrated corporates are 100% risk weighted. A number of corporates owned by the Kingdom of Bahrain have been assigned a preferential zero % risk weighting.
Regulatory Retail Portfolio	Eligible regulatory retail exposures are risk weighted at 75%.
Residential Property Portfolio	Exposures fully secured by first mortgages on owner occupied residential property are risk weighted between 35%-75% based on applicable regulatory guidance.
Commercial Property Portfolio	Exposures secured by mortgages on commercial real estate are subject to a minimum 100% risk weighting, except where the borrower has an external rating below BB- in which case the rating risk weighting applies.
Equities and Funds Investment Portfolio	Investments in listed equities carry a 100%-250% risk weighting. Unlisted equities are 150%-250% risk weighted. Investments in funds are risk weighted according to the type of underlying assets.
Impaired Exposures	The unsecured portion of any exposure (other than a residential mortgage loan) that is past due for 90 days or more: 150% risk weighted when expected credit loss (Stage 3) is less than 20% of the outstanding amount; and 100% risk weighted when expected credit loss (Stage 3) is greater than 20%.
Holdings of Real Estate	All holdings (directly or indirectly) of real estate in the form of real estate companies, subsidiaries or associate companies or other arrangements such as trusts, funds or Real Estate Investment Trusts (REITs) are risk-weighted at 200%. Premises occupied by the Bank are weighted at 100%.
Other Assets	All other assets not classified above are risk weighted at 100%.

3. CREDIT RISK MANAGEMENT (continued)

External Rating Agencies

The Group uses the following External Credit Assessment Institutions (ECAI's): Moody's, Standard & Poors and Fitch. The external rating of each ECAI is mapped to the prescribed internal risk rating that in turn produces standard risk weightings.

Basel III Reporting of Credit Risk Exposures

As a result of the methodologies applied in credit risk exposures presented under Basel III reporting differs in many ways from the exposures reported in the consolidated financial statements.

1. As per the CBB Basel III framework, off balance sheet exposures are converted, by applying a credit conversion factor (CCF), into direct credit exposure equivalents.

2. Under the Basel III capital adequacy framework eligible collateral is applied after applying prescribed haircut, to reduce the exposure.

Credit Risk Mitigation

The Group's first priority when disbursing loans is to establish the borrower's capacity to repay and not rely principally on security / collateral obtained. Where the customer's financial standing is strong, facilities may be granted on an unsecured basis, but when necessary collateral is an essential credit risk mitigation.

Acceptable forms of collateral are defined within the Group risk framework and conservative valuation parameters are also pre-set and regularly reviewed to reflect any changes in market conditions. Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with the CBB's prescribed minimum requirements set out in their capital adequacy regulations.

The principal collateral types are as follows:

- in the personal sector – cash, mortgages over residential properties and assignments over salary income;
- in the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- in the commercial real estate sector – charges over the properties being financed; and
- in the financial sector – charges over financial instruments, such as debt securities and equities.

Valuation of Collateral

The type and amount of collateral taken is based upon the credit risk assessment of the borrower. The market or fair value of collateral held is closely monitored and when necessary, top-up requests are made or liquidation is initiated as per the terms of the underlying credit agreements.

Gross Credit Risk Exposures subject to Credit Risk Mitigations (CRM)

The following table details the Group's gross credit risk exposures before the application of eligible Basel III CRM techniques. The CBB's Basel III guidelines detail which types of collateral and which issuers of guarantees are eligible for preferential risk weighting. The guidelines also specify the minimum collateral management processes and collateral documentation requirements necessary to achieve eligibility.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 2 GROSS CREDIT RISK EXPOSURES

	US$'000	
	As at 31 December 2020	**Average monthly balance**
Balances with central banks	**1,620,575**	1,344,434
Treasury bills and deposits with central banks	**2,333,852**	2,132,841
Deposits with banks	**3,532,689**	4,277,290
Loans and advances	**20,719,878**	20,943,525
Non-trading investments	**9,481,783**	9,367,757
Interest receivable, derivative and other assets	**459,430**	538,499
TOTAL FUNDED EXPOSURES	**38,148,207**	38,604,346
Contingent liabilities	**3,345,551**	3,174,463
Undrawn loan commitments	**222,380**	398,334
TOTAL UNFUNDED EXPOSURES	**3,567,931**	3,572,797
TOTAL GROSS CREDIT RISK EXPOSURES	**41,716,138**	42,177,144

The gross credit exposures reported above are as per the consolidated balance sheet as reduced by exposures which do not carry credit risk.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 3 RISK WEIGHTED EXPOSURES

	US$'000			
	Gross exposure	Secured by eligible CRM	Risk weighted exposures after CRM	Capital requirement
Claims on sovereigns	7,636,249	-	439,987	54,999
Claims on public sector entities	2,539,395	-	911,273	113,909
Claims on banks	6,272,211	192,496	2,410,538	301,317
Claims on corporates	21,286,089	746,575	20,284,477	2,535,560
Regulatory retail exposures	2,190,764	41,568	1,603,076	200,385
Residential mortgage exposures	1,605,420	-	655,105	81,888
Equity	407,422	-	900,011	112,501
Other exposures	1,249,958	-	1,684,250	210,531
TOTAL	**43,187,508**	**980,639**	**28,888,717**	**3,611,090**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**28,888,717**	**3,611,090**
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**365,542**	**45,693**
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)*			**2,056,433**	**257,053**
TOTAL			**31,310,692**	**3,913,836**

*Indicator for operational risk exposure is gross income, adjusted for exceptional items, as per BIA. This approach uses average of adjusted gross income for previous three financial years (US$ 1,096,764 thousands) for operational risk computation.

The gross exposure in the above table represents the on and off balance sheet credit exposures before credit risk mitigations (CRM), determined in accordance with the CBB Pillar III guidelines. The off balance sheet exposures are computed using the relevant conversion factors.

Under the CBB Basel III Guidelines, banks may choose between two options when calculating credit risk mitigation capital relief. The simple approach which substitutes the risk weighting of the collateral for the risk weighting of the counterparty or the comprehensive approach whereby the exposure amount is adjusted by the actual value ascribed to the collateral. The Group has selected to use the comprehensive method where collateral is in the form of cash or bonds or equities. The Group uses a range of risk mitigation tools including collateral, guarantees, credit derivatives, netting agreements and financial covenants to reduce credit risk.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 3 RISK WEIGHTED EXPOSURES (continued)

Concentration Risk

Refer note 32(a) to the audited consolidated financial statements for definition and policies for management of concentration risk.

As per the CBB's large exposure regulations, banks incorporated in the Kingdom of Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15 per cent of the regulatory capital base. As at 31 December 2020, the Group had no qualifying single obligor exposures in accordance with Central Bank of Bahrain guidelines which exceed 15 percent of the Group's regulatory capital base.

Geographic Distribution of Gross Credit Exposures

The geographic distribution of credit exposures is monitored on an ongoing basis by Group Risk Management and reported to the BOD on a quarterly basis.

The following table details the Group's geographic distribution of gross credit exposures as at 31 December 2020.

TABLE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

	US$ '000								
	Kingdom of Bahrain	*State of Kuwait*	*Other GCC countries**	*United Kingdom*	*Europe (excluding United Kingdom)*	*Arab Republic of Egypt*	*Asia (excluding GCC countries)*	*Rest of the world*	*Total*
Balances with central banks	100,166	483,456	-	498,668	-	309,915	228,370	-	1,620,575
Treasury bills and deposits with central banks	844,520	905,114	-	-	-	584,218	-	-	2,333,852
Deposits with banks	221,052	508,474	27,092	1,145,611	219,701	80,447	130,867	1,199,445	3,532,689
Loans and advances	3,765,508	10,137,915	2,454,053	1,960,962	49,912	2,143,613	27,629	180,286	20,719,878
Non-trading investments	1,188,779	362,579	3,595,698	186,108	672,909	561,203	1,647,473	1,267,034	9,481,783
Interest receivable, derivative and other assets	165,355	53,567	64,893	42,528	32,663	56,159	21,181	23,084	459,430
Total funded exposures	**6,285,380**	**12,451,105**	**6,141,736**	**3,833,877**	**975,185**	**3,735,555**	**2,055,520**	**2,669,849**	**38,148,207**
Contingent liabilities	981,801	1,357,283	202,764	4,893	207,273	503,850	77,534	10,153	3,345,551
Undrawn loan commitments	95,535	68	66,898	41,627	15,291	2,961	-	-	222,380
Total unfunded exposures	**1,077,336**	**1,357,351**	**269,662**	**46,520**	**222,564**	**506,811**	**77,534**	**10,153**	**3,567,931**
TOTAL	**7,362,716**	**13,808,456**	**6,411,398**	**3,880,397**	**1,197,749**	**4,242,366**	**2,133,054**	**2,680,002**	**41,716,138**
	17.6%	**33.1%**	**15.4%**	**9.3%**	**2.9%**	**10.2%**	**5.1%**	**6.4%**	**100.0%**

* Other GCC countries are countries which are part of the Gulf Co-operation Council comprising the Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates apart from Kingdom of Bahrain and State of Kuwait which are disclosed separately.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	US$'000			
	Funded	Unfunded	Total	%
Central banks	3,954,427	-	**3,954,427**	**9.5**
Banks and other financial institutions	6,462,026	301,920	**6,763,946**	**16.2**
Consumer/personal	2,802,240	15,707	**2,817,947**	**6.8**
Residential mortgage	1,696,614	15,022	**1,711,636**	**4.1**
Trading and manufacturing	7,440,233	1,404,411	**8,844,644**	**21.2**
Real estate	5,734,588	32,289	**5,766,877**	**13.8**
Services	4,497,836	1,620,496	**6,118,332**	**14.7**
Government/public sector	5,215,266	134,691	**5,349,957**	**12.8**
Others	344,977	43,395	**388,372**	**0.9**
TOTAL	38,148,207	3,567,931	**41,716,138**	**100.0**
	91.4%	8.6%	**100.0%**	

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	US$ '000							
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Over five to ten tears	Over ten to twenty years	Over twenty years	Total
Balances with central banks	1,580,737	39,838	-	-	-	-	-	1,620,575
Treasury bills and deposits with central banks	923,260	520,824	889,768	-	-	-	-	2,333,852
Deposits with banks	3,048,169	383,198	101,322	-	-	-	-	3,532,689
Loans and advances	3,868,773	5,057,654	2,954,383	5,688,413	2,504,710	516,957	128,988	20,719,878
Non-trading investments	116,427	302,407	364,035	2,837,209	5,820,661	30,512	10,532	9,481,783
Interest receivable, derivative and other assets	286,523	89,792	67,914	15,201	-	-	-	459,430
Total funded exposures	**9,823,889**	**6,393,713**	**4,377,422**	**8,540,823**	**8,325,371**	**547,469**	**139,520**	**38,148,207**
Contingent liabilities	437,989	805,547	1,268,132	779,015	54,868	-	-	3,345,551
Undrawn loan commitments	4,806	12,740	42,701	120,320	41,813	-	-	222,380
Total unfunded exposures	**442,795**	**818,287**	**1,310,833**	**899,335**	**96,681**	**-**	**-**	**3,567,931**
TOTAL	**10,266,684**	**7,212,000**	**5,688,255**	**9,440,158**	**8,422,052**	**547,469**	**139,520**	**41,716,138**

Allowances for expected credit loss

Refer note 2.7 (g) of the consolidated financial statements of the Group for the year ended 31 December 2020 for further details on ECL model.

The Group Risk Committee regularly evaluates the adequacy of the established allowances for impaired loans.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 7 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT ALLOWANCES

	US$ '000				
	Impaired loans (Stage 3)	*ECL allowances (Stage 3)*	**Net specific charge for the year ended 31 December 2020*	*Write-off during the year ended 31 December 2020*	*ECL allowances (Stage 1 & Stage 2)*
Consumer/personal	48,090	42,413	22,522	2,929	79,687
Trading and manufacturing	263,434	221,623	44,731	-	114,580
Real estate	147,478	143,452	6,265	-	153,657
Residential mortgage	58,229	42,442	4,796	-	4,074
Banks and other financial institutions	2,299	2,000	-	-	6,463
Services	37,610	26,201	24,718	6,037	150,734
Government/public sector	-	-	-	-	2
Others	1,723	1,662	94	140	5,734
TOTAL	**558,863**	**479,793**	**103,127**	**9,106**	**514,931**

* Net specific charge (ECL allowance : Stage 3) for the year excludes recoveries from fully provided loans written-off in prior years.

TABLE - 8 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT ALLOWANCES FOR LOANS AND ADVANCES

	US$ '000								
	Kingdom of Bahrain	*State of Kuwait*	*Other GCC countries*	*United Kingdom*	*Europe (excluding United Kingdom)*	*Arab Republic of Egypt*	*Asia (excluding GCC countries)*	*Rest of the world*	*Total*
ECL allowances (Stage 1 & 2)	125,648	243,259	21,142	399	11,882	110,778	434	1,389	514,931
ECL allowances (Stage 3)	165,929	199,914	24,944	5,169	-	76,632	7,205	-	479,793
TOTAL	**291,577**	**443,173**	**46,086**	**5,568**	**11,882**	**187,410**	**7,639**	**1,389**	**994,724**

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 9 MOVEMENTS IN IMPAIRMENT ALLOWANCES FOR LOANS AND ADVANCES

Refer note 7(f) of the consolidated financial statements of the Group for the year ended 31 December 2020 for ECL allowance movements.

Impaired Credit Facilities

As per CBB guidelines, credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days or more whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for ECL in accordance with IFRS 9 guidelines. Financial instruments where there is objective evidence of impairment are considered to be credit impaired and the allowance for credit losses captures the life time expected credit losses.

For definition of default refer to note 2.7(g) to the audited consolidated financial statements.

Refer to notes 7(a) to 7(e) and note 32(c) to the audited consolidated financial statements for the year ended 31 December 2020 for the distribution of the loans and advances portfolio.

Ratings 1 - 4 comprise of credit facilities demonstrating financial condition, risk factors and capacity to repay that are excellent to good and retail borrowers where cash collateral (or equivalent such as pledged investment funds) has been provided.

Ratings 5 - 7 represents satisfactory risk and includes credit facilities that require closer monitoring, and retail accounts which are maintained within generally applicable product parameters.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 10 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	US$'000			
	Three months to one year	*One to three years*	*Over three years*	*Total*
Kingdom of Bahrain	1,677	110,668	73,896	**186,241**
State of Kuwait	61,171	61,025	88,051	**210,247**
Other GCC Countries	31,766	-	-	**31,766**
United Kingdom	12,468	26,204	-	**38,672**
Arab Republic of Egypt	4,902	71,801	6,548	**83,251**
Asia (excluding GCC countries)	-	-	8,686	**8,686**
TOTAL	**111,984**	**269,698**	**177,181**	**558,863**
	20.0%	**48.3%**	**31.7%**	**100.0%**

ii) By Industry sector

	Three months to one year	*One to three years*	*Over three years*	*Total*
Consumer/personal	10,955	18,429	18,706	**48,090**
Trading and manufacturing	73,557	170,419	19,458	**263,434**
Real estate	-	48,266	99,212	**147,478**
Residential mortgage	10,139	30,411	17,679	**58,229**
Banks and other financial institutions	-	-	2,299	**2,299**
Services	17,333	2,071	18,206	**37,610**
Others	-	102	1,621	**1,723**
TOTAL	**111,984**	**269,698**	**177,181**	**558,863**
	20.0%	**48.3%**	**31.7%**	**100.0%**

TABLE - 11 RESTRUCTURED CREDIT FACILITIES

	US$'000
Balance of any restructured credit facilities as at year end	**385,439**
Loans restructured during the year	**173,483**

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the loan tenor.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 12 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

i) Breakdown of the credit exposure

	US$'000	
	Notional amount	*Net Credit Equivalent Exposure*
a) Trading		
Foreign exchange related	9,046,603	75,911
Interest rate related	3,361,802	103,716
Others	94,214	242
	12,502,619	**179,868**
b) Hedging		
Foreign exchange related	14,875	19
Interest rate related	8,207,004	95,085
	8,221,879	**95,104**
	20,724,498	**274,972**

	US$'000
ii) Amounts of cash collateral	**14,970**

TABLE - 13 RELATED PARTY TRANSACTIONS

Refer note 25 to the audited consolidated financial statements of the Group for the year ended 31 December 2020.

4. MARKET RISK

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity prices will reduce the Group's income or the value of its portfolios.

Market Risk Management, Measurement and Control Responsibilities

The BOD approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of BOD limits to the Group Asset and Liability Committee (GALCO). Group Risk Management is responsible for the market risk control framework and for monitoring compliance with the GALCO limit framework.

The Group separates market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include positions that arise from the foreign exchange/interest rate management of the Group's retail and commercial banking assets and liabilities, and financial assets designated at amortised cost and fair value through other comprehensive income.

Each Group operating entity has an independent market risk function which is responsible for measuring market risk exposures in accordance with the Group Trading Book Policy and the Interest Rate Risk in the Banking Book Policy, and monitoring these exposures against prescribed limits.

4. MARKET RISK (continued)

Market risk reports covering Trading Book risk exposures and profit and loss are published daily to the Bank's senior management. A risk presentation covering both Trading and Banking Book is also compiled monthly and discussed at the GALCO.

The measurement techniques used to measure and control market risk include:

- Value at Risk (VaR);
- Stress tests; and
- Sensitivities and position size related metrics.

Daily Value at Risk (VaR)

The Group VaR is an estimate of the potential loss which might arise from unfavourable market movements:

VaR Type	***Sample size***	***Holding period***	***Confidence interval***	***Frequency of calculation***
1 Day VaR	260 days	1 day	99%	Daily
10 Day Var	260 days	10 day	99%	Daily

Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days depending on the confidence interval employed in the VaR calculation (per the above). The Group routinely validates the accuracy of its VaR models by backtesting the actual daily profit and loss results. The actual number of excesses over a given period can be used to gauge how well the models are performing.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a confidence level, by definition, does not take into account losses that might occur beyond the applied level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The VaR for the Group was as follows:

	US$'000		
	Average	***Minimum***	***Maximum***
For the year 2020	**907**	**291**	**1,683**

4. MARKET RISK (continued)

TABLE - 14 CAPITAL REQUIREMENTS FOR COMPONENTS OF MARKET RISK

	US$'000			
	Risk-weighted exposures	***Capital requirement***	***Maximum value***	***Minimum value***
Interest rate risk	202,726	25,341	30,086	23,545
Equity position risk	4,568	571	571	207
Foreign exchange risk	156,104	19,513	39,106	19,513
Options and others	2,144	268	748	268
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**365,542**	**45,693**		

Interest Rate Risk (non-trading)

Interest rate risk is the risk that the earnings or capital of the Group, or its ability to meet business objectives, will be adversely affected by movements in interest rates. Accepting this risk is a normal part of banking practice and can be an important source of profitability and shareholder value. Changes in interest rates can 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 Group's assets, liabilities and off-balance sheet instruments because the present value of future cash flows and / or the cash flows themselves change when interest rates change. The Bank employs a risk management process that maintains interest rate risk within prudent levels.

The BOD recognizes that it has responsibility for understanding the nature and the level of interest rate risk taken by the Bank, and has defined a risk framework pertaining to the management of non-trading interest rate risk and has identified lines of authority and responsibility for managing interest rate risk exposures.

The BOD has delegated the responsibility for the management of interest rate risk to GALCO which is responsible for setting and monitoring the interest rate risk strategy of the Group, for the implementation of the interest rate risk framework and ensuring that the management process is in place to maintain interest rate risk within prudent levels.

GALCO reviews the interest rate risk framework annually and submits recommendations for changes to the Executive Committee and BOD as applicable.

The responsibility for the implementation of the Group's interest rate risk policies resides with the Group Treasurer. An independent review and measurement of all interest exposure present in the banking book is undertaken by the Group Market Risk team and reported to GALCO on a monthly basis.

Interest rate re-pricing reports are based on each product's contractual re-pricing characteristics overlaid where appropriate by behavioural adjustments. Behavioural adjustments are derived by an analysis of customer behaviour over time augmented by input from the business units.

The behavioural adjustments are applied mainly for those liabilities with no fixed maturity dates such as current and savings accounts. These adjustments are based on empirical experience, and current account balances are spread over a maximum period of 3 years while savings accounts are spread over a maximum period of 7 years.

Reports detailing the interest rate risk exposure of the Group are reviewed by GALCO and the BOD on a regular basis.

Refer note 34 to the audited consolidated financial statements of the Group for the year ended 31 December 2020 for the re-pricing profiles of the Group's assets and liabilities.

4. MARKET RISK (continued)

Interest rate risk sensitivity analysis

The Group's interest rate risk sensitivity is analyzed in note 34(ii) to the audited consolidated financial statements of the Group for the year ended 31 December 2020.

The impact of a +/- 200bps interest rate shock on assets and liabilities which are carried at fair value and the consequent impact on equity as of 31 December 2020 is as per the following table.

	US$'000		
	Assets	*Liabilities*	*Equity*
at 200 bps - increase (+)	**(221,804)**	**221,564**	(240)
at 200 bps - decrease (-)	**221,804**	**(221,564)**	240

Equity Risk

Equity risk is the risk of changes in the fair value of an equity instrument. The Group is exposed to equity risk on non-trading equity positions that are primarily focused on the GCC stock markets. The BOD has set limits on the amount and type of investments that may be made by the Bank. This is monitored on an ongoing basis by the Group Risk Committee with pre approved loss thresholds. The Bank's equity risk appetite is minimal.

Valuation and accounting policies

a) Equity investments held for strategic reasons - investments in associates

Associated companies are companies in which the Group exerts significant influence but does not control, normally represented by an interest of between 20% and 50% in the voting capital. Investments in associated companies are accounted for using the equity method.

b) Other equity investments

At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as fair value through other comprehensive income (FVTOCI). If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

The fair value of equity instruments that are quoted in an active market is determined by reference to market prices at the close of business on the balance sheet date. For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined using net present valuation techniques.

For accounting policies on equity instruments please refer to note 2.7(c) (v) of the audited consolidated financial statements.

TABLE - 15 GAINS ON EQUITY INSTRUMENTS

	US$'000
Gains / (loss) recognized in Tier1 Capital (CET1)	
Unrealized (loss) / gains recognized in the balance sheet	**(18,912)**
Realized (loss) / gains recognized in the equity	**(1,527)**

5. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk and funding management of the Group have been explained in note 35 of audited consolidated financial statements for the year ended 31 December 2020.

Maturity Analysis of Assets and Liabilities

A maturity analysis of cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date is shown in note 35 to the audited consolidated financial statements of the Group for the year ended 31 December 2020.

6. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

The Operational Risk Management framework has been in place for a number of years and is ingrained in the Group's culture and processes. The Group has developed a comprehensive Operational Risk Self Assessment (ORSA) process.

The BOD takes the lead in promoting and encouraging a culture of risk awareness and prevention across all areas of the Group. The Group follows a Group Operational Risk Policy approved by the BOD. The policy, supported by the Group Operational Risk Framework, aims to ensure that operational risk measures are incorporated into all major aspects of the overall management framework.

The Group Operational Risk Committee (the "GORC") is responsible for maintaining an operational risk management framework across the organization. The GORC receives regular reporting on all key operational risk measures. Promptness in resolution of material operational risks identified through Operational Risk Self Assessments and audits are considered as one of the key criteria for performance reviews.

The Group Audit & Compliance Committee assists the BOD in ensuring compliance with all regulatory requirements and consistency with best market practices. The Group Audit & Compliance Committee reviews regular reports on all key operational risk measures.

The Group Operational Risk Policy, supported by the Group Operational Risk Framework requires reporting of all material Operational Risk Incidents / Loss Events within a specified period of the occurrence of the event which is followed by an analysis of the root cause and its remediation.

The Group Operational Risk Policy requires that internal controls are reviewed and enhanced on an ongoing basis in order to mitigate the residual risks identified through the Operational Risk Self Assessments, analysis of operational loss and near miss events and, internal and external audits. In addition, regular reviews of operating procedures also aim to enhance internal controls. The Group's Human Resources Policy requires that employees are trained regularly so that they are, among others, aware of operational risks and the mitigating controls. The policies require the establishment of appropriate infrastructure and processes for ensuring continuity of business which must be comprehensively and frequently tested for different contingencies.

6. OPERATIONAL RISK (continued)

The BOD approves the Group Information Security Framework and Policy. The policy provides a consistent and strong cybersecurity approach across the Group. Group Information Security Office (GISO) runs numerous cybersecurity programs covering all cyber risk areas including threat and vulnerability management, risk assessments, cybersecurity awareness, penetration testing, and incident management. GISO also executes several projects to continuously enhance the security control systems and processes, and to make the Group resilient to cyber risks. AUB maintained its ISO 27001 certifications and PCI DSS certifications across the Group.

Group Operational Risk Committee overseas the Cybersecurity program through quarterly review of cybersecurity metrics. GISO also provides Cybersecurity status reports to the BOD every quarter.

7. INFORMATION TECHNOLOGY RISK

All computer system developments and operations are centrally controlled and common standard business systems are deployed across the Group wherever possible. Information security is defined through a common 'Group Information Security Framework' and is executed through various information security processes and controls that support the framework. The Group follows an enterprise wide approach to business continuity to ensure that all identified critical operations, services and systems are recovered in time in the event of a disruption. The Group Business Continuity Management Policy is updated annually and the Disaster Recovery and Business Continuity capabilities are each tested at least once a year and critical systems data are continuously replicated at the disaster recovery site.

The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time.

8. STRATEGIC RISK

The BOD supported by Strategic Development Unit and the Group Finance manages strategic risk on an ongoing basis. The BOD receives regular performance reports with details of strategic / regulatory issues as they arise.

9. LEGAL, COMPLIANCE, REGULATORY AND REPUTATIONAL RISKS

Protecting the Legal, Compliance, Regulatory and Reputational Risks of the Group is of paramount importance. All management and staff are expected to apply highest standards of business conduct and professional ethics at all times.

The Group has a dedicated Legal Department whose role is to identify and provide analysis and advice on legal risk.

The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions, by performing the following tasks:

- Advising on applicable legislation and regulation;
- reviewing and / or drafting non- standard contracts and related documentation (including amendments to existing contracts) applicable to the Group;
- periodically reviewing the standard contractual documentation of the Bank;
- advising on matters involving legal risk and drafting formal communication relating to legal claims involving the Group; and
- Managing and providing legal advice in respect of any actual or threatened litigation against the Bank, or brought (or proposed to be brought) by the Group against any other party.

9. LEGAL, COMPLIANCE, REGULATORY AND REPUTATIONAL RISKS (continued)

There are no material litigations / claims against the Group as at 31 December 2020.

The Group continuously strives to improve the level of compliance in all its activities. The Group has an independent Compliance function that reports to the Audit and Compliance Committee. The Compliance function acts as a focal point for appropriate coordination and dissemination of regulatory correspondence and rulebook updates, and strives to adopt best practice in compliance governance and management. Also, the Compliance Department, has the responsibility to through its monitoring programs, regularly assesses the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and advises and assists the relevant persons responsible for carrying out regulated activities to comply with the stated obligations under the regulatory system.

Implementing appropriate systems, processes and controls to combat Anti-money Laundering (AML) and Terrorist Financing activities, form an important activity of the AML Unit within the compliance function. The Group has deployed a risk based automated transaction monitoring system and implemented relevant procedures and controls to facilitate appropriate monitoring and detection mechanism. The Group also has appropriate AML and Compliance policies and monitoring programs. These policies are reviewed and updated annually and approved by the BOD. The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit & Compliance Committee of the BOD. Additionally, the Bank's AML measures are audited by independent external auditors every year and their reports are submitted to the CBB. The Central Bank also performs periodic inspections of the Bank's compliance with anti-money laundering regulations.

The BOD approved policies, including Group Reputation Risk policy, Communications Policy, Personal Account Dealing Policy, Key Person Dealing Policy, Compliance Policy, Anti Money Laundering policy, Banking Integrity and Whistle Blowing Policy & Procedures and Code of Business conduct policy and such other policies prescribe the required standards of ethical behaviour and personal conduct for all staff (including the Bank's Directors), and the BOD exercises an oversight of these risks through various management functions, including Legal, Risk Management, Compliance, Human Resources and Internal Audit Department.

10. ENVIRONMENTAL RISK

The Group recognizes the importance of environmental and social issues within its risk framework, and has established a Social and Environmental Management System (SEMS) which details the policy, procedures and workflow that will be followed by the Bank and its subsidiaries / affiliates in respect of environmental risk.

The Group continually endeavours to implement effective social and environmental management practices in all its activities, products and services with a focus on the applicable national laws on environmental, health, safety and social issues.

The Group has adopted the Equator Principles (EP), a globally recognized benchmark for managing social and environmental risks in project finance. EP is an arrangement by financial institutions worldwide to adhere to the environmental, health and safety standards while financing projects.

As such the Group will finance projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable national laws.

The Bank has become a signatory of the UN Principles for Responsible banking and a member of the UN Environment Programme Finance Initiative (UNEP FI). AUB is committed to take leadership role and use of its products, services and relationships to support and contribute to individual needs and society's goal, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

APPENDIX I - REGULATORY CAPITAL DISCLOSURES

PD 1: Capital Composition Disclosure Template

Basel III Common disclosure template	*US$'000* *PIR as on 31 December 2020*	*Reference*
Common Equity Tier 1 capital: instruments and Reserves		
Directly issued qualifying common share capital plus related stock surplus	2,412,944	A1-A2-A3
Retained earnings	444,199	B1+B2+B3
Accumulated other comprehensive income (and other reserves)	1,351,652	C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	297,313	D
Common Equity Tier 1 capital before regulatory adjustments	**4,506,108**	
Common Equity Tier 1 capital: regulatory adjustments		
Goodwill (net of related tax liability)	430,144	E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	94,955	F1+F2
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	G1-G2
Cash-flow hedge reserve	(53,739)	C7
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	14,673	
Total regulatory adjustments to Common equity Tier 1	**486,033**	
Common Equity Tier 1 capital (CET1)	**4,020,075**	
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	400,000	I
Additional Tier 1 instruments (and CET1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group AT1)	161,434	J
Additional Tier 1 capital before regulatory adjustments	**561,434**	
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**561,434**	
Tier 1 capital (T1 = CET1 + AT1)	**4,581,509**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	2,006	K
Tier 2 instruments (and CET1 and AT1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	72,090	L
Expected Credit Losses & Reserves	397,418	M1+M2
Tier 2 capital before regulatory adjustments	**471,514**	
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**471,514**	
Total capital (TC = T1 + T2)	**5,053,023**	
Total risk weighted assets	**31,310,692**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Capital Composition Disclosure Template (continued)

	US$'000	
Basel III Common disclosure template	***PIR as on 31 December 2020***	***Reference***
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.8%	
Tier 1 (as a percentage of risk weighted assets)	14.6%	
Total capital (as a percentage of risk weighted assets)	**16.1%**	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.0%	
of which: Capital Conservation Buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement (N/A)	NA	
of which: G-SIB buffer requirement (N/A)	NA	
National minima (if different from Basel 3)		
CBB Common Equity Tier 1 minimum ratio (including buffers)	9.0 %	
CBB Tier 1 minimum ratio (including buffers)	10.5%	
CBB total capital minimum ratio (including buffers)	12.5%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financial entities	142,242	
Significant investments in the common stock of financial entities	303,361	
Applicable caps on the inclusion of Expected Credit Losses in Tier 2		
Expected Credit Losses (Stages 1 and 2) eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	544,293	N
Cap on inclusion of Expected Credit Losses in Tier 2 under standardized approach	361,109	M2

PD 2: Reconciliation Of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

There are no differences between the regulatory and accounting consolidation, with both following the line by line consolidation approach as per the IFRS 10 Consolidated Financial Statements without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financial assets have been grossed up with impairment allowances for expected credit losses (ECL) - Stages 1 and 2, as presented below:

	US$'000
Balance sheet per published financial statements	**40,071,167**
ECL - Stages 1 and 2	544,293
Balance sheet as in Regulatory Return	**40,615,460**

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation Of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

	US$'000		
	Balance as per published financial statements	***Consolidated PIR Data***	***Reference***
Assets			
Cash and balances with central banks	1,747,560	1,747,560	
Financial assets at fair value through Profit & Loss		6,534	
Treasury bills and deposits with central banks	2,333,852	2,333,852	
Deposits with banks	3,532,689	3,534,914	
Loans and advances	20,719,878	21,234,811	
of which employee stock incentive program		28	A2
Non-trading investments	9,608,309	9,628,717	
Investment properties	185,715	185,715	
Interest receivable and other assets	857,232	857,425	
of which deferred tax assets		51	G1
of which MSP		-	A3
Investments in associates	303,127	303,127	
Goodwill and intangible assets	485,958	485,958	
of which Goodwill		430,144	E
of which other intangibles (excluding MSRs)		55,814	F1
Premises and equipment	296,847	296,847	
of which software		39,141	F2
TOTAL ASSETS	**40,071,167**	**40,615,460**	
Liabilities			
Deposits from banks	4,218,417	4,218,417	
Customers' deposits	25,182,585	25,182,585	
Borrowings under repurchase agreements	3,618,069	3,618,069	
Term Borrowings	175,000	175,000	
Interest payable and other liabilities	1,830,706	1,830,706	
of which deferred tax liabilities		2,087	G2
Subordinated liabilities	10,032	10,032	
of which amount eligible for Tier 2		2,006	K
of which amount ineligible		8,026	
TOTAL LIABILITIES	**35,034,809**	**35,034,809**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation Of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation (continued)

	US$'000		
	Balance as per published financial statements	**Consolidated PIR Data**	**Reference**
Equity			
Paid-in share capital	2,412,972	2,412,972	
of which form part of Common Equity Tier 1		2,412,972	
Ordinary Share Capital		2,412,972	A1
Treasury Shares		-	
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	1,588,668	1,588,668	
of which form part of Common Equity Tier 1			
Retained earnings/(losses) brought forward		200,707	B1
Net profit for the current period		452,244	C1
Share premium		753,063	C2
Legal reserve		704,755	C3
Others		(28,199)	C4
FX translation adjustment		(473,924)	C5
Cumulative fair value changes on FVOCI investments		(2,548)	C6
Fair value changes of cash flow hedges		(53,739)	C7
of which form part of Tier 2			
Fixed assets revaluation reserves		36,309	M1
CBB modification loss (part of CET1)		98,449	B2
Perpetual Tier 1 Capital Securities - AUB Kuwait	200,000	634,718	
Non - controlling interest	434,718		
of which amount eligible for Common Equity Tier 1		297,313	D
of which amount eligible for Additional Tier 1		161,434	J
of which amount eligible for Tier 2		72,090	L
of which amount ineligible		103,881	
Impairment Allowance for Expected Credit Losses - Stages 1 and 2		544,293	N
of which amount eligible for Tier 2 (maximum 1.25% of RWA)		361,109	M2
of which amount included in CET1 as per CBB		145,043	B3
of which amount ineligible		38,141	
TOTAL EQUITY	**5,036,358**	**5,580,651**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments

1.	Issuer	Ahli United Bank B.S.C.	Ahli United Bank B.S.C.	Ahli United Bank K.S.C.P.	Ahli United Bank (U.K.) PLC	Ahli United Bank (U.K.) PLC
2.	Unique identifier	AUBB.BH - Bahrain Bourses AUB/818 - Kuwait Stock Exchange	ISIN: XS1133289832 / Perpetual Tier 1 Capital Securities	ISIN: XS1508651665 / Perpetual Tier 1 Capital Securities	Private Placement	Private Placement
3.	Governing law(s) of the instrument	Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Kuwait	English Law	English Law
4.	Transitional CBB rules	Not applicable	Not applicable	Not applicable	Tier 2	Tier 2
5.	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	NA	NA
6.	Eligible at solo/group/ group & solo	Solo and Group	Solo and Group	Group	Group	Group
7.	Instrument type	Common Equity Shares	Capital Securities	Capital Securities	Subordinated Debt	Subordinated Debt
8.	Amount recognized in regulatory capital	$2413.0 mn	$400.0 mn	$125.5 mn	$1.0 mn	$1.0 mn
9.	Par value of instrument (USD)	$0.25	$1000 subject to minimum of $200,000	$1000 subject to minimum of $200,000	$4.9 mn	$5.1 mn
10.	Accounting classification	Shareholders' equity	Shareholders' equity	Shareholders' equity	Liability – amortised cost	Liability – amortised cost
11.	Original date of issuance	31-May-2000	29-Apr-2015	25-Oct-2016	01-Jul-1996	31-Jan-1985, 30-Apr-1985
12.	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13.	Original maturity date	No Maturity	No Maturity	No Maturity	No Maturity	No Maturity
14.	Issuer call subject to prior supervisory approval	NA	Yes	Yes	Yes	Yes
15.	Optional call date, contingent call dates and redemption amount	NA	Call Option: On every Distribution Payment Date at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 101% (Full or partial)	Call Option: 25-Oct-2021 at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 100% (Full or partial)	NA	NA
16.	Subsequent call dates, if applicable	NA	Every Distribution Payment Date	Every Periodic Distribution Date after 26 Oct 2021	24-July-2025	24-July-2025
17.	Fixed or floating dividend/coupon	NA	Fixed	Fixed	Floating	Floating
18.	Coupon rate and any related index	NA	5.839%	5.5%	6m USD LIBOR + 75 bps	6m USD LIBOR + 75 bps
19.	Existence of a dividend stopper	NA	Yes	Yes	No	No
20.	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments (continued)

1.	Issuer	Ahli United Bank B.S.C.	Ahli United Bank B.S.C.	Ahli United Bank K.S.C.P.	Ahli United Bank (U.K.) PLC	Ahli United Bank (U.K.) PLC
21.	Existence of step up or other incentive to redeem	No	No	No	No	No
22.	Noncumulative or cumulative	NA	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23.	Convertible or non-convertible	NA	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24.	If convertible, conversion trigger (s)	NA	NA	NA	NA	NA
25.	If convertible, fully or partially	NA	NA	NA	NA	NA
26.	If convertible, conversion rate	NA	NA	NA	NA	NA
27.	If convertible, mandatory or optional conversion	NA	NA	NA	NA	NA
28.	If convertible, specify instrument type convertible into	NA	NA	NA	NA	NA
29.	If convertible, specify issuer of instrument it converts into	NA	NA	NA	NA	NA
30.	Write-down feature	NA	Yes	Yes	No	No
31.	If write-down, write-down trigger(s)	NA	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)	NA	NA
32.	If write-down, full or partial	NA	Fully / Partially	Fully / Partially	NA	NA
33.	If write-down, permanent or temporary	NA	Permanent	Permanent	NA	NA
34.	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1 Capital Bonds	Subordinated Debts	Subordinated Debts	All depositors and creditors	All depositors and creditors
36.	Non-compliant transitioned features	NA	No	No	Yes	Yes
37.	If yes, specify non-compliant features	NA	NA	NA	Non Viability Loss Absorption	Non Viability Loss Absorption

Leverage Ratio

The leverage ratio serves as a supplementary measure to the risk-based capital requirements. The leverage ratio is computed on a consolidated basis and Bahraini conventional bank licensees must meet a 3% leverage ratio minimum requirement at all times.

Leverage Ratio components

	US$'000
Tier1 Capital [A]	4,581,509
Total Exposure [B]	42,916,535
Leverage Ratio ([A] / [B])	**10.7%**