البنك الأهلي المتحد

ahli united bank

THE ROAD TO TRANSFORMATION

2021 ANNUAL REPORT

CONTENTS

REDEFINING THE FUTURE OF BANKING THROUGH DIGITAL TRANSFORMATION, EMBRACING STATE-OF-THE-ART TECHNOLOGY, PROVIDING PERFORMANCE EXCELLENCE IN EVERY PART OF THE CUSTOMER JOURNEY.

- BAHRAIN
- KUWAIT
- UAE
- UK
- EGYPT
- IRAQ
- OMAN
- LIBYA

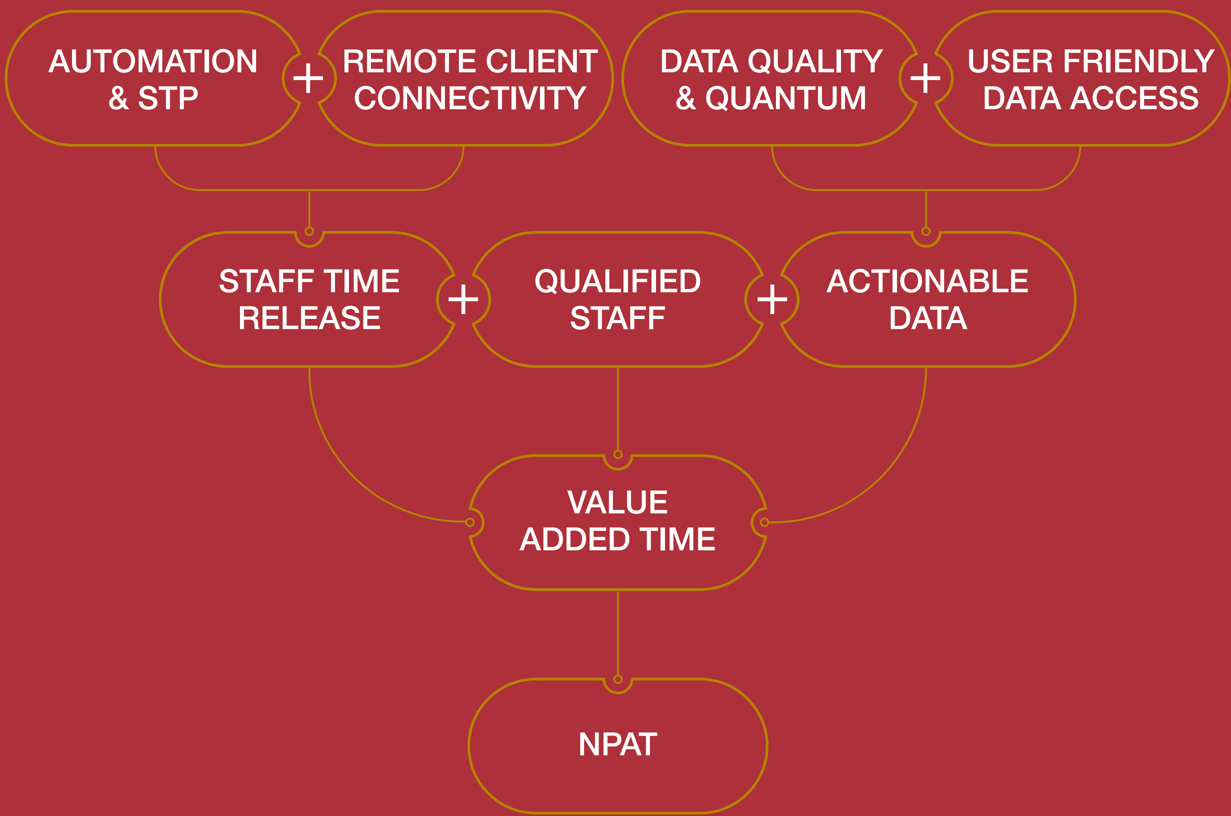
GROUP MISSION STATEMENT

To create an unrivalled ability to meet customer needs, provide fulfilment 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 treat clients fairly** and be their preferred banking partner.
- **To ensure technological, digital and data competitiveness** across all functions
- **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, economic and environmental advancement of our host countries.

VALUE ADDED TIME = NPAT



AUB OPERATING DIVISIONS

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

As a premier regional bank present in 8 countries in the Middle East and United Kingdom, we provide our clients with international growth opportunities. Our network is constantly growing, and today we are proud to manage subsidiaries and associates across 8 countries through a network of 157 branches and 3,294 team members.

FINANCIAL HIGHLIGHTS

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

- 8 COUNTRIES
- 157 BRANCHES
- 3,294 EMPLOYEES

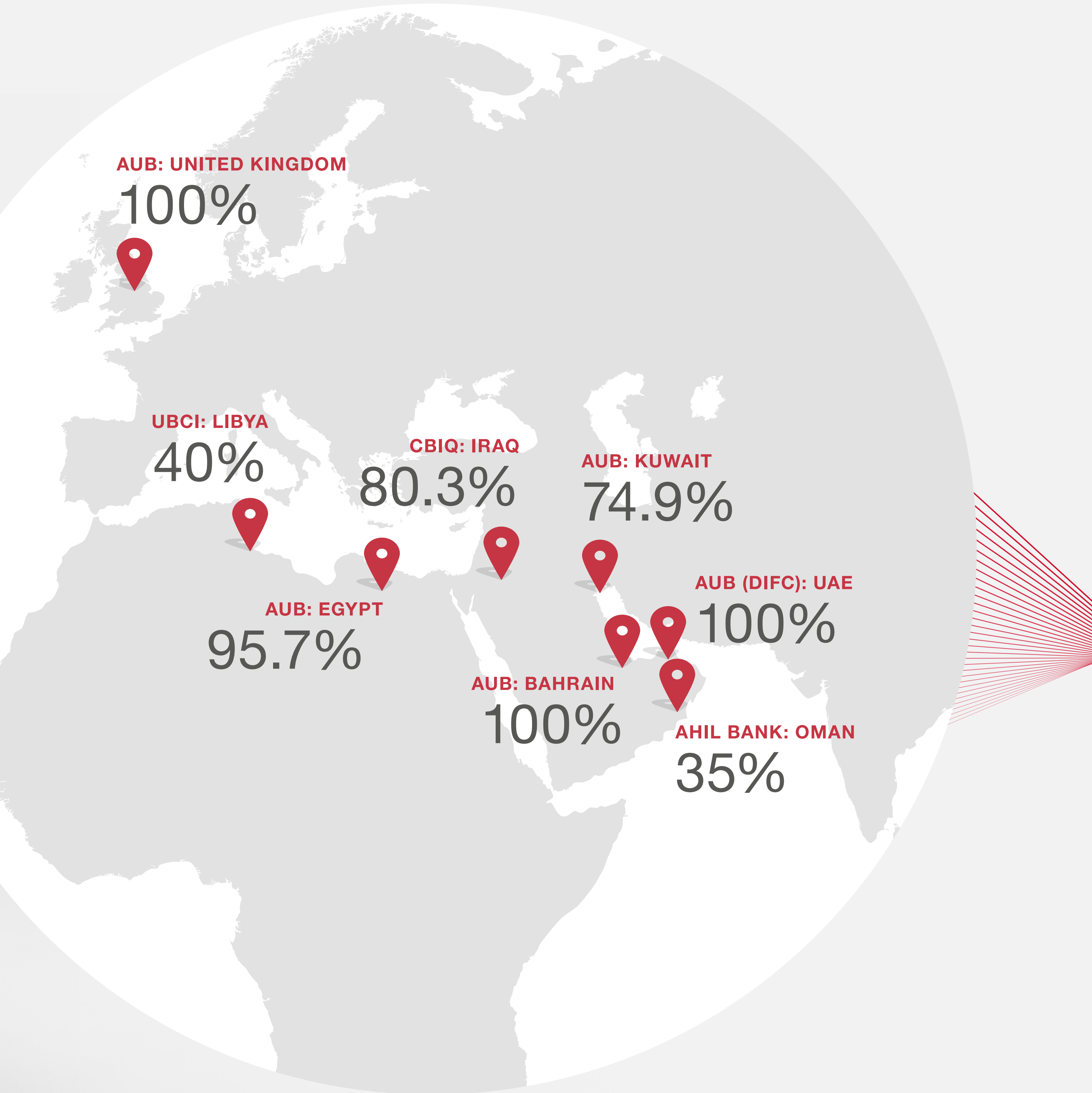
NET PROFIT US$'000s
- 607,244

LOANS AND ADVANCES US$'000s
- 22,075,148

TOTAL ASSETS US$'000s
- 41,913,370

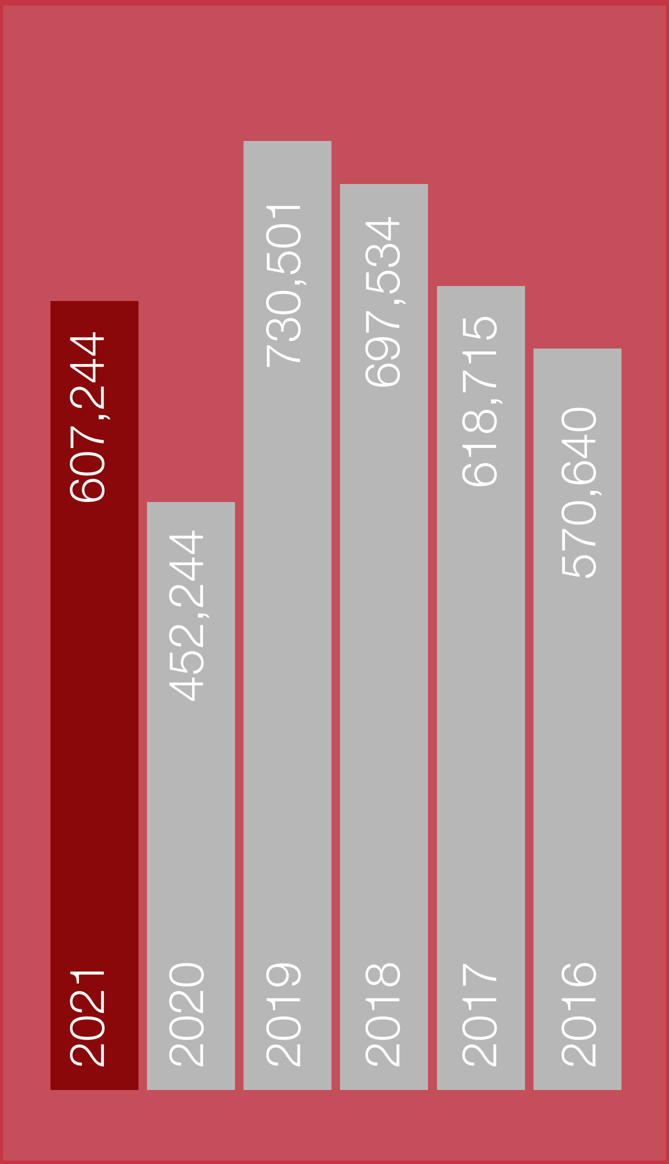
SHAREHOLDERS' EQUITY US$'000s
- 4,469,704

Ownership in Group Entities



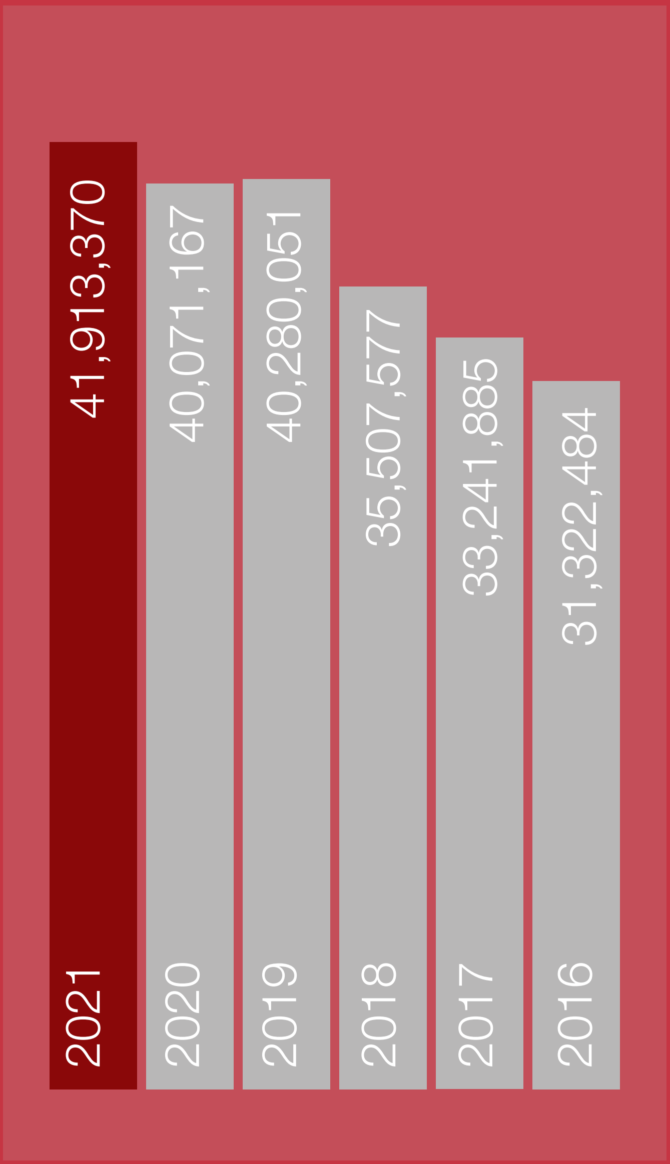
Net Profit
US$'000

607,244



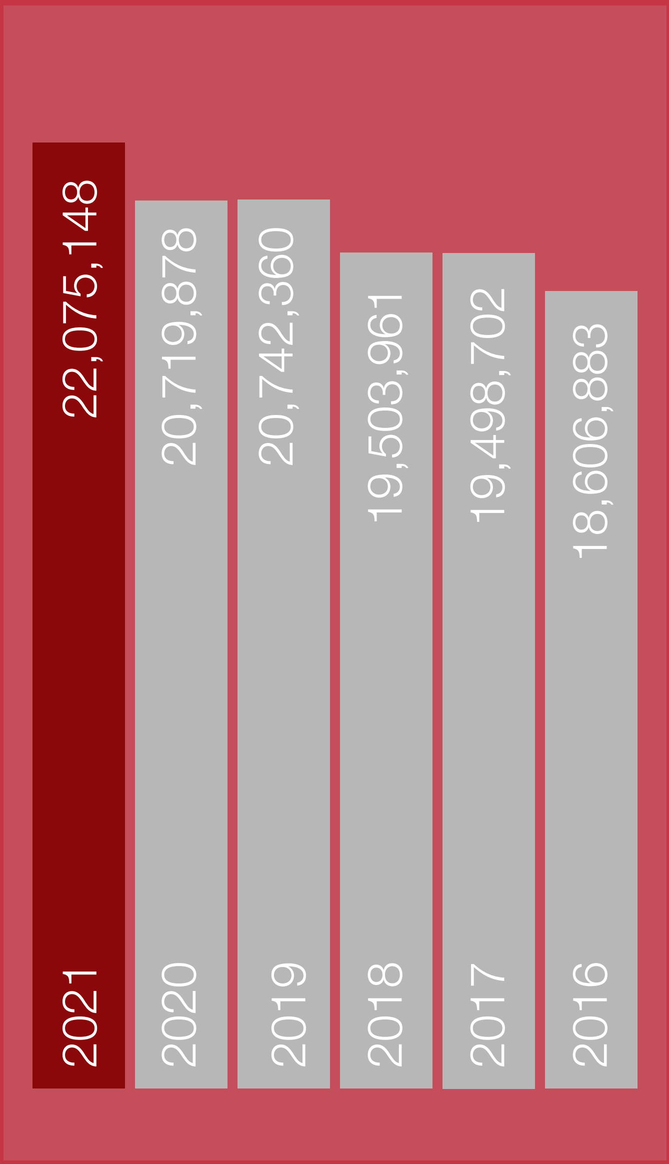
Total Assets
US$'000

41,913,370



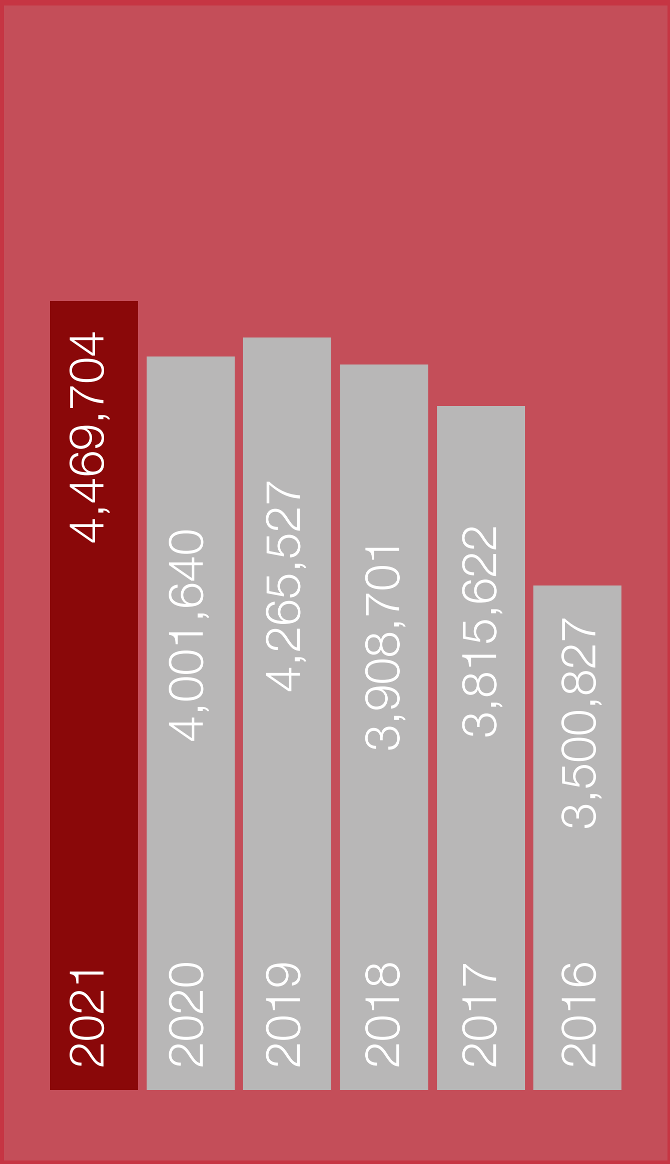
Loans and Advances
US$'000

22,075,148



Shareholder's Equity
US$'000

4,469,704



FINANCIAL HIGHLIGHTS
(Continued)

AHLI UNITED BANK B.S.C.

	US $ '000s					
	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Net profit*	607,244	452,244	730,501	697,534	618,715	570,640
Total assets	41,913,370	40,071,167	40,280,051	35,507,577	33,241,885	31,322,484
Loans and advances	22,075,148	20,719,878	20,742,360	19,503,961	19,498,702	18,606,883
Total liabilities	35,995,405	35,034,809	34,918,522	30,535,569	28,353,731	26,782,982
Shareholders' equity	4,469,704	4,001,640	4,265,527	3,908,701	3,815,622	3,500,827
Non-controlling interest	448,261	434,718	496,002	463,307	472,532	438,675
Return on average assets (ROAA)	1.6%	1.2%	2.1%	2.2%	2.1%	1.8%
Return on average equity (ROAE)	13.8%	10.4%	17.7%	18.1%	16.5%	15.6%
Cost to income ratio	29.5%	29.3%	28.6%	27.1%	28.8%	27.6%
Financial leverage	7.3	7.9	7.3	7.0	6.6	6.8
Risk assets ratio	17.0%	16.1%	16.4%	16.9%	17.0%	17.1%
Net interest margin	2.24%	2.06%	2.62%	2.88%	2.79%	2.56%
Earnings per share (US cents)	5.6	4.1	6.9	6.6	5.8	5.4

* Attributable to Bank's equity shareholders

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

	KD '000s					
	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Net profit*	31,221	29,729	55,017	51,255	44,463	40,348
Total assets	4,573,435	4,369,998	4,351,404	3,913,653	3,665,579	3,692,161
Financing receivables	3,342,148	3,113,685	3,018,755	2,799,906	2,672,832	2,706,054
Total liabilities	3,925,780	3,866,795	3,835,246	3,422,251	3,197,991	3,246,473
Shareholders' equity	466,995	442,563	455,518	430,762	406,948	385,048
Return on average assets	0.7%	0.7%	1.4%	1.4%	1.2%	1.0%
Return on average equity	6.9%	6.6%	12.7%	12.4%	11.4%	11.0%
Cost to income ratio	39.1%	36.6%	37.3%	30.6%	32.0%	30.5%
Financial leverage	8.4	8.7	8.4	7.9	7.9	8.4
Risk assets ratio	18.2%	15.7%	16.0%	16.6%	18.0%	18.2%
Earnings per share (KD - fils)	11.5	12.3	24.1	22.3	19.2	18.8

* Attributable to Bank's equity shareholders

UNITED KINGDOM: AHLI UNITED BANK (UK) PLC

	US $ '000s					
	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Net profit	18,893	25,752	40,814	35,185	39,102	32,782
Total assets	2,998,843	2,828,031	3,210,261	2,909,856	2,785,254	2,580,972
Loans and advances	1,602,103	1,735,370	1,670,090	1,451,715	1,370,409	1,170,198
Total liabilities	2,674,599	2,549,641	2,911,244	2,621,474	2,493,406	2,288,573
Shareholders' equity	324,244	278,390	299,017	288,382	291,848	292,399
Return on average assets	0.6%	0.8%	1.4%	1.2%	1.5%	1.2%
Return on average equity	6.6%	9.0%	14.4%	12.8%	13.8%	11.3%
Cost to income ratio	58.4%	43.6%	35.3%	44.7%	39.0%	40.9%
Financial leverage	8.2	9.2	9.7	9.1	8.5	7.8
Risk assets ratio	22.5%	19.2%	20.4%	23.6%	24.0%	25.7%
Earnings per share (US cents)	9.4	12.9	20.4	17.6	19.5	16.4

PRINCIPAL SUBSIDIARIES (Continued)

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

	IQD Millions					
	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Net profit	13,009	35,457	6,554	10,864	10,050	7,578
Total assets	512,312	616,949	449,596	443,946	460,616	423,819
Loans and advances	27,136	18,841	11,447	11,933	10,789	9,904
Total liabilities	197,769	309,195	177,364	159,987	168,808	141,878
Shareholders' equity	314,543	307,755	272,232	283,958	291,809	281,941
Return on average assets	2.0%	7.4%	1.5%	2.4%	2.3%	1.7%
Return on average equity	4.2%	13.0%	2.3%	3.8%	3.5%	2.7%
Cost to income ratio	61.6%	29.4%	64.1%	45.6%	52.9%	48.9%
Financial leverage	0.6	1.0	0.7	0.6	0.6	0.5
Risk assets ratio *	98.9%	73.7%	529.2%	657.6%	594.1%	728.8%
Earnings per share (IQD - Fils)	52.0	141.8	26.2	43.5	40.2	30.3

*Under BASEL III from 2020.

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

	EGP '000s					
	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Net profit *	1,175,628	1,217,264	1,284,708	1,462,981	1,205,027	2,389,921
Total assets	64,462,686	56,362,418	47,288,176	51,488,260	46,989,288	42,354,094
Loans and advances	36,716,271	29,698,946	26,261,571	22,983,062	21,871,149	19,376,811
Total liabilities	55,288,633	48,155,980	39,626,232	44,423,636	40,477,096	37,163,103
Shareholders' equity	9,174,053	8,206,438	7,661,944	7,064,624	6,512,192	5,177,254
Return on average assets	2.0%	2.4%	2.6%	2.9%	2.9%	7.5%
Return on average equity	13.9%	15.9%	18.8%	22.4%	22.0%	75.1%
Cost to income ratio	32.1%	28.0%	28.5%	19.3%	19.7%	9.8%
Financial leverage	6.0	5.9	5.2	6.3	6.2	7.2
Risk assets ratio	17.8%	19.6%	18.3%	17.0%	18.1%	13.6%
Earnings per share (EGP)	3.5	3.6	3.9	4.6	3.7	7.7

* Attributable to Bank's equity shareholders

PRINCIPAL ASSOCIATE

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

	OMR '000s					
	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016
Net profit	27,606	23,968	31,015	28,786	26,667	29,552
Total assets	3,052,556	2,702,477	2,518,527	2,290,414	2,014,582	1,899,654
Loans and advances	2,401,979	2,218,897	2,054,986	1,870,677	1,634,458	1,522,106
Total liabilities	2,625,559	2,314,127	2,129,332	1,931,410	1,709,755	1,656,706
Shareholders' equity	302,997	264,350	265,195	255,004	254,827	242,948
Return on average assets	1.0%	0.9%	1.3%	1.3%	1.4%	1.6%
Return on average equity	9.7%	9.1%	11.9%	11.3%	10.7%	12.6%
Cost to income ratio	43.2%	42.1%	39.6%	37.4%	35.3%	35.9%
Financial leverage	8.7	8.8	8.0	7.6	6.7	6.8
Risk assets ratio	16.7%	15.7%	16.9%	17.5%	16.7%	15.0%
Earnings per share (Baiza)	9.7	8.9	13.6	15.2	16.1	17.7

BOARD OF DIRECTORS' REPORT

The Directors of Ahli United Bank B.S.C. ("AUB" or the "Bank") are pleased to submit the accompanying consolidated Financial Statements for the year ended 31 December 2021.

GENERAL OPERATING ENVIRONMENT

During 2021, the global economy continued to gradually recover from the lows of 2020 caused by the sudden onset of Covid-19 and its far-reaching implications. As per the World Bank statistics, the global economy recorded a growth of 5.5% in 2021 as compared to a decline of 3.4% in 2020. The revival was made possible by an increasing rate and coverage of vaccination programmes which resulted in a relaxation of pandemic-related lockdowns and led to a pick up in domestic commercial activities and international trade as well as to an improvement in consumer and business sentiment.

As per estimates by the World Bank, the Middle East and North Africa (MENA) region registered a 3.1% growth in 2021 as compared to a 4.0% decline in 2020. The regional growth was supported by an increase in average global oil prices, lower-than-expected oil production cuts by the OPEC+ members and the gradual opening of economies.

The global growth is projected to decelerate to 4.1% in 2022, as per the World Bank, reflecting further COVID-19 concerns due to the rapid spread of Omicron or potentially other new contagious virus variants, declining fiscal support by governments and continuing supply chain disruptions. In contrast to developed economies, output in developing economies will continue to remain below the pre-pandemic level in the coming years. The divergence in economic prospects across countries remains a major concern. These economic divergences are a consequence of large disparities in vaccine availability/roll-outs and in the composition and resilience of these economies.

The MENA region is however projected to grow at an improved rate of 4.4% in 2022 reflecting stronger near-term prospects for oil exporters with reduced disruptions from the pandemic and oil production cuts. Regional growth remains vulnerable to the gradual withdrawal of fiscal support and to the recurrence of COVID-19 outbreaks of any large or sustainable magnitude.

PERFORMANCE OVERVIEW

Against the backdrop of these still evolving and challenging market conditions, AUB achieved a robust performance in 2021 versus 2020 in terms of both financial and operational results. The key highlights of the AUB Group's consolidated financial performance for 2021 are given below:

- Consolidated net profit, attributable to the Bank's equity shareholders, of US$ 607.2 million was achieved showing an increase of 34.3% versus US$ 452.2 million in 2020 mainly driven by credit growth aided by the progressive opening of economies and effective balance-sheet management.
- Total operating income was sustained over the US$ 1 billion mark at US$ 1,108.9 million in 2021 (2020: US$ 1,111.9 million) despite the sharp continuing drop in absolute benchmark interest rates.
- Net interest income for 2021 was US$ 871.8 million (2020: US$ 799.4 million), an increase of 9.1%, primarily due to asset growth and reduction in funding costs driven by more favorable liquidity conditions.
- Following the exceptional level of pre-cautionary provisions raised in year 2020, AUB re-assessed its Stage 1 and Stage 2 ECL gross provisions on performing loans and advances in accordance with IFRS-9, including change in Significant Increase in Credit Risk (SICR) outlook, given the improved direction of macro-economic variables. Accordingly, a net provision charge of US$ 122.3 million covering Stages 1 to 3 exposures was raised for 2021 (2020: US$ 254.9 million). Effective and focused risk management actions resulted in the credit impaired loans and advances ratio improving to 2.4% (31 December 2020: 2.6%). Specific provision coverage on impaired loans was maintained at a very solid 83.1% level (31 December 2020: 85.9%). Provision coverage levels are calculated on a cash provision basis, excluding the value of the significant non-cash (real estate and securities) collateral available against non-performing loans.
- The cost to income ratio was sustained at 29.5% (2020: 29.3%) reflecting the consistent application of AUB's disciplined intelligent spend approach. Major efforts are underway to further enhance operational efficiencies and to offset increasing inflationary pressures through the progressive roll-out of digitization initiatives as part of the AUB Group's overall transformation plan.
- AUB Group's total assets increased by 4.6% to US$ 41.9 billion at 31 December 2021 (31 December 2020: US$ 40.1 billion) demonstrating balanced balance sheet growth. The loans and advances portfolio grew by US$ 1.4 billion (+6.5%) to US$ 22.1 billion (31 December 2020: US$ 20.7 billion) with a key focus on enhancing the core earnings through a prudent and diversified build-up of the loan book across the Group. The non-trading investments portfolio also increased (+3.3%) to US$ 9.9 billion (31 December 2020: US$ 9.6 billion).
- The funding base was further diversified and elongated during 2021 through a number of measures:
  - US$ 600 million 5-year Senior Sukuk Issue (increased from US$ 500 million at launch) was raised and listed on the London Stock Exchange.
  - New bilateral term borrowings of US$ 350 million was raised with a residual tenor of up to 2 years.
  - Customer deposits were stable at US$ 25.2 billion as of 31 December 2021 (31 December 2020: US$ 25.2 billion) with Current and Saving Accounts (CASA) increasing to US$ 9.4 billion as on 31 December 2021 (31 December 2020: US$ 8.2 billion). Overall, CASA pool as a percentage of customers' deposits of US$ 25.2 billion increased to 37.3% as of 31 December 2021 (31 December 2020: 32.7%).
  - Repo borrowing increased to US$ 3.8 billion at 31 December 2021 (Dec 2020: US$ 3.6 billion) with 92% in elongated evergreen facilities with up to 18 months' contractual notice period (2020: 83%).
- Given its improved profitability, AUB generated a higher Return on Average Assets of 1.6% (2020: 1.2%) and a Return on Average Equity of 13.8% (2020: 10.4%).

STRATEGIC & CORPORATE DEVELOPMENTS

- During December 2021, the AUB Board of Directors, in coordination with Kuwait Finance House K.S.C.P ("KFH") and regulatory authorities, agreed to the update of financial and legal due diligence studies, and the resumption of all connected procedures related to the earlier suspended acquisition transaction due to Covid-19 considerations. The currently ongoing work includes assessment of the viability and valuation of the deal in terms of the final share exchange ratio. AUB has re-appointed the specialized professional advisors previously appointed to provide AUB with the necessary financial (KPMG), tax (KPMG) and legal studies (Linklaters).
- AUB Group successfully concluded a perpetual Tier-1 Sukuk-2021 Issue for US$ 600 million, for Ahli United Bank K.S.C.P., its Kuwait subsidiary, following the recall and full redemption of its earlier issued US$ 200 million perpetual Tier-1 Sukuk-2016 Issue. The 2021 issue was significantly oversubscribed and attracted strong and diversified investor demand.

RECOGNITION

AUB Group received a number of prestigious banking awards during the year which include the following:

Awards Provider	Name of the Awards
Euromoney	• Best Bank in Bahrain – 2021
The Banker	• Bank of The Year – Bahrain – 2021
EMEA Finance	• Best Local Bank in Bahrain – 2021 • Most Innovative Bank in the Middle East – 2021
CFI	• Best Global Network GCC Bank – 2021
Global Finance	• Best Bank in Bahrain – 2021 • Best FX provider in Bahrain – 2022 • Best Private Bank in Bahrain – 2022 • Best Trade Finance Provider – 2022 • Best Bank for Export Finance, Globally – 2022 • Best SME Bank in Bahrain – 2022 ***Best Digital Banks 2021 awards*** • Best SME Banking – 2021 • Best Integrated Corporate Banking Site – 2021 • Best Online Treasury Services – 2021 • Best in Social Media Marketing & Services - 2021 • Most Innovative Digital Bank – 2021
The Banker and Professional Wealth Management (PWM)	• Private Bank of the Year, Bahrain – 2021
Private Banker International	• Best Private Bank of Islamic Services – 2021

DIRECTORS' AND EXECUTIVE MANAGEMENT'S REMUNERATION

First: Board of directors' remuneration details: (Amounts stated in Bahraini Dinars)

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate Amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the Chairman and BOD	Total allowance for attending Board and Board committee meetings	Others	Total	Remunerations of the Chairman and BOD	Incentive plans	Others	Total			
First: Independent Directors:											
1. Abdulghani M.S.Y. Behbehani	18,567	18,567	-	37,134	-	-	-	-	-	37,134	-
2. Abdullah Mudhaf Al Mudhaf	17,154	17,154	-	34,308	-	-	-	-	-	34,308	-
3. Jamal Abdel Razzaq Al-Naif	16,777	16,777	-	33,554	-	-	-	-	-	33,554	-
Second: Non-Executive Directors:											
1. Wafra International Investment Co. K.S.C.C. (Meshal AbdulAziz Alothman (Chairman))	51,838	51,838	-	103,676	-	-	-	-	-	103,676	-
2. Mohammad Jassim Al-Marzooq (Deputy Chairman)	24,034	24,034	-	48,068	-	-	-	-	-	48,068	-
3. Mohammad Fouad Al-Ghanim	21,206	21,206	-	42,412	-	-	-	-	-	42,412	-
4. The Public Institution for Social Security (Ahmad Ghazi Al-Abduljalil)	16,399	16,399	-	32,798	-	-	-	-	-	32,798	-
5. Social Insurance Organization (Khalid Mohamed Najibi)	21,206	21,206	-	42,412	-	-	-	-	-	42,412	-
Third: Executive Directors:											
1. Adel A. El-Labban - Executive	-	-	-	-	-	-	-	-	-	-	-
Total	**187,181**	**187,181**	**-**	**374,362**	**-**	**-**	**-**	**-**	**-**	**374,362**	**-**

Note:
All AUB Executive Directors, including Group CEO & MD, are excluded from receiving any form of additional remuneration for their membership of or attendance at Board or Board related committee meetings at AUB or its subsidiaries / affiliates as per their specific contractual arrangements and as per the Board approved AUB Group HR Policy.

Second: Executive management remuneration details: (Amounts stated in Bahraini Dinars)

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO (Group CEO) and Senior Financial Officer (DGCEO Finance & Strategic Development)	1,255,980	128,227	265,753	1,649,960

APPROPRIATIONS

On the basis of the results of the Bank for the year ended 31 December 2021, the Board of Directors recommends the following appropriations for approval by the shareholders:

- Cash dividend - ordinary shares at 3.0 US cents per share (2020: 1.25 US cents per share) and a bonus issue of one ordinary share for every ten ordinary shares held (2020: bonus of one ordinary share for every twenty ordinary shares held)
- Transfer to statutory reserve of US$ 60.7 million
- Donations of US$ 2.0 million

CONCLUSION

In my capacity as 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 in ensuring the continuity of superior performance and results through many challenging times including the past year.

MESHAL ABDULAZIZ ALOTHMAN
Chairman
22 February 2022

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.

Former positions: 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.

25 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.

Former positions: 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.

30 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 which includes several companies in various fields, Kuwait; Chairman, Ahli United Bank (Egypt) SAE, Egypt; Chairman, Fluor Kuwait Co. KSC, 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.

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

▶ 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.

38 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; Certified Finance Specialist 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.

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

▶ ABDULLAH MUDHAF 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.

16 years of experience covering financial services and entrepreneur – private sector development.

▶ 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.

41 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 Group W.L.L., 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, Board Member, Bahrain Tourism and Exhibitions Authority (BTEA), Kingdom of Bahrain; Board Member, King Fahad Causeway Authority (KFCA) and Board Member of Arab British Chamber of Commerce (ABCC).

Former positions: 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.

31 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 the American University in Cairo, 1977.

Group Chief Executive Officer, 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.

Former positions: 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, Morgan Stanley, USA; Assistant Vice President, Arab Banking Corporation, Bahrain; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; and Director, Bahrain Association of Banks, Bahrain.

43 years of experience in financial service sector.

* Mr. El-Labban resigned from the AUB B.S.C. Board of Directors and his position as Managing Director with effect from the close of business on 14 April 2022.

The Bank continues its group-wide transformation initiative for delivering customer-centric data driven automated process solutions.

Our continued digitalization initiatives, as part of the Transformation Plan for the Group, have already strengthened operational efficiencies and delivered of customer service enhancements.

MESHAL ABDULAZIZ ALOTHMAN
CHAIRMAN

ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO REPORT AN EXCELLENT AUB GROUP PERFORMANCE FOR THE YEAR 2021.

In general, the global economic outlook has improved over the last year. As per the World Bank, the global economy grew 5.5% in 2021 as compared to a contraction of 3.4% in the previous year. However, the recent conflict in Ukraine has cast a shadow over international trade which is having ramifications on the global economy. In addition, the threat of any new variants of Covid-19 also continues to be present on the global economic recovery. Global economic growth rate is expected be 4.1% in 2022 as per the World Bank whereas the MENA region is expected to grow by 4.4%.

The Group recorded a net profit attributable to its equity shareholders of US$607.2 million in 2021, an increase of 34.3% over the previous year. Basic and diluted earnings per share in 2021 improved to US 5.6 cents compared to US 4.1 cents in 2020. Significant increase in return on average equity was achieved to 13.9% from 10.4% in 2020 and return on average assets to 1.6% from 1.2% in 2020. The results are a testament to the resilience of well-managed business model of AUB Group based on market diversification and cross-border flows, supported by a robust risk management system and an intelligent spend approach. The Board of Directors has recommended a cash dividend of US cents 3.0 per share, accompanied by a bonus ordinary share issue of 10%.

Despite the continuing challenges posed by regional and international events, the Group remained committed to its philosophy of priority of service to clients. Our continued digitalization initiatives, as part of the Transformation Plan for the Group, have already strengthened operational efficiencies and delivered of customer service enhancements. We will continue to further integrate our focused and multi-faceted approach in key areas of digital, data, and human resources transformation.

In terms of activity in the capital markets, the Group's Kuwait subsidiary successfully concluded a perpetual Tier-1 Sukuk-2021 Issue for US$ 600 million following the recall and full redemption of its earlier US$ 200 million perpetual Tier-1 Sukuk -2016 Issue. At the parent bank level, a US$ 600 million long term senior Sukuk was also oversubscribed by a wide array of regional and international investors, underlining AUB's strong credentials as a leading market player and counterparty.

It is gratifying to note that the Group has been honoured with several prestigious industry recognized awards in 2021 including Best Bank in Bahrain by Euromoney, The Banker and Global Finance and as well as the Most Innovative Bank in the Middle East by EMEA Finance to name a few.

As Chairman of the Board, I am grateful for the continued support, trust, and confidence of our shareholders and business partners. To the regulators in each of our operating jurisdictions, their guidance and engagement are appreciated. As in all years, our management and staff remain the key element to all our success, with their unstinting effort and attention to every one of our objectives.

MESHAL ABDULAZIZ ALOTHMAN

Chairman

The Group continues to forge ahead on its multi-faceted Transformation Plan to deliver customer-centric data driven automated process solutions.

ADEL A. EL-LABBAN
GROUP CHIEF EXECUTIVE OFFICER

THE ADVERSE IMPACT BROUGHT ON GLOBAL ECONOMIES DUE TO COVID-19 PANDEMIC IN 2020 EASED TO SOME DEGREE TOWARDS THE LATER PART OF 2021.

The emergence of the Omicron variant, although seemingly more viral, has created less negative impact than the previous variants as governments adopted a more relaxed approach in terms of its management.

The AUB Group successfully met the challenges and performed very well with a 34.3% rise in net profit to US$ 607.2 million in 2021, principally supported by credit growth on account of the gradual opening of the economies where we operate, as well as our continued focus on effective balance-sheet management. Net interest income rose by 9.1% to US$ 871.8 million, primarily due to a well diversified asset mix providing strong asset growth and a controlled reduction in funding costs for the Group. The cost to income ratio was steady at 29.5%, continuing to be a core mainstay of the AUB Group's well-managed business model. In a difficult market, asset quality has been enhanced during the year with the non-performing loans ratio improving to 2.4% compared with 2.6% in 2020 with very solid provision coverage levels.

The Group continues to forge ahead on its multi-faceted Transformation Plan to deliver customer-centric data driven automated process solutions. Our increased use of digitalisation across the business functions and lives continues to improve the customer experience. The revamped B2B and corporate internet banking portals have been well received, offering our customers superior and differentiated products. The very highly automated customer-centric and seamless product suite offering encompasses superior solutions for loans, trade finance, payments, cash and liquidity management.

The Group continued to strengthen its regional presence by increasing the stake in the Iraq subsidiary, Commercial Bank of Iraq, from 75% to 80.3% during March 2021. In 2022, we confirmed the acquisition of the Citibank retail assets and liabilities in Bahrain subject to completion of necessary and statuary requirements. The transaction is expected to have a major transformative impact on our retail competitive position in terms of client range and product diversity.

International credit ratings continue to re-affirm the Group's excellent ratings. AUB is rated 'A'/ Stable by Capital Intelligence, 'BBB'/Stable by S&P and 'BB+'/ Stable by Fitch.

Going forward, the Group will continue to focus on organic growth, together with inorganic growth where appropriate, in order to further strengthen its position as a leading regional bank.

We will continue to apply the highest level of risk management and governance across all of our businesses.

Finally, I would like to record my appreciation for the sustained efforts from the management team and staff, who are at the heart of the success of the AUB Group and have delivered another year of exemplary performance despite challenging market conditions.

ADEL A. EL-LABBAN

Group Chief Executive Officer

ADDRESS CUSTOMERS' BANKING REQUIREMENTS 24/7

USING A.I. FOR A SMARTER BANKING EXPERIENCE

THE FIRST BANK IN BAHRAIN TO INTEGRATE ITS SYSTEM WITH AN AI SUPPORTED CHATTING SERVICE

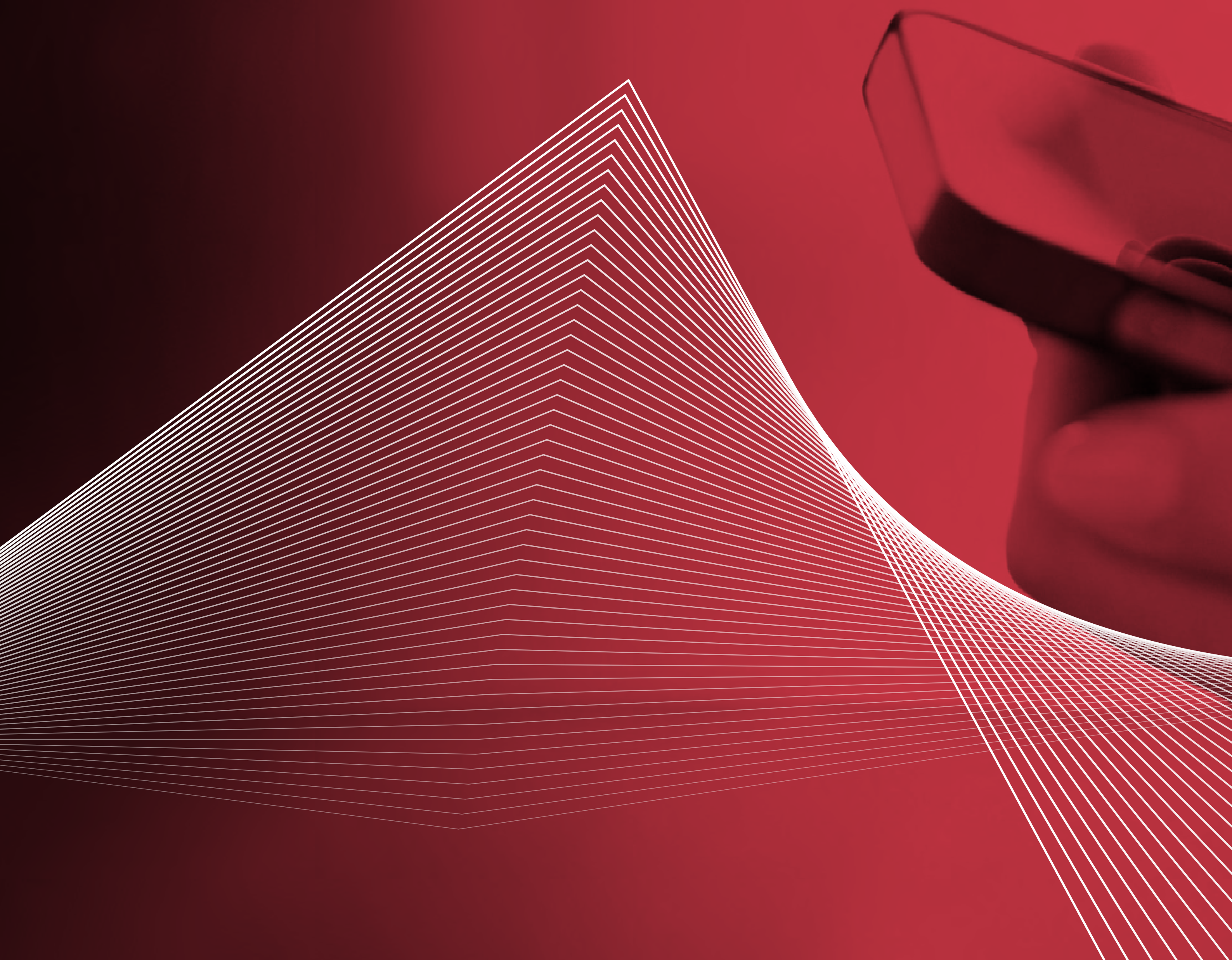
HIRING THE BEST AND BRIGHTEST TALENTS

AN AWARD WINNING BANK FOR OUR PEOPLE AND CULTURE

3,294 committed employees across 8 countries

HIRING THE BEST YOUNG TALENT IN THE REGION

OPEN AN ACCOUNT FROM THE COMFORT OF YOUR HOME



PEACE OF MIND THOUGH A SECURE NETWORK

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 2021, the Bank had issued 10,134,483,144 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 31 March 2021. The Bank also held an Ordinary General Meeting on 30 September 2021.

Ordinary shareholders as at 31 December 2021: holding 5% and above are as below:

NO.	NAME / ENTITY	COUNTRY OF ORIGIN	NO. OF SHARES	% OWNERSHIP
1	The Public Institution for Social Security	Kuwait	1,911,650,715	18.86%
2	Social Insurance Organization	Bahrain	1,014,215,583	10.01%
3	Tamdeen Investment Company	Kuwait	756,041,504	7.46%
4	Sh. Salem Sabah Al Naser Al Sabah	Kuwait	613,515,000	6.05%

DISTRIBUTION OF SHARES

Distribution of ordinary shares by threshold as at 31 December 2021:

THRESHOLD	NO. OF SHARES	NO. OF SHAREHOLDERS
50% and above	-	-
20% to 49.99%	-	-
10% to 19.99%	2,925,866,298	2
5% to 9.99%	1,369,556,504	2
1% to 4.99%	1,742,944,293	9
Less than 1%	4,096,116,049	4,468
Total	**10,134,483,144**	**4,481**

Distribution of ordinary shares by nationality as at 31 December 2021:

NO.	NAME	NO. OF SHARES	% OF TOTAL SHARES
1	**KUWAIT**		
	Government & Quasi Government	2,058,582,598	20.31%
	Individuals and Corporates	4,654,284,898	45.93%
	Subtotal Kuwait	**6,712,867,496**	**66.24%**
2	**BAHRAIN**		
	Government & Quasi Government	1,026,206,030	10.13%
	Individual's and Corporates	1,344,576,390	13.27%
	Subtotal Bahrain	**2,370,782,420**	**23.39%**
3	**OTHERS**		
	Government & Quasi Government	81,245,783	0.80%
	Individuals and Corporates	969,587,445	9.57%
	Subtotal Others	**1,050,833,228**	**10.37%**
TOTAL		**10,134,483,144**	**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 30 September 2021, for a Board term ending no later than 31 March 2024. 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 2021, the 9 Directors comprising the Board were classified as follows:

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

The classification of each Director as at 31 December 2021 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
Khalid Mohamed Najibi	Non-Executive
Abdulghani M.S.Y. Behbehani	Independent
Ahmad Ghazi Al-Abduljalil	Non-Executive
Abdullah Mudhaf Al Mudhaf	Independent
Jamal Abdel Razzaq Al-Naif	Independent
Adel A. El-Labban	Executive

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 four (4) times during 2021.

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 2021, and attendance of each Director at each such meeting are detailed below:

DIRECTORS	MEETING DATES			
	22/2/2021	27/5/2021	30/9/2021	2/12/2021
Meshal AbdulAziz Alothman	✓	✓	✓	✓
Mohammad Jassim Al-Marzooq	✓	✓	✓	✓
Mohammad Fouad Al-Ghanim	✓	✓	✓	✓
Khalid Mohamed Najibi	✓	✓	✓	✓
Abdulghani M.S.Y. Behbehani	✓	✓	✓	✓
Ahmad Ghazi Al-Abduljalil	✓	✓	✓	✓
Abdullah Mudhaf Al Mudhaf	✓	✓	✓	✓
Jamal Abdel Razzaq Al-Naif	✓	✓	✓	✓
Adel A. El-Labban	✓	✓	✓	✓

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 2021, 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 2021. 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 2021.

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 2021, 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 2021 is shown below:

NO.	DIRECTORS	PURCHASED	SOLD	NO. OF SHARES AS AT 31 DEC 2021
1	Meshal AbdulAziz Alothman	-	-	-
2	Mohammad Jassim Al-Marzooq	-	-	270,493
3	Mohammad Fouad Al-Ghanim	-	-	824,402
4	Khalid Mohamed Najibi	-	-	63,525
5	Abdulghani M.S.Y. Behbehani	-	-	308,159
6	Ahmad Ghazi Al-Abduljalil	-	-	-
7	Abdullah Mudhaf Al Mudhaf	-	200,000	35,232,848
8	Jamal Abdel Razzaq Al-Naif	-	-	-
9	Adel A. El-Labban	-	-	-
Total				**36,699,427**
Percentage				**0.36%**

Directors' and Related Parties' Interests (Continued)

The numbers of shares owned by Senior Management and Approved Persons as at 31 December 2021 is as follows:

NAMES	PURCHASED	SOLD	NO. OF SHARES AS OF 31 DEC 2021
Sanjeev Baijal	-	-	1,099,807
Keith Gale	-	-	-
Suvrat Saigal	-	-	168,436
David Arthur O' Loan	-	100,000	558
Mark Andrew Ogilvie Hirst	-	-	289,676
Geoffrey Michael Stecyk	-	-	-
Othman Hijazi	-	-	72,187
Iman Al-Madani	-	-	-
Rogier Dolleman	-	-	-
Tom Nicholas Roger Blackwell	-	-	-
Srinivasan Rathinam	-	889,718	-
Ramachandralal Ravindranath	-	-	-
Nabeel Mahmood Khazim	-	-	-
Sami Tamim	-	-	-
Jehad Al Humaidhi	-	-	-
Hala Sadek	446,425	60,000	2,267,004
Ayman El-Gammal	-	-	1,155,029
Vivek Kastwar	-	-	-
Said Hathout	-	-	-

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 16 January 2022), 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. 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 27 December 2021.

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 2021 are detailed below:

Executive Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES			
		22/2/2021	27/5/2021	30/9/2021	2/12/2021
Meshal AbdulAziz Alothman – Chairman	Non-Executive	✓	✓	✓	✓
Mohammad J. Al-Marzooq	Non-Executive	✓	✓	✓	✓
Mohammad F. Al-Ghanim	Non-Executive	✓	✓	✓	✓
Khalid Mohamed Najibi	Non-Executive	✓	✓	✓	✓
Adel A. El-Labban	Executive	✓	✓	✓	✓

Audit and Compliance Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES			
		21/2/2021	26/5/2021	29/9/2021	1/12/2021
Abdulghani M.S.Y. Behbehani - Chairman	Independent	✓	✓	✓	✓
Ahmad G. Al-Abduljalil	Non-Executive	✓	✓	✓	✓
Abdullah M. Al Mudhaf	Independent	✓	✓	✓	✓
Jamal Abdel Razzaq Al-Naif	Independent	✓	✓	✓	✓

Nominating Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES	
		01/09/21	20/12/2021
Abdulghani M.S.Y. Behbehani - Chairman	Independent	✓	✓
Ahmad G. Al-Abduljalil	Non-Executive	✓	✓
Abdullah M. Al Mudhaf	Independent	✓	✓
Jamal Abdel Razzaq Al-Naif	Independent	✓	✓

Compensation Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES	
		28/03/2021	20/12/2021
Abdullah M. Al Mudhaf - Chairman	Independent	✓	✓
Abdulghani M.S.Y. Behbehani	Independent	✓	✓
Jamal Abdel Razzaq Al-Naif	Independent	✓	✓

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 2021. 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 2021.

Senior Management:

NAMES	TITLE
Adel A. El-Labban	Group CEO
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	Deputy Group CEO – Corporate Banking
Iman Al-Madani *	Deputy Group CEO – HR, Transformation and Development
Sami Tamim	CEO - Ahli United Bank (UK) P.L.C.
Jehad Al Humaidhi	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.
Faisal Al Haimus **	CEO – Commercial Bank of Iraq - Iraq
Said Hathout	CEO – Al Hilal Life & Al Hilal Takaful

* Appointed as Deputy Group CEO - HR, Transformation and Development on 04.04.2022
** Appointed as Designated CEO on 03.02.2022

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 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 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 eight 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.

Other Governance Measures (Continued)

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	• Short-term or Long-term incentive plans to motivate and retain employees with sustainable performance using both pre- and post- award performance measures to drive forward the Group's objectives.

The Compensation System (Continued)

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. It defers portions of the variable compensation awards for the Approved Persons and Material Risk-Takers of the Bank as per the rules of the MSP scheme as approved by the CBB and the Shareholders of the Bank.

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 16 January 2022. 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 2021 amounted to US$8,000 (2020: US$11,750).

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 increments 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.

Compensation of the Board of Directors (Continued)

Key features of the compensation framework that enables AUB to achieve alignment 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 2021. • 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 2021.
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 operates job-linked incentive or commission-based sales plans for full-time employees as per specific campaign-related or marketing schemes as under the supervision of the Compensation Committee.

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 2021 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	(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 2021 who are Approved Persons in business lines - 8 (2020: 8), Approved Persons in control functions - 13 (2020: 12) and no other material risk takers. Other staff, Bahrain operations – 630 (2020: 637).

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
Governance of Compensation Policy	• All members of the Compensation 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.
Management of Subsidiaries	• 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 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.
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 2021) and found to be fully compliant of the regulations with no adverse findings.
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
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.
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.
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 2021. • 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 2021.
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 2021 was 50.07% of NPAT (26.7% of NPAT for 2020). Bonus payout to staff represents 3.7% of NPAT in 2021 (3.2% of NPAT for 2020).
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.
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.
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 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.

COMPENSATION REGULATION	COMPLIANCE BY AUB
Review of Performance and Compensation arrangements of Approved Persons	• The performance measurement and the compensation arrangements for designated Approved Persons and Material Risk Takers of the Bank for 2021 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. • 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 2021 who are Approved Persons in business lines – 8 (2020: 8), Approved Persons in control functions – 13 (2020: 12) and no other material risk takers. Other staff, Bahrain operations – 630 (2020: 637). • Performance assessment of regulated roles is as per the following framework: 1. GCEO: Group Business Objectives (100%) 2. Other Approved Persons: Group Objectives (60%), Function Objectives (40%)
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.
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. • 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 because of Malus and/or Clawback as defined in the HR Policy.
Deferral arrangements for Approved Persons and MRT's	• For the GCEO, Approved Persons in business functions: 1. 40% of variable performance-based compensation is paid upfront in cash. 2. 60% of variable performance-based compensation is deferred. • For the Approved Persons in control and support functions: 1. 50% of variable performance-based compensation is paid upfront in cash. 2. 50% of variable performance-based compensation is 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.

Details of Compensation paid to Members of the Board of Directors

TOTAL VALUE OF COMPENSATION FOR THE FISCAL YEAR:	2021 (AMOUNTS IN US$' 000)	2020 (AMOUNTS IN US$' 000)
Compensation for the Board of Directors and related committees	993	1,587
Others (Expenses for the Board)	-	35

DETAILS OF COMPENSATION PAID TO EMPLOYEES

	2021				
	FIXED COMPENSATION		VARIABLE COMPENSATION		
	UNRESTRICTED CASH AND ALLOWANCES	UNRESTRICTED OTHERS1	CASH	DEFERRED	TOTAL COMPENSATION
Approved persons - business lines	2,741	753	262	393	4,149
Approved persons - control	3,544	1,033	309	244	5,130
Other staff – Bahrain operations	34,651	6,157	7,444	-	48,252
Total	**40,936**	**7,943**	**8,015**	**637**	**57,531**

	2020				
	FIXED COMPENSATION		VARIABLE COMPENSATION		
	APPROVED PERSONS – CONTROL	UNRESTRICTED OTHERS[1]	CASH	DEFERRED	TOTAL COMPENSATION
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**

[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. These tables include employees in service for part of the year.

DEFERRED PERFORMANCE BONUS AWARDS

	2021				
Awards	**CASH**	**SHARES**		**OTHERS**	**TOTAL**
	(US$' 000)	**NOS.**	**(US$' 000)[2]**	**(US$' 000)**	**(US$' 000)**
Opening balance [1]	-	-	-	-	-
Awarded during the year	-	-	-	-	-
Exercised/ Sold during the year	-	-	-	-	-
Risk Adjustments	-	-	-	-	-
Closing balance	-	-	-	-	-

	2020				
Awards	**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	-	-	-	-	-

[1] Inclusive of bonus shares issued.

[2] Based on price at award date.

Corporate Banking

Regional economic growth started to rebound in the H2-2021 with corporate clients in general seeing a gradual recovery supported by regulatory and governmental stimulus measures. However, certain sectors such as aviation and hospitality remain under pressure due to subsequent virus waves. Despite an uneven economic recovery in some segments, for the year 2021, CBG delivered a strong performance across all key financial, operational, and business indicators and continues to make good progress on many strategic fronts.

Strong recovery on profitability with Year-on-Year growth of 59% in NPAT was supported by disciplined cost management; containment of impairments losses; prudent lending with strong underwriting standards in our core markets; and growth in transaction banking business. Enhanced risk discipline and proactive management of vulnerable sectors and companies enabled us to redesign and update stress scenarios across our key market segments. Fee and Interest Income continued to grow moderately despite interest rates remaining at record lows and subdued economic activity in trade and cross border business. Assets grew by 6.1% with increased business activity translating into a robust deal pipeline, timely deal execution and strong demand growth for corporate loans during the second half of the year. Corporate Liabilities grew by 4.7% with growth in both CASA balances and term deposits.

2021 CBG performance is testimony to the value of our diversified business model and robustness of our strategy defined by our core business practices of superior client service; operational excellence; and corporate culture, focused on developing long term relationship with our clients.

While we retain a cautious outlook on the regional business environment, improving economic sentiment and higher hydrocarbon production and oil prices should lead to accelerated economic growth in the region. Loans demand from corporates is likely to improve, with some deferred capital expenditure and debt refinancing by corporates potentially occurring in 2022. The business outlook is becoming more positive, with stabilisation of interest income, which we expect to begin to increase in the coming quarters from corporate lending growth and expected policy rate rises.

During 2022, CBG's balance sheet growth will be driven by deeper penetration of the existing customer base and by targeting a new customer base, especially in the SME segment in our key markets. The SME segment has always been the core of our business strategy with dedicated teams in place to serve the SME clients. In addition to providing financing, as part of business banking growth strategy, CBG is working on providing value-added services such as working capital solutions and transaction banking services. We are deploying digital technologies to streamline and automate the end-to-end credit management, including client on boarding, credit approvals, disbursement and monitoring, leading to enhanced client service.

We have a proven business model, a strong balance sheet, and experienced staff. We continue to focus on strategic investments to both drive business growth and to reduce our operational costs and enhanced profitability in the future.

During 2021, CBG successfully transitioned our GBP exposures from Libor to SONIA. A groupwide transition plan is in place and focused efforts are on-going to transition the USD exposures to SOFR in the coming quarters.

In 2020, we began a CBG transformation journey with an objective to transform our business model, focused on building technology and digital solutions that will power our businesses over the longer term. This initiative was carried forward strongly in 2021.

With the solid foundation in place for Transformation, CBG continues to make steady progress on executing our CBG Transformation strategy as demonstrated by the significant progress in all key transformation pillars. AUB was named the Best Trade Finance Provider in Bahrain, Best Integrated Corporate Banking Site in Bahrain & Kuwait by Global Finance Magazine, Best Online Treasury Services CIB in the Middle East & Bahrain, testament to the Bank's commitment to offer best in class products and solutions for its clients.

In 2022, CBG will continue to reduce our environmental impact by including a commitment to put sustainability at the core of our business.

Retail Banking

While the worldwide health pandemic continued thoughout 2021, the retail banking market has demonstrated a significant shift towards digital solutions, digital payment options, and enhanced financial service touchpoints to ensure business and service continuity, with priority given to the safety and wellbeing of its clients.

We witnessed a surge in digital services migration and utilization during 2021. For example, in Bahrain the local digital money transfers and bill payments has increased by 120% over 12 months. On the other side, clients have been less keen on using cash, showcased by a 17% drop in ATM withdrawal transactions, and a 26% growth in card payments at point-of-sale terminals and eCommerce.

AUB continued its journey towards innovation and technology advancement, through the adoption of data- and technology-based opportunities that would assist better customer service and achieve business growth.

Our focus for retail banking services was to expand business reach through the introduction of new channels and solutions, to further reach out to customers through public roadshows and special visits to employers and companies to marry the digital and physical channels together and enable the delivery of improved customer experiences. The focus was also to continue offering Premium services to elite retail customers across the AUB Group and to extend AUB's MyGlobal product to multi-entity clients that facilitates money management and money matters to its subscribed clients.

Retail Banking (Continued)

On the Digital front, in Bahrain, AUB launched in February 2021 a market-leading, and unique retail customer onboarding solution available on Mobile Banking which facilitates new and existing customer account opening within 5 minutes with a single ID for citizens and expats residing in the Kingdom. This customer digital onboarding solution has subsequently been expanded into the physical customer experience at branches.

Strategic investment in best-fit technologies, alongside intelligent data-designs have enabled the bank's transformation, continuous development, and business growth. Additionally, investment in experienced resources and resource development, with a focus on innovation and technology, has contributed to the advancement of our retail business propositions and customer experiences.

Customer expectations have evolved towards fast, rapid service deliveries, anytime, anywhere. Hence, we have exercised great effort in making our digital and machine services available around the clock with new features, improved experiences, and expanded coverage across the network. For example, AUB rolled out successfully Apple Pay in Bahrain, and supported the introduction of Bahrain's Electronic Cheques for individuals and companies at branches and digitally.

AUB Group retail products are tailored to meet the plans and needs of the retail consumer, ranging from personal finances, to auto and home loans. As a Group we have launched a set of new deposit products such as Certificate deposits with Instant Gifts and Ascending Deposits in Egypt, enhanced Mazaya Housing Scheme in Bahrain, as well as improved MyGlobal features across the Group.

AUB Bahrain and AUB Kuwait continued to empower the customer dreams with MyHassad Saving Scheme's great cash prizes offered all year long. The saving scheme, MyHassad, promotes a healthy financial habit of saving to reap the reward in big wins.

Our strategic focus for Retail Banking in 2022 will include new branch experiences; superior digital services including expanding the lending market across digital touchpoints; enhanced product propositions with exceptional financial and lifestyle benefits; and outstanding customer products and support.

Treasury and Investments

Fast spreading Covid-19 variants added significantly to the human and economic cost of the pandemic. Policy makers across the globe kept pushing for all the support they could provide, e.g., UK's furlough program was extended beyond April; the Fed did not signal any change in either rates guidance or tapering in Q1; and the ECB also left the bond buying program unaltered.

When the pandemic effects subsided marginally in the latter half of the year and economic activity picked up around the globe, surge in oil demand led crude prices to recover. This in turn helped the fiscal balances for the GCC region, supporting the much-needed respite for the gulf economies. With the rise in crude prices leading to an inflation surge across the globe, the US and its allies increased their supply to meet the demand.

The deteriorating credit situation in the China property market jolted the stock markets across the world. China's clampdown on the domestic companies registered in US stock markets via the SPV channel caused jitters in equity markets.

Supply side frictions and the inability of the labour market to strengthen, led to a rise in prices, especially in Europe and US. For the major part of 2021, developed market Central Banks kept calling the rise in inflation as 'transient', but by the end of year, they acknowledged that some steps would have to be taken to tame this. The Fed started the action by tapering in November, and then with projecting towards a much sooner rate hike than earlier anticipated. The Bank of England followed with a 15bps rate hike in December.

Digitisation, managing liquidity and IBOR transition were our key focus areas for 2021. The digital platform to provide FX spot and forward rates to our client base has now gone live. In turn, this will translate into a reduction of manual intervention, which will reduce risks while protecting profit margins and significantly enhancing the efficiency of the end-to-end process, thus reducing costs.

With interest rates staying low for a good part of the year, we provided innovative structured investment solutions to our clients to achieve yield enhancement using the prevailing high carry in GCC and related FX curves. We also provided our clients with thematic investment ideas providing high returns in hard currency investments.

As the non-USD IBORs came to an end in Dec, 2021, we smoothly transitioned the exposures away from IBORs to new ARRs. Trade booking systems and operation procedures were successfully implemented to prepare for the transition efficiently.

With confirmation of a hawkish shift from the Fed, markets are now pricing in five to six hikes anticipated in 2022. For the Gulf economies, which peg their currencies to the dollar, Central Banks will follow suit in raising rates. Coupled with governments keeping fiscal policy tight, this will add to the pressure facing recoveries in non-oil sectors. Although this will increase the cost of raising liabilities on one hand, at the same time, this will create opportunities to lend to non-oil sectors which may need renewed financing. Treasury sales can provide interest rate hedging solutions based on new ARRs coupled with new financing being provided.

For 2022, financial markets are expected to remain volatile as world economies see inflation on the rise and Central Banks are in tightening mode. Surging demand and OPEC countries not being able to ramp up their supply will support oil prices, which is positive for GCC countries. Treasury will be primed to advise our clients accordingly on hedging and investment possibilities. We will continue to focus on carrying out a smooth transition from LIBOR to ARRs for the Bank's clients, with the aim of reducing overall USD LIBOR exposures, despite the continued publication of the benchmark until 30 June 2023. Treasury will continue its transformation journey focusing on technology, data and human resources.

Private Banking & Wealth Management

2021 can be summarised as the year of hope and recovery. As economies began to reopen, trade in goods and services started to pick up at a rapid pace. At the same time, the vaccine roll-out in the developed world continued amidst a push to get back to normal, combined with significant monetary and fiscal support.

As 2021 progressed, inflation started to pick up as the impact of restrictions on supply chains was realised, creating a situation

Private Banking & Wealth Management (Continued)

where there was large-scale recovery and rising demand, however businesses were struggling with supply side issues. This also coincided with the start of an appreciable recovery in energy prices.

The rapid increase in inflation, particularly from the middle of the year, resulted in policy-makers overshooting their inflation targets, although it was still expected to be relatively transitory. More recent indications from the Federal Reserve signal that the inflation surge may be less transitory than expected. Despite the winding down of Covid support measures, it is clear that the economy has enough strength (and savings) to keep momentum going for some time.

The strategic focus of the division continues to transition to a flexible business model in which we can serve all our client needs without the need to be physically present in the office. This has been aided by the implementation of the transformation plan to enable us to become a fully hybrid Private Bank by the end of 2022.

We were honoured to have been awarded several prestigious industry recognised awards in 2021 - Best Islamic Private Bank Globally from Private Banker International; Award from Euromoney for the Best Private Bank in Bahrain;The Banker/PWM award for the Best Private Bank in Bahrain & Kuwait; and Global Finance award for the Best Private Bank in Bahrain.

In addition, we achieved a healthy Balance Sheet growth with Liabilities from Private Banking clients across the Group increased by 5%.

A significant factor in the operating environment is the unknown impact of the virus variants that keep emerging every few months. Above trend inflation is another challenge after years of being in a low inflation environment. We also expect tightening of global monetary conditions as a result of the tapering and interest rate hikes by the US Fed.

During the year we launched a number of Structured Deposit products linked to diverse underlying elements, such as currencies, funds and equity stocks and indices. We also revamped our Mutual Fund offering by adding new funds to compliment our existing range and cover additional asset classes and investment themes.

We continue to focus on transformation initiatives to make processes efficient to improve service delivery to our clients for 2022 and beyond. There is a clear opportunity for us is to become a fully hybrid Private Bank that can provide onshore and offshore Banking and Investment services in digital and physical modes cross all our locations.

This is combined with our strategy for Private Banking & Wealth Management to remain focused on our strengths of excellence in service delivery and advice. This will enable us to grow both our clients and AUM base overall. In terms of products solutions, we aim to transition, providing our clients with managed, risk-based, asset allocation models comprising of funds and ETFs. We also seek to increase our range of Islamic products. This will mean our valued clients will continue to benefit from all our investment offerings and services provided by our partner firms to both preserve and grow their wealth for the future.

Information Technology

Following the initial disruption brought about by the outbreak of the pandemic, AUB Group took advantage of the valuable lessons learnt under these unprecedented circumstances by developing flexible and modern technological architectures and tactics in order to boost their digital economy competitiveness. AUB proactively deployed technological solutions to facilitate business transformation excellence, widening the distance between themselves and others, and reflecting the same in 2021's net profit.

On AUB's journey of transformation, three essential methods have been deployed, in alignment with the Group IT strategy:

- Build strategic alignment: transformation is a core pillar of business strategy.
- Value the right voice: transformation initiatives include the right mix of IT and business stakeholders.
- Future-proof the workforce: AUB is also well-positioned to reskill/ upskill its workforce for additional productivity by utilising digital technologies.

AUB Group has transformed and reinvented many of its business practices by focussing on its customers. It is no longer enough to have digital capabilities; AUB IT continues to rebuild itself, implementing and testing innovative solutions at breakneck speeds. Many business units within the bank have discovered the value of collaborating using these newly deployed tools, and with third-party providers who have developed market-leading solutions that can be implemented rapidly, significantly shortening the overall go to market timelines.

In collaboration with other business units, Group IT has built financial platforms that leverage a modernised API-driven architecture for the development of solutions like B2B and Open Banking, generating new revenue streams as well a customer satisfaction across a broad range of service offerings. This is coupled with the automation of internal functions, like RM Workbench, Customer360, RPA, Audit Confirmation, Customer Onboarding, as well as Intelligent Data Capture System (ICDF).

As a result of these activities, Group IT is now able to service broader segments in a more effective and efficient manner, while maintaining the overall total cost of ownership.

The expanded personalisation of solutions and increased implementation of proactive recommendations are the most visible aspects of this digital humanisation within AUB. Analytics, robotics, and data analysis have been linked with the leadership's desire to adapt, the incorporation of humanised participation into dialogues and recommendations, and the rethinking of business models for a digital environment. This has effectively allowed for more granular data to be available, leading to enhanced decision making, and keeping the customer always first.

With the Group Data Transformation stream, the quantity of data available within AUB's systems is examined in near real time and rolled out across the whole organisation for everything from product development, to back-office operations, and tailored experiences as part of transformation ecosystem.

Within AUB, the transformation culture has been rethought throughout the program for a hybrid work environment, where many prospective employees look beyond their day-to-day jobs. This has raised the bar for us in our quest for healthier and greater growth within our different markets.

Group Human Resources

Human Resources at AUB encompasses all the risks and opportunities of acquiring, developing and retaining the required human resources in terms of depth, quality and diversification to deliver the Group's hybrid organic and inorganic growth strategies in a balanced and cost-effective manner.

The HR challenge is to progressively adapt the organisation to cover anticipated future needs in terms of organization structures, skills and competencies as well as new types of work arrangements for employees to maximize the Bank's transformational success and growth on a sustainable basis.

AUB has consistently maintained a very specific and defined approach in terms of human capital management encompassed in its HR Policy annually reviewed and approved by the Board of Directors. The core tenets of the AUB human resources strategy and approach are:

i. Maintain meritocratic standards in all HR decisions: i.e., recruitment, selection, promotions, remuneration, termination etc. are all linked to individual contribution and engagement. This approach has been rigorously implemented through a performance management system to formally and transparently assess performance vis a vis pre-set deliverables.

ii. Zero tolerance for discrimination: through prejudice or bias (racial, religious, sectarian, ethnic, gender, ability, age or any other form).

iii. Maintain a diverse employee base: in terms of nationality and ethnicity corresponding to AUB's core targeted Retail, Corporate and Private Banking markets which have a wide and heterogeneous client base. The AUB Group currently has 38 different nationalities speaking 22 languages.

iv. Strong commitment to focused, relevant and ongoing training: to improve the skill sets of all from members of the Board of Directors representing the shareholders, to the executive management to the newest graduate trainee joining AUB. Selection of training is job linked and includes a broad core curriculum for employees to ensure a minimum consistency in required general standards as well as a wide array of more advanced job specific training offerings.

v. The Bank uses well researched and targeted courses and has migrated towards delivery through automated e-learning platforms for more than 85% of the workforce providing wider delivery at flexible times for employees to pursue their self-development and career progression. Currently, the Bank has a library of 800+ courses and programs, covering almost 50,000 hours of learning, is accessible 24X7 on the cloud and provides digital certificates for completed courses on successfully passing online assessments attached to each course.

vi. Strong commitment to individual employee responsibility and accountability: for understanding and adhering to the rules and regulations governing their employment, taking their ethical, fiduciary and contractual responsibilities seriously always.

Throughout 2021, 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:

- Vaccination: The Bank has prioritized vaccination to control the spread of the virus, with 87% of the population being fully vaccinated by 31 December 2021. The Bank has tied up with Government authorities and health providers to conduct focused vaccine camps for employees and family members with vaccine coverage being well above the country average.
- Remote Working/ Flexible Business Model (FBM): The measures put in place by the Bank in Q1-Q2 2020 for enabling remote access to all employees including the building of the necessary infrastructure to carry out all banking services and processes has ensured no loss to productivity while maintaining business continuity. The Flexible Business Model (FBM) has replaced the legacy Business Continuity Planning (BCP) and Disaster Recovery (DR) Model and has ensured that disruptions to the business due to widespread and accelerated spread of a pandemic where employees or family members could be infected are minimized through a quick and structured enabling of remote accesses.
- Precautionary Measures: The Bank has adopted stringent precautionary measures in all offices and branches to prevent/ mitigate the spread of the virus by enforcing social distancing norms and dynamically decreasing the level of the population present in office locations in a range of 10% - 50% based on a bi-weekly review of Covid-19 active cases in the Country.

AUB employed 3,294 full-time employees covering a diverse 37 nationalities across the group as of December 2021 in its managed entities. Participation of women in the workforce increased to 37% in 2021, up from 36% in 2020. 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 comply to existing mandates for localization in Bahrain, Kuwait and Libya. No set ratios exist for Egypt, UK, Dubai and Iraq to date.

HR is a key enabler to attain a seamless, competitive and innovative hybrid (physical/digital) bank with full remote operational status with qualified human resources with the required skills and the right job fitments are the critical transformational component to create the competitive advantage leading to the targeted business growth and resultant career opportunities.

The objective is to create an agile innovative culture in the AUB Group to embrace the transformation of the business and ensure sustainable competitive advantages through refreshed organisation structures, dynamic data-driven job descriptions, focused training plans maximizing e-learning coverage and managing performance by using data.

Automation, remote access capability and usage of actionable data will require different sets and levels of human competencies across all functions and grades.

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 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, which is reviewed 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.

Risk Management (Continued)

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 dayto-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 writeoff 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.

Risk Management (Continued)

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 subdelegated 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

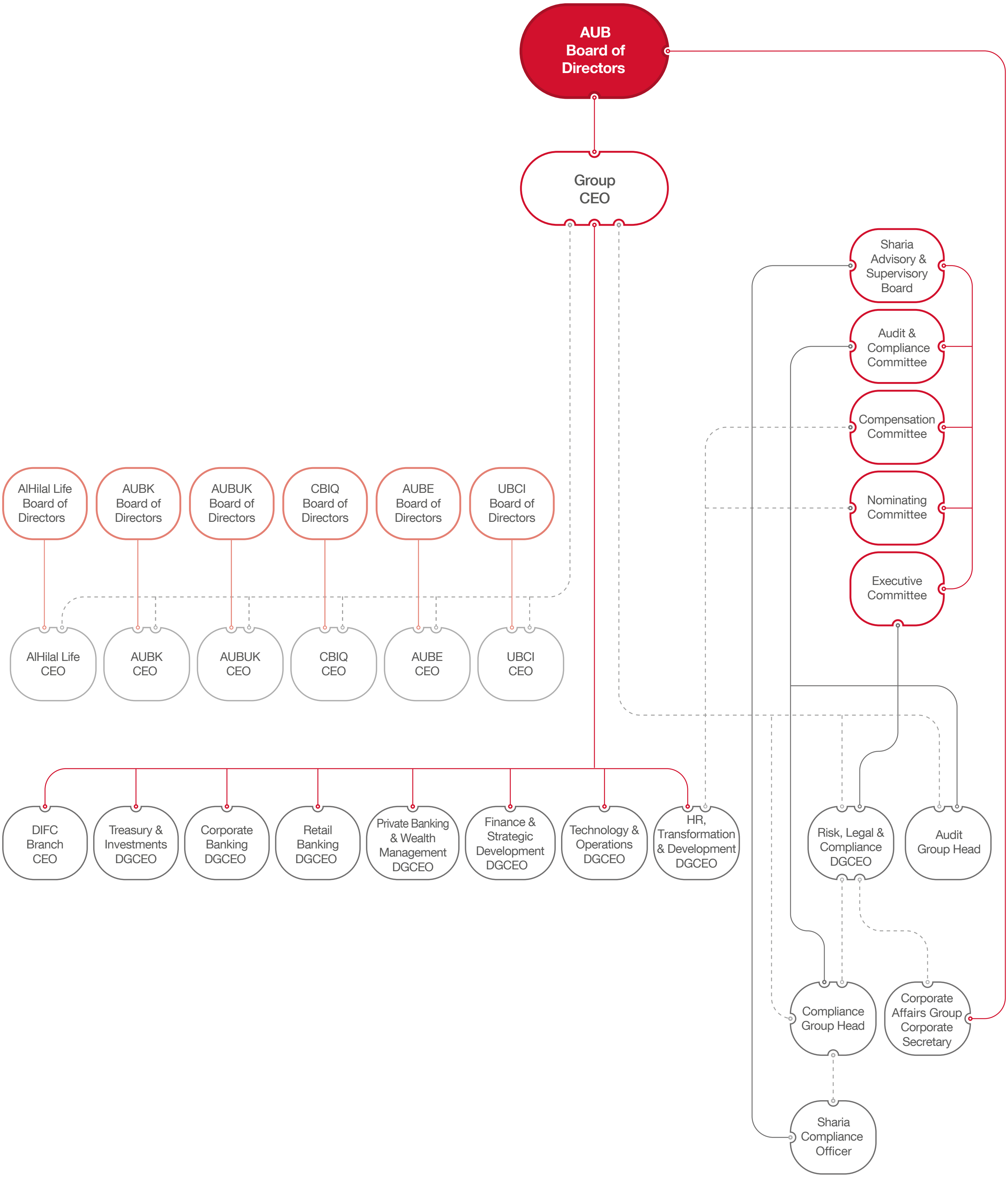
Operational Risk is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

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. 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.

There were total of 98 EFTS time-out incidents during the year, which resulted in a penalty of BD 980/- payable to the CBB.

GROUP MANAGEMENT ORGANIZATION STRUCTURE



GROUP MANAGEMENT

ADEL A. EL-LABBAN*

Group Chief Executive Officer

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 the American University in Cairo, 1977.

Group Chief Executive Officer, 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.

Former positions: 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, Morgan Stanley, USA; Assistant Vice President, Arab Banking Corporation, Bahrain; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; and Director, Bahrain Association of Banks, Bahrain.

(Total years of experience: 43)

*Mr. El-Labban resigned from the AUB B.S.C. Board of Directors and his position as Managing Director with effect from the close of business on 14 April 2022.

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 the 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: 38 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 (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: 41 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: 32 years)

GEOFF STECYK

Deputy Group Chief Executive Officer - Technology and Operations

Director, Ahli United Bank K.S.C.P., Kuwait. 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: 30 years)

DAVID O' LOAN

Deputy Group Chief Executive Officer - Treasury and Investments

Director, Ahli United Bank K.S.C.P., Kuwait. Former: 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: 28 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: 39 years)

IMAN AL-MADANI

Deputy Group Chief Executive Officer – HR, Transformation and Development

Former Group Head of Human Resources & Development; Ahli United Bank B.S.C., Bahrain; 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 of Science Degree in Data Processing & Computer Programming , Lane College, Oregon State, USA.

(Total years of experience: 38 years)

ROGIER DOLLEMAN

Group Head – Internal Audit

Former: Audit Head Business Management, SABB, KSA; Head of Audit, Alawwal Investment Company, KSA; Senior Audit Executive, National Commercial Bank- Jeddah, KSA; Head of Internal Audit, ING Bank AS, Turkey; Regional Head of Audit, ING Commercial Banking, Singapore; Audit Manager, ING Bank N.V., the Netherlands; Senior Auditor, ING Insurance and ING Investment Management, the Netherlands; Financial Auditor, PwC International, the Netherlands. Holds a Post-Master's degree RZ (Dutch CPA) from NIVRA-Nyenrode Business University, the Netherlands and a Master in Auditing & Assurance from Nyenrode University, the Netherlands.

(Total years of experience: 22 years)

OTHMAN HIJAZI

Deputy Group Chief Executive Officer – Corporate Banking

Vice Chairman, Commercial Bank of Iraq; Director, Ahli United Bank K.S.C.P., Kuwait; Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Director, Al Ahli Real Estate Company WLL, Bahrain; Director, MEFIC Capital, Saudi Arabia; Director, Waqf Fund, Bahrain; Director, Property Company One & Two Ltd, UK. Former: Group Head – Corporate Banking, Ahli United Bank B.S.C., Bahrain; 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: 28 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, Saudi American Bank, 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: 37 years)

JEHAD AL-HUMAIDHI

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: 37)

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: 33)

FAISAL AL HAIMUS

Chief Executive Officer – Commercial Bank of Iraq

Chairman, Iraq Securities Commission, Iraq; Former: Chairman and President, Trade Bank of Iraq; Senior Deputy CEO, Commercial Bank of Iraq; Chief Executive Officer, Bank of Baghdad, Iraq; Head of Wholesale Banking – Iraq, Standard Chartered Bank, UAE; Head of Commercial Banking, HSBC Bank Middle East – Iraq, Iraq; Associate Vice President, Emirates Islamic Bank, UAE. Held various positions at Standard Chartered, Mashreq Bank and Union National Bank in UAE. Holds a Masters in Business Administration from Staffordshire University, UK.

(Total years of experience: 27 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: 38 years)

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: 24 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.

Building a better working world

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C.R. No. 29977-1

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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 2021, 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 2021, 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 2021. 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.

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 2021, the Group's gross loans and advances amounted to US$ 23,041 million and the related ECL amounted to US$ 966 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. • 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 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.

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

Key audit matters (continued)

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$ 431 million as at 31 December 2021, 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.

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 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.

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.

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

- 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, actions taken to eliminate threats or safeguards applied.

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 Central Bank of Bahrain 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 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

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 2022
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 2021

	Note	2021 US$ '000	2020 US$ '000
Interest income	3a	**1,348,252**	1,452,812
Interest expense	3b	**476,463**	653,457
Net interest income		**871,789**	799,355
Fees and commissions - net	4	**104,386**	103,669
Trading income	5	**34,750**	74,249
Investment and other income		**62,620**	84,643
Share of results from associates	9	**35,383**	50,020
Fees and other income		**237,139**	312,581
OPERATING INCOME		**1,108,928**	1,111,936
Provision for credit losses and others	7g	**122,350**	254,918
NET OPERATING INCOME		**986,578**	857,018
Staff costs		**175,357**	175,574
Depreciation		**34,624**	32,724
Other operating expenses		**117,025**	117,553
OPERATING EXPENSES		**327,006**	325,851
PROFIT BEFORE TAX AND ZAKAT		**659,572**	531,167
Tax expense and zakat	22	**21,641**	44,695
NET PROFIT FOR THE YEAR		**637,931**	486,472
Net profit attributable to non-controlling interests		**30,687**	34,228
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		**607,244**	452,244
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:			
Basic and diluted earnings per ordinary share (US cents)	23	**5.6**	**4.1**

Meshal AbdulAziz Alothman
Chairman

Mohammad 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 2021

	2021 US$ '000	2020 US$ '000
Net profit for the year	**637,931**	486,472
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	**8,081**	(78)
Net change in pension fund reserve	**28,080**	(6,292)
Net change in property revaluation reserve	**353**	1,221
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**(1,826)**	(82,532)
Net change in fair value of debt instruments measured at fair value through OCI	**(5,621)**	(14,715)
Transfer to consolidated statement of income arising on sale of debt instruments held as fair value through OCI	**(6,474)**	(9,464)
Net change in fair value of cash flow hedges	**12,352**	(16,602)
Other comprehensive income / (loss) for the year	**34,945**	(128,462)
Total comprehensive income for the year	**672,876**	358,010
Total comprehensive income attributable to non-controlling interests	**31,621**	23,093
Total comprehensive income attributable to the owners of the Bank	**641,255**	334,917

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

CONSOLIDATED BALANCE SHEET

At 31 December 2021

	Note	2021 US$ '000	2020 US$ '000
ASSETS			
Cash and balances with central banks	6a	**1,819,841**	1,747,560
Treasury bills and deposits with central banks	6b	**1,731,698**	2,333,852
Deposits with banks		**4,116,647**	3,532,689
Loans and advances	7	**22,075,148**	20,719,878
Non-trading investments	8	**9,923,294**	9,608,309
Investment in associates	9	**343,076**	303,127
Investment properties	10	**188,648**	185,715
Interest receivable, derivative and other assets	11	**916,200**	857,232
Premises and equipment	12	**311,929**	296,847
Goodwill and other intangible assets	13	**486,889**	485,958
TOTAL ASSETS		**41,913,370**	40,071,167
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	14	**4,638,973**	4,218,417
Borrowings under repurchase agreements	15	**3,775,499**	3,618,069
Customers' deposits	16	**25,203,941**	25,182,585
Term borrowings	17	**1,088,822**	175,000
Interest payable, derivative and other liabilities	18	**1,278,187**	1,830,706
Subordinated liabilities	19	**9,983**	10,032
TOTAL LIABILITIES		**35,995,405**	35,034,809
EQUITY			
Ordinary share capital	20b	**2,533,621**	2,412,972
Reserves		**1,936,083**	1,588,668
Equity attributable to the owners of the Bank		**4,469,704**	4,001,640
Perpetual Tier 1 Capital Securities	20d	**1,000,000**	600,000
Non-controlling interests		**448,261**	434,718
TOTAL EQUITY		**5,917,965**	5,036,358
TOTAL LIABILITIES AND EQUITY		**41,913,370**	40,071,167

Meshal AbdulAziz Alothman	**Mohammad J. Al-Marzooq**	**Adel A. El-Labban**
Chairman	Deputy Chairman	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 2021

	Note	2021 US$ '000	2020 US$ '000
OPERATING ACTIVITIES			
Profit before tax and zakat		**659,572**	531,167
Adjustments for:			
Depreciation		**34,624**	32,724
Investment and other income		**(43,740)**	(72,504)
Provision for credit losses and others	7g	**122,350**	254,918
Share of results from associates	9	**(35,383)**	(50,020)
Operating profit before changes in operating assets and liabilities		**737,423**	696,285
Changes in:			
Mandatory reserve deposits with central banks		**(147,367)**	27,673
Treasury bills and deposits with central banks		**596,982**	(530,924)
Deposits with banks		**(931,067)**	986,593
Loans and advances		**(1,493,647)**	(307,187)
Interest receivable, derivative and other assets		**(27,769)**	(50,575)
Deposits from banks		**420,556**	(805,498)
Borrowings under repurchase agreements		**157,430**	726,537
Customers' deposits		**21,356**	(335,538)
Interest payable, derivative and other liabilities		**(8,852)**	(119,738)
Net cash flows (used in) / generated from operations		**(674,955)**	287,628
Income tax and zakat paid		**(37,757)**	(45,070)
Net cash flows (used in) / from operating activities		**(712,712)**	242,558
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(3,080,132)**	(2,469,664)
Proceeds from sale or redemption of non-trading investments		**2,342,681**	2,471,414
Additional investment in subsidiary	2.3	**(8,609)**	(58,158)
Right subscription in an associate		**(27,545)**	-
Net decrease in investment properties		**151**	44,720
Net increase in premises and equipment		**(50,820)**	(34,384)
Dividends received from associates		**8,862**	15,364
Net cash flows used in investing activities		**(815,412)**	(30,708)
FINANCING ACTIVITIES			
Additional Perpetual Tier 1 Capital Securities issued	20d	**600,000**	-
Redemption of Perpetual Tier 1 Capital Securities	20d	**(200,000)**	-
Expenses related to Perpetual Tier 1 Sukuk issued and others		**(1,191)**	-
Distribution on Perpetual Tier 1 Capital Securities	21j	**(45,215)**	(36,428)
Additional term borrowings	17	**926,700**	175,000
Repayment of subordinated liabilities		**-**	(17,996)
Dividends and other appropriations paid		**(119,005)**	(432,658)
Dividends paid to non-controlling interests		**(842)**	(26,845)
Net cash flows from / (used in) financing activities		**1,160,447**	(338,927)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(367,677)**	(127,077)
Net foreign exchange difference		**204**	(28,047)
Cash and cash equivalents at 1 January		**2,976,999**	3,132,123
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,609,526**	2,976,999
Additional cash flow information:			
Interest received		**1,311,850**	1,483,350
Interest paid		**466,502**	771,577

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 2021

	Attributable to the owners of the Bank										
		Reserves									
	Ordinary share capital US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note 21(h)] 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 2021	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**
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	(23,356)	-	-	(23,356)	(23,356)	-	-	**(23,356)**
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	(16,363)	-	-	(16,363)	(16,363)	-	(5,496)	**(21,859)**
Ordinary share dividend paid [note 21(i)]	-	-	-	-	(120,649)	-	(120,649)	(120,649)	-	-	**(120,649)**
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(842)	**(842)**
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	**(2,000)**
Bonus shares issued	120,649	-	-	(120,649)	-	-	(120,649)	-	-	-	**-**
Arising on additional acquisition in a subsidiary (note 2.3)	-	(525)	-	-	-	-	(525)	(525)	-	(11,333)	**(11,858)**
Perpetual Tier 1 Sukuk issued [note 20(d)]	-	-	-	-	-	-	-	-	600,000	-	**600,000**
Perpetual Tier 1 Sukuk redemption [note 20(d)]	-	-	-	-	-	-	-	-	(200,000)	-	**(200,000)**
Expenses related to issuance of Perpetual Tier 1 Sukuk and others	-	-	-	(891)	-	-	(891)	(891)	-	(300)	**(1,191)**
Transfer from OCI reserve on sale of equity investments	-	-	-	1,412	-	-	1,412	1,412	-	-	**1,412**
Movement in associates	-	-	-	(8,457)	-	-	(8,457)	(8,457)	-	-	**(8,457)**
Movement in subsidiaries	-	-	-	(2,362)	-	-	(2,362)	(2,362)	-	(107)	**(2,469)**
Total comprehensive income for the year	-	-	-	607,244	-	34,011	641,255	641,255	-	31,621	**672,876**
Transfer to statutory reserve [note 21(c)]	-	-	60,724	(60,724)	-	-	-	-	-	-	**-**
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	(304,034)	304,034	-	-	-	-	-	**-**
Proposed donations	-	-	-	(2,000)	2,000	-	-	-	-	-	**-**
Balance at 31 December 2021	**2,533,621**	**752,538**	**765,479**	**600,122**	**306,034**	**(488,090)**	**1,936,083**	**4,469,704**	**1,000,000**	**448,261**	**5,917,965**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the Year Ended 31 December 2021

	Attributable to the owners of the Bank										
		Reserves									
	Ordinary share capital US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note 21(h)] 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	-	(13,187)	-	-	-	-	(13,187)	(13,187)	-	(44,971)	(58,158)
Transfer from OCI reserve on sale of equity investments	-	-	-	(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

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 (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 2021 were authorised for issue in accordance with a resolution of the Board of Directors dated 22 February 2022.

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 in note 2.7(c)] and all derivative financial instruments. In addition, as detailed 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 United States Dollars, which is also the Bank's functional currency and all values are rounded-off to the nearest thousands, unless 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 recognised 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 ended 2020, 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 recognised directly in equity. The modification loss had been calculated as the difference between the net present value of the modified cash flows relating to financing exposures calculated using the original effective interest rate and the carrying value of the financial assets as of 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 during 2020, in response to its COVID-19 support measures, had been recognised directly in equity under retained earnings. The net impact of above two adjustments amounting to US$ 98.4 million was debited to retained earnings and US$ 9.5 million was adjusted in non-controlling interest. No such adjustments were made during the year ended 31 December 2021.

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.

2. ACCOUNTING POLICIES (continued)

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 2021 and 2020. 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 Group 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 Group 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. 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.

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:

Name	Incorporated in	Group's nominal holding 2021	2020
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%**	95.7%
Commercial Bank of Iraq P.S.C. ("CBIQ")**	Republic of Iraq	**80.3%**	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% (2020: 74.9%).

** During the year, the Group increased its holding in CBIQ by 5.3% to 80.3% for a cash consideration of US$ 8.6 million.

2.4 New standards and amendments effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the items below.

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

  Interbank Offered Rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

  Interest Rate Benchmark Reform - Phase 2 amendments have become effective from 1 January 2021 which address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities and hedge accounting. The Group has adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

  The amendments require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. In addition, it provides certain exceptions to hedge accounting requirements.

  The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Benchmark Rates, with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. Refer note 34 (ii) for further details.

2. ACCOUNTING POLICIES (continued)

2.4 New standards and amendments effective for the year (continued)

- Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2020

  On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases (IFRS 16). 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. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

2.5 New standards, amendments 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.

- IFRS 17 Insurance Contracts

  In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group expects that the new standard will result in changes to the accounting policies for insurance contract liabilities of the Group and is likely to have an impact on the consolidated financial performance and total equity together with presentation and disclosure. Such assessment is still being made by management.

- Definition of Accounting Estimates – Amendments to IAS 8

  In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

  The Group is currently evaluating the impact of these new standards and amendments. The Group intends to adopt these on the effective date.

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 consolidated 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.

2. ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

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 / loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weighs to the 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.

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 banking sector 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.

2. ACCOUNTING POLICIES (continued)

vii) COVID-19 Impact

As a regulatory response to the impact arising from the coronavirus pandemic situation, the CBB has issued various relaxation measures from time-time to contain the financial repercussions of COVID-19. These mainly include, several deferral programs for eligible customers both with and without interest, reduced limits of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) for all locally incorporated banks, cash reserve ratio for retail banks, cap on merchant fees, adjustments to cooling off period for transferring exposures from Stage 3 to Stage 2, relaxation concerning days past due for ECL staging criteria, and relaxation on Loan-to-Value (LTV) ratio for residential mortgages.

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 2021 and 2020.

Accordingly, the Group has updated inputs and assumptions used for the determination of ECL in response to uncertainties caused by COVID-19. 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.

Considering that the situation is still 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 2.4, 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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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.

(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 time frame 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 borrowings and subordinated liabilities

These financial liabilities are carried at amortised cost, less amounts repaid. Sukuk issued is initially recognised at their fair value being the issue proceeds.

(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.

Derecognition of financial instruments in the context of IBOR reform

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will be amended during 2022 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in note 2.7 (j), to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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.

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, 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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

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 recognises 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).

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.

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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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 to realise the assets and liabilities simultaneously.

(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.

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent 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.

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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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.

(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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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.

(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 "Interest receivable, derivative and 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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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.

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 recognised.

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 recognised 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.

(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 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

	2021 US$ '000	2020 US$ '000
(a) INTEREST INCOME		
Treasury bills	**86,867**	88,539
Deposits with banks	**30,584**	46,584
Loans and advances	**902,597**	947,543
Non-trading investments	**328,204**	370,146
	1,348,252	1,452,812

The income on non-trading investments consists income from FVTOCI investments amounting to US$ 114.0 million (2020: US$ 76.0 million).

	2021 US$ '000	2020 US$ '000
(b) INTEREST EXPENSE		
Deposits from banks	**28,516**	77,392
Borrowings under repurchase agreements	**23,381**	50,067
Customers' deposits	**410,214**	525,663
Subordinated liabilities	**105**	207
Term borrowings	**14,247**	128
	476,463	653,457
NET INTEREST INCOME	**871,789**	799,355

All financial liabilities are recorded at amortised cost.

4. FEES AND COMMISSIONS - NET

	2021 US$ '000	2020 US$ '000
Fees and commission income		
- Transaction banking services	**115,040**	99,366
- Management, performance and brokerage fees*	**11,356**	15,131
Fees and commission expense	**(22,010)**	(10,828)
	104,386	103,669

* This includes US$ 5.9 million (2020: US$ 4.6 million) of fee income relating to trust and other fiduciary activities.

5. TRADING INCOME

	2021 US$ '000	2020 US$ '000
Foreign exchange	**27,134**	65,977
Proprietary trading	**7,616**	8,272
	34,750	74,249

6. (a) CASH AND BALANCES WITH CENTRAL BANKS

	2021 US$ '000	2020 US$ '000
Cash and balances with central banks, excluding mandatory reserve (note 24)	850,456	834,735
Mandatory reserve with central banks	969,385	912,825
	1,819,841	1,747,560

6. (b) TREASURY BILLS AND DEPOSITS

	2021 US$ '000	2020 US$ '000
Central Bank of Bahrain	559,306	844,520
Central Bank of Kuwait	609,158	905,114
Central Bank of Egypt	563,234	584,218
	1,731,698	2,333,852

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$ 609.2 million (2020: US$ 578.2 million) as mandatory reserve.

7. LOANS AND ADVANCES

	2021		2020	
	US$ '000	%	US$ '000	%
a) By industry sector				
Consumer / personal	2,982,059	12.9	2,907,071	13.4
Residential mortgage	1,685,672	7.3	1,732,675	8.0
Trading and manufacturing	6,197,504	26.9	5,985,032	27.6
Real estate	6,647,896	28.9	5,973,545	27.5
Banks and other financial institutions	1,022,705	4.4	897,366	4.1
Services	3,862,501	16.8	3,665,405	16.9
Government / public sector	246,545	1.1	203,291	0.9
Others	396,496	1.7	350,217	1.6
	23,041,378	100.0	21,714,602	100.0
Less: ECL allowances (Stage 1 and 2)	(502,196)		(514,931)	
Less: ECL allowances (Stage 3)	(464,034)		(479,793)	
	22,075,148		20,719,878	

7. LOANS AND ADVANCES (continued)

	2021		2020	
	US$ '000	%	US$ '000	%
b) By geographic region				
Kingdom of Bahrain	**4,111,730**	**17.9**	4,057,085	18.7
State of Kuwait	**11,314,746**	**49.1**	10,581,088	48.7
Other GCC countries	**2,370,540**	**10.3**	2,500,139	11.5
United Kingdom	**1,830,517**	**7.9**	1,966,530	9.1
Arab Republic of Egypt	**2,935,217**	**12.7**	2,331,023	10.7
Europe (excluding United Kingdom)	**149,371**	**0.7**	61,794	0.3
Asia (excluding GCC countries)	**75,860**	**0.3**	35,268	0.2
Others	**253,397**	**1.1**	181,675	0.8
	23,041,378	**100.0**	21,714,602	100.0
Less: ECL allowances (Stage 1 and 2)	**(502,196)**		(514,931)	
Less: ECL allowances (Stage 3)	**(464,034)**		(479,793)	
	22,075,148		20,719,878	

c) Credit quality of loans and advances

	2021			
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total US$ '000**
High standard grade				
Retail	**3,801,927**	**171,290**	**-**	**3,973,217**
Corporate	**9,224,450**	**425,616**	**-**	**9,650,066**
Standard grade				
Retail	**66,258**	**184,679**	**-**	**250,937**
Corporate	**6,496,427**	**2,112,201**	**-**	**8,608,628**
Credit impaired				
Retail	**-**	**-**	**98,469**	**98,469**
Corporate	**-**	**-**	**460,061**	**460,061**
	19,589,062	**2,893,786**	**558,530**	**23,041,378**
Less: ECL allowances	**(171,528)**	**(330,668)**	**(464,034)**	**(966,230)**
	19,417,534	**2,563,118**	**94,496**	**22,075,148**

	2020			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	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

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

	2021			
	Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	74,449	22,458	22,315	119,222
Corporate	46,386	5,562	17,166	69,114
	120,835	28,020	39,481	188,336

	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

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

	2021		
	Retail US$ '000	Corporate US$ '000	Total US$ '000
Gross credit impaired loans and advances	98,469	460,061	558,530
ECL allowances (Stage 3)	(82,253)	(381,781)	(464,034)
	16,216	78,280	94,496
ECL coverage on credit impaired loans and advances	83.5%	83.0%	83.1%
Gross loans and advances	4,322,623	18,718,755	23,041,378
Credit impaired loans and advances ratio	2.3%	2.5%	2.4%

	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%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2021 amounted to US$ 364.6 million (31 December 2020: US$ 313.2 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US$ 478.2 million as at 31 December 2021 (31 December 2020: US$ 385.4 million) with no significant additional impact on ECL during the years ended 31 December 2021 and 2020.

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

	2021			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2021	**47,550**	**10,225**	**86,486**	**144,261**
Transfer from Stage 1	**(3,492)**	**864**	**2,628**	**-**
Transfer from Stage 2	**258**	**(1,980)**	**1,722**	**-**
Net remeasurement of ECL allowances	**9,996**	**2,605**	**2,672**	**15,273**
Amounts written-off *	**-**	**-**	**(11,269)**	**(11,269)**
Exchange rate and other adjustments	**38**	**73**	**14**	**125**
At 31 December 2021	**54,350**	**11,787**	**82,253**	**148,390**

	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

ii) *Loss allowances for loans and advances - Corporate*

	2021			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2021	**91,420**	**365,736**	**393,307**	**850,463**
Transfer from Stage 1	**(2,926)**	**1,306**	**1,620**	**-**
Transfer from Stage 2	**31,732**	**(98,364)**	**66,632**	**-**
Net remeasurement of ECL allowances	**(3,208)**	**50,394**	**103,345**	**150,531**
Amounts written-off *	**-**	**-**	**(183,206)**	**(183,206)**
Exchange rate and other adjustments	**160**	**(191)**	**83**	**52**
At 31 December 2021	**117,178**	**318,881**	**381,781**	**817,840**

	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

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

The contractual amount outstanding on loans and advances that have been written off during the year, but were still subject to legal action was US$ 176.6 million at 31 December 2021 (2020: US$ 8.3 million).

7. LOANS AND ADVANCES (continued)

g) Provision for credit losses and others

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

	2021 US$ '000	2020 US$ '000
Net remeasurement of ECL on loans and advances (note 7f)	165,804	231,765
Recoveries from loans and advances during the year (from fully provided loans written-off in previous years)	(27,427)	(16,505)
Net remeasurement of ECL for non-trading investments (note 8c)	(1,943)	15,403
Net remeasurement of ECL on off-balance sheet exposures and others	8,541	1,004
Net other provision (write-back) / charges	(22,625)	23,251
	122,350	254,918

8. NON-TRADING INVESTMENTS

a) By sector

	2021			
	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	3,010,570	67,373	-	3,077,943
Other government bonds and debt securities	773,964	643,973	-	1,417,937
GCC government entities' securities	879,332	252,792	-	1,132,124
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,258,444	412,284	-	1,670,728
- issued by corporates	1,948,051	437,900	-	2,385,951
Equity instruments	-	24,767	2,910	27,677
	7,870,361	1,839,089	2,910	9,712,360
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	13,675	138,874	-	152,549
Equity instruments	-	83,720	928	84,648
	13,675	222,594	928	237,197
Total	7,884,036	2,061,683	3,838	9,949,557
Less: ECL allowances	(18,346)	(7,917)	-	(26,263)
	7,865,690	2,053,766	3,838	9,923,294

8. NON-TRADING INVESTMENTS (continued)

a By sector (continued)

	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 corporates	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

The fair value of the non-trading investments held at amortised cost is US$ 7,986.8 million as at 31 December 2021 (31 December 2020: US$ 8,209.5 million) of which US$ 7,972.6 million is classified under Level 1 of fair value hierarchy (31 December 2020: US$ 8,193.9 million) and US$ 14.2 million is classified under Level 2 of fair value hierarchy (31 December 2020: US$ 15.6 million).

FVTPL investments loss for the year amounted to US$ 1.2 million (2020: Gain of US$ 30.6 million).

b) Credit quality of non-trading investments

	2021			
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total US$ '000**
High standard grade	**5,958,028**	**5,036**	**-**	**5,963,064**
Standard grade	**3,818,558**	**55,610**	**-**	**3,874,168**
	9,776,586	**60,646**	**-**	**9,837,232**
Less: ECL allowances	**(23,273)**	**(2,990)**	**-**	**(26,263)**
	9,753,313	**57,656**	**-**	**9,810,969**
Equity instruments at fair value				**112,325**
				9,923,294

	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

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

8. NON-TRADING INVESTMENTS (continued)

c) Movements in ECL allowances

	2021			
	Stage 1	Stage 2	Stage 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
At 1 January 2021	**21,171**	**5,771**	**-**	**26,942**
Net remeasurement of ECL allowances	**1,206**	**(3,149)**	**-**	**(1,943)**
Exchange rate and other adjustments	**896**	**368**	**-**	**1,264**
At 31 December 2021	**23,273**	**2,990**	**-**	**26,263**

	2020			
	Stage 1	Stage 2	Stage 3	Total
	US$ '000	US$ '000	US$ '000	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

9. INVESTMENT IN ASSOCIATES

The associates of the Group are:

Name	Incorporated in	Group's nominal holding	
		2021	2020
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:

	2021 US$ '000	2020 US$ '000
Total assets	**8,343,899**	7,427,050
Total liabilities	**7,102,751**	6,300,071
Share of results for the year (Group's share)	**35,383**	50,020
Net comprehensive income / (loss) for the year (Group's share)	**4,272**	(1,331)

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.

	2021 US$ million	2020 US$ million
Ahli Bank S.A.O.G.		
Balance sheet related information		
Loans and advances	**6,238.9**	5,763.4
Total assets	**7,928.7**	7,019.4
Customers' deposits	**5,666.0**	4,999.2
Total liabilities	**6,819.6**	6,010.7
Income statement related information		
Total operating income	**214.1**	185.7
Net profit for the year	**71.7**	62.3
Dividends received during the year	**8.9**	14.3
Cash flow related information		
Net cash from operating activities	**351.8**	107.9
Net cash used in investing activities	**(144.0)**	(71.4)
Net cash (used in) / from financing activities	**(170.5)**	4.6

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2021 is US$ 205.6 million (31 December 2020: US$ 190.5 million).

10. INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2021, the fair value of the investment properties is US$ 202.3 million (31 December 2020: US$ 198.9 million). Investment properties were valued by independent valuers using unobservable valuation inputs such as comparable sales, potential revenue etc. and are classified under Level 3 (2020: Level 3) of the fair value hierarchy.

Movements during the year are as follows:

	2021 US$ '000	2020 US$ '000
At 1 January	**185,715**	229,803
Additions	**18,350**	15,187
Disposals	**(15,545)**	(56,654)
Depreciation, impairment and other movements	**128**	(2,621)
At 31 December	**188,648**	185,715

11. INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2021 US$ '000	2020 US$ '000
Interest receivable	**246,323**	209,921
Derivative assets (note 28)	**120,307**	166,662
Tax assets (note 22)	**507**	632
Repossessed real estate assets	**317,538**	343,187
Prepayments and others	**231,525**	136,830
	916,200	857,232

Interest receivable includes US$ 43.1 million (2020: US$ 24.8 million) relating to financial assets classified as FVTOCI and US$ 203.2 million (2020: US$ 185.1 million) relates to assets held at amortised cost.

12. PREMISES AND EQUIPMENT

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

	2021 US$ '000	2020 US$ '000
Freehold land	**94,403**	93,927
Freehold buildings	**40,311**	31,814
Fixtures and improvements	**31,296**	32,469
IT equipment and others	**81,960**	79,552
Capital work-in-progress	**22,212**	15,393
Right-of-use assets	**41,747**	43,692
	311,929	296,847

Freehold land is revalued by independent valuers annually close to year end using significant valuation inputs based on unobservable inputs such as comparable sales, potential revenue etc. and is classified under Level 3 (2020: Level 3) of the fair value hierarchy. During the years ended 31 December 2021 and 2020, there have been no movements in Level 3 freehold land other than valuation changes.

13. GOODWILL AND OTHER INTANGIBLE ASSETS

	2021			2020		
	Goodwill	Intangible assets	Total	Goodwill	Intangible assets	Total US$ '000
At 1 January	**430,144**	**55,814**	**485,958**	432,417	54,738	487,155
Exchange rate adjustments	**877**	**54**	**931**	(2,273)	1,076	(1,197)
At 31 December	**431,021**	**55,868**	**486,889**	430,144	55,814	485,958

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 ranged between 7.0% to 13.6% (2020: 6.6% to 16.9%). 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.

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 (2020: 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

	2021 US$ '000	2020 US$ '000
Demand and call deposits	**180,241**	135,885
Time deposits	**4,458,732**	4,082,532
	4,638,973	4,218,417

15. BORROWINGS UNDER REPURCHASE AGREEMENTS

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements, amounting to US$ 8.3 billion (31 December 2020: US$ 7.7 billion).

As at 31 December 2021, the borrowings under these agreements were US$ 3.8 billion (31 December 2020: US$ 3.6 billion) of which 92% (31 December 2020: 83%) are in evergreen facilities up to 18 months contractual notice period and the fair value of investment securities that had been provided as collateral was US$ 4.3 billion (31 December 2020: US$ 4.3 billion).

16. CUSTOMERS' DEPOSITS

	2021 US$ '000	2020 US$ '000
Current and call accounts	**6,511,827**	5,399,932
Saving accounts	**2,900,037**	2,837,387
Time deposits	**15,792,077**	16,945,266
	25,203,941	25,182,585

17. TERM BORROWINGS

	2021 US$ '000	2020 US$ '000
(a) Bilateral term debts:		
- repayable in December 2022	**200,000**	100,000
- repayable in December 2023	**325,000**	75,000
(b) Long term Sukuk payable	**563,822**	-
	1,088,822	175,000

(a) Term debts carry interest rates ranging from 1.9% to 2.2%.

(b) The Sukuk was issued during the year through a wholly owned special purpose vehicle with a tenor of 5 years maturing on 9 September 2026 and carries a fixed profit rate of 2.615% per annum, payable semi-annually in arrears on 9 September and 9 March respectively commencing 9 March 2022. The Sukuk is listed on the London Stock Exchange.

Sukuk issued is initially recognised at their fair value being the issue proceeds. Changes in fair value to the extent of the changes in fair value of the Sukuk hedged and unamortised transaction costs are adjusted under "Long term Sukuk payable".

18. INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2021 US$ '000	2020 US$ '000
Interest payable	**159,334**	149,373
Accruals and other payables*	**186,709**	180,333
Derivative liabilities (note 28)	**453,654**	1,014,416
Other credit balances**	**411,079**	413,320
Tax liabilities (note 22)	**42,311**	50,252
ECL allowances***	**25,100**	23,012
	1,278,187	1,830,706

* Accruals and other payables include US$ 41.7 million (31 December 2020: US$ 43.1 million) relating to lease liabilities.

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

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

19. SUBORDINATED LIABILITIES

The Group has borrowings amounting to US$ 10.0 million (31 December 2020: US$ 10.0 million), which are subordinated to the claims of all other creditors of a group entity and are repayable on 24 July 2025.

20. EQUITY

	2021 US$ '000	2020 US$ '000
(a) Authorised:		
Share capital		
12,000 million shares (2020: 10,000 million shares) of US$ 0.25 each	**3,000,000**	2,500,000

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

(b) Issued and fully paid:

	2021 US$ '000	2020 US$ '000
Ordinary share capital (US$ 0.25 each)	**2,533,621**	2,412,972
Number of shares (millions)	**10,134.5**	9,651.9

Movement in ordinary shares	2021 (number in millions)	2020
Opening balance as at 1 January	**9,651.9**	8,774.4
Add: issuance of bonus shares	**482.6**	877.5
Closing balance as at 31 December	**10,134.5**	9,651.9

(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. 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.

ESPP

Movement in ordinary shares	2021 (number in thousands)	2020
Opening balance	**77,226**	126,015
Bonus shares issued during the year	**3,839**	9,566
Exercised during the year	**(7,146)**	(58,355)
Closing balance	**73,919**	77,226

MSP

All issued and un-exercised MSP shares were fully exercised during 2020 under Clause 7.1 of the MSP Rules pursuant to CBB's 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.

Movements in ordinary shares under MSP	2021 (number in thousands)	2020
Opening balance	-	10,307
Bonus shares issued during the year	-	279
Awarded during the year	-	3,344
Exercised during the year	-	(13,930)
Closing balance	-	-

20. EQUITY (continued)

(d) Perpetual Tier 1 Capital Securities and Sukuk

	2021 US$ '000	2020 US$ '000
Issued by the Bank (note i)	**400,000**	400,000
Perpetual Tier I Sukuk-2021 (note ii)	**600,000**	-
Perpetual Tier I Sukuk-2016 (note iii)	**-**	200,000
	1,000,000	600,000

(i) Basel III compliant Additional Tier I Perpetual Capital Securities issued by the Bank during 2015 carried 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 2020, distribution rate was reset to 5.839%. These securities are perpetual, subordinated and unsecured. The securities 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.

(ii) During the year ended 31 December 2021, AUBK completed a US$ 600 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk ("Perpetual Tier I Sukuk-2021") issue that bears a profit rate of 3.875% per annum, which are eligible to be classified under equity. These are subordinated, unsecured and carry a periodic distribution amount, payable semi-annually in arrears, is callable after five year period of issuance until the first call date ending June 2026 or any profit distribution date thereafter subject to certain redemption conditions, including prior CBK approval. The securities are listed on the Irish Stock Exchange and NASDAQ Dubai.

(iii) During 2016, Ahli United Bank K.S.C.P (AUBK), a subsidiary of the Bank, issued a US$ 200 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk that borne a profit rate of 5.5%, which were eligible to be classified under equity. The Sukuk was subordinated, unsecured and carried a Periodic Distribution Amount, payable semi-annually in arrears, until the first call date (25 October 2021). The Sukuk was listed on the Irish Stock Exchange and NASDAQ Dubai.

In accordance with approval from CBK to recall Perpetual Tier I Sukuk-2016, AUBK recalled and fully redeemed the outstanding Perpetual Tier I Sukuk during the year ended 31 December 2021.

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

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 US$ '000	Property revaluation reserve US$ '000	Foreign exchange translation reserve US$ '000	Cumulative changes: OCI reserve US$ '000	Cumulative changes: Cash flow hedge reserve US$ '000	Cumulative changes: Pension fund reserve US$ '000	Total other reserves US$ '000
Balance at 1 January 2021	**17,240**	**36,309**	**(473,924)**	**(2,548)**	**(53,739)**	**(45,439)**	**(522,101)**
Currency translation adjustments	-	-	(2,813)	-	-	-	(2,813)
Transfers to consolidated statement of income	-	-	-	(6,319)	313	-	(6,006)
Net fair value movements	-	-	-	3,858	12,039	-	15,897
Transfers to retained earnings on equity investments	-	-	-	(1,412)	-	-	(1,412)
Fair value movements and others	-	-	-	-	-	28,080	28,080
Revaluation of freehold land	-	265	-	-	-	-	265
Balance at 31 December 2021	**17,240**	**36,574**	**(476,737)**	**(6,421)**	**(41,387)**	**(17,359)**	**(488,090)**

	Capital reserve US$ '000	Property revaluation reserve US$ '000	Foreign exchange translation reserve US$ '000	Cumulative changes: OCI reserve US$ '000	Cumulative changes: Cash flow hedge reserve US$ '000	Cumulative changes: Pension fund reserve US$ '000	Total other reserves 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 on equity investments	-	-	-	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)

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.

21. RESERVES (continued)

i) Dividends proposed and paid

	2021 US$ '000	2020 US$ '000
Proposed for approval at the forthcoming Annual General Assembly of Shareholders		
Total cash dividend proposed on the ordinary shares	304,034	120,649
Cash dividend on each ordinary share (US cents per share)	3.00	1.25
Bonus share issue	10%	5%

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

	2021 US$ '000	2020 US$ '000
Distribution on the Perpetual Tier 1 Capital Securities	23,356	25,428
Distribution on the Perpetual Tier 1 Sukuk	21,859	11,000
	45,215	36,428

22. TAXATION AND ZAKAT

Consolidated balance sheet (note 11 and note 18):	2021 US$ '000	2020 US$ '000
- Current tax asset	507	581
- Deferred tax asset	-	51
	507	632
- Current tax liability	(27,143)	(30,779)
- Deferred tax liability	(15,168)	(19,473)
	(42,311)	(50,252)
Consolidated statement of income:		
- Current tax expense on foreign operations	37,086	44,544
- Zakat expense arising from subsidiary operations	1,058	1,144
- Deferred tax credit on foreign operations	(16,503)	(993)
	21,641	44,695

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 AUBE and AUBUK. Tax rate at AUBE is 22.5% (2020: 22.5%) and AUBUK is 19.0% (2020: 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:

	2021 US$ '000	2020 US$ '000
Net profit for basic and diluted earnings per ordinary share computation		
Net profit attributable to Bank's equity shareholders	607,244	452,244
Less: Share of Perpetual Tier 1 Capital Securities and Sukuk distributions	39,719	33,668
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	567,525	418,576
Basic and diluted earnings per ordinary share (US cents)	5.6	4.1

	Number of shares (in millions)	
	2021 US$ '000	2020 US$ '000
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	10,134.5	10,134.5
Weighted average number of ordinary shares for diluted earnings per share	10,134.5	10,134.5

24. CASH AND CASH EQUIVALENTS

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

	2021 US$ '000	2020 US$ '000
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	850,456	834,735
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	1,759,070	2,142,264
	2,609,526	2,976,999

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. 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:

	2021 US$ '000					
				Senior Management		
	Major shareholders	Associates	Non-Executive Directors	Management Directors[2]	Others	Total
Interest income	-	65	8,140	30	-	8,235
Interest expense	13,894	-	732	77	6	14,709
Fees and commissions	1,075	2,581	1,159	10	2	4,827
Deposits with banks	-	13,384	-	-	-	13,384
Loans and advances	-	-	321,615	311	31	321,957
Derivatives assets	-	4,501	-	-	-	4,501
Deposits from banks	-	39,004	-	-	-	39,004
Customers' deposits[1]	2,541,430	-	43,552	9,626	831	2,595,439
Subordinated liabilities	9,983	-	-	-	-	9,983
Commitments and contingent liabilities	560	44,425	83,136	-	-	128,121
Short term employee benefits	-	-	-	11,580	3,066	14,646
End of service benefits	-	-	-	847	196	1,043
Directors' fees and related expenses[3]	-	-	993	-	-	993

	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

[1]Customers' deposits include deposits from GCC government-owned institutions amounting to US$ 2,460.1 million (31 December 2020: US$ 3,637 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 at AUB or its subsidiaries / affiliates as per their specific contractual arrangements and as per the Board approved HR Policy covering all of AUB Group.

[3]Directors fees and related expenses for 2020 were approved by the shareholders in the annual general meeting on 31 March 2021 and the same for 2021 will be presented for shareholders' approval at the forthcoming annual general meeting to be convened in March 2022.

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$ 3,892 thousand (2020: US$ 8,100 thousand).

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. In accordance with the IAS-19 Employee Benefits, the Group immediately recognises 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$ 9,664 thousand during the year (2020: US$ 9,465 thousand) 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 2021 was US$ 2,327.1 million (2020: US$ 2,339.3 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 IBOR reform phase 2 amendments address issues arising during interest rate benchmark reform (IBOR reform), including specifying when the 'phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate or Alternative Reference Rate (ARR) as the hedged risk are permitted.

The 'phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the statement of profit or loss. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from IBOR reform no longer being present.

The Group evaluated the extent to which its fair value and cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly US Dollar LIBOR. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

28. DERIVATIVES (continued)

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

	2021		2020	
	Derivative assets US$ '000	Derivative liabilities US$ '000	Derivative assets US$ '000	Derivative liabilities US$ '000
Derivatives held for trading:				
- Interest rate swaps	60,570	57,041	107,626	103,697
- Forward foreign exchange contracts	30,682	15,905	35,118	87,265
- Options	379	370	810	873
	91,631	73,316	143,554	191,835

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

	2021			2020		
	Derivative assets US$ '000	Derivative liabilities US$ '000	Notionals amounts US$ '000	Derivative assets US$ '000	Derivative liabilities US$ '000	Notionals amounts US$ '000
Derivatives held as fair value hedges:						
- Interest rate swaps on amortised cost instruments	23,171	323,682	7,222,634	20,824	732,789	7,522,521
- Interest rate swaps on FVTOCI instruments	5,179	12,676	689,448	865	32,254	485,620
Derivatives held as cash flow hedges:						
- Interest rate swaps	-	43,980	186,922	1,419	57,137	198,863
- Forward foreign exchange contracts	326	-	8,056	-	401	14,875
	28,676	380,338	8,107,060	23,108	822,581	8,221,879

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.

In respect of derivative assets above, the Group has US$ 45.5 million (2020: US$ 36.1 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 2021 is negative US$ 308.0 million (2020: Negative US$ 743.4 million) which is offset by gain recognised on the hedged item at 31 December 2021, attributable to the hedged risk of US$ 308.0 million (2020: US$ 743.4 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2021 and 2020 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$ 203.6 million (31 December 2020: US$ 228.2 million), Sukuk issuance amounting to US$ 600.0 million (31 December 2020: Nil), non-trading investments amounting to US$ 6,018.9 million (31 December 2020: US$ 7,044.7 million), borrowings under repurchase agreements amounting to US$ 145.0 million (31 December 2020: US$ 331.5 million) and customer deposits amounting to US$ 1,139.5 million (31 December 2020: US$ 1,135.4 million).

28. DERIVATIVES (continued)

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 2021					
Net cash flows	**(959)**	**(5,022)**	**(13,180)**	**(22,226)**	**(41,387)**
At 31 December 2020					
Net cash flows	869	(5,716)	(20,112)	(28,780)	(53,739)

No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2021 and 2020.

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.

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has the following credit related commitments:

	2021 US$ '000	2020 US$ '000
Contingent liabilities:		
Guarantees	**2,727,426**	2,710,332
Acceptances	**431,573**	244,546
Letters of credit	**730,247**	390,673
	3,889,246	3,345,551
Maturity of contingent liabilities is as follows:		
Less than one year	**3,149,966**	2,511,668
Over one year	**739,280**	833,883
	3,889,246	3,345,551
Irrevocable commitments: Undrawn loan commitments	**292,122**	222,380

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.

	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Year ended 31 December 2021:					
Net interest income	182,649	326,867	311,487	50,786	871,789
Fees and commissions-net	27,472	60,260	3,059	13,595	104,386
Other operating income	5,172	12,963	114,372	246	132,753
OPERATING INCOME	215,293	400,090	428,918	64,627	1,108,928
Provision for credit losses and others	10,140	113,258	(1,943)	895	122,350
NET OPERATING INCOME	205,153	286,832	430,861	63,732	986,578
Operating expenses	124,901	81,729	86,988	33,388	327,006
PROFIT BEFORE TAX AND ZAKAT	80,252	205,103	343,873	30,344	659,572
Tax expense and zakat					21,641
NET PROFIT FOR THE YEAR					637,931
Less: Attributable to non-controlling interests					30,687
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					607,244
Inter segment interest included in net interest income above	205,247	(207,940)	(22,629)	25,322	-

30. SEGMENT INFORMATION (continued)

	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
As at 31 December 2021:					
Segment assets	**3,713,494**	**17,141,429**	**16,891,185**	**2,109,168**	**39,855,276**
Goodwill	**155,537**	**100,766**	**95,035**	**79,683**	**431,021**
Other intangible assets	**15,161**	**20,058**	**18,287**	**2,362**	**55,868**
Investment in associates					**343,076**
Unallocated assets					**1,228,129**
TOTAL ASSETS					**41,913,370**
Segment liabilities	**7,668,533**	**7,720,360**	**15,361,346**	**3,966,979**	**34,717,218**
Unallocated liabilities					**1,278,187**
TOTAL LIABILITIES					**35,995,405**

	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total 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 US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total 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)

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 Gulf Cooperation Council (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:

	Operating income		Total assets	
	2021	2020	**2021**	2020
	US$ '000	US$ '000	**US$ '000**	US$ '000
GCC Countries	**745,453**	720,263	**27,164,539**	26,519,194
Others	**363,475**	391,673	**14,748,831**	13,551,973
Total	**1,108,928**	1,111,936	**41,913,370**	40,071,167

Net profit from Bahrain onshore operations is US$ 85.0 million (2020: US$ 63.3 million), which represents 14% (2020: 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 realise 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.

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.

32. CREDIT RISK (continued)

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 2021 US$ '000	Gross maximum exposure 2021 US$ '000
Balances with central banks	**1,698,694**	1,620,575
Treasury bills and deposits with central banks	**1,731,698**	2,333,852
Deposits with banks	**4,116,647**	3,532,689
Loans and advances	**22,075,148**	20,719,878
Non-trading investments	**9,810,969**	9,481,783
Interest receivable, derivative and other assets	**553,747**	459,430
Total	**39,986,903**	38,148,207
Contingent liabilities	**3,889,246**	3,345,551
Undrawn loan commitments	**292,122**	222,380
Total credit related commitments	**4,181,368**	3,567,931
Total credit risk exposure	**44,168,271**	41,716,138

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.

c) Credit quality of financial assets

The table below shows the distribution of financial assets before ECL allowances:

At 31 December 2021	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
Balances with central banks:				
High standard grade	1,698,694	-	-	1,698,694
Treasury bills and deposits with central banks:				
High standard grade	1,168,464	-	-	1,168,464
Standard grade	553,825	11,051	-	564,876
Deposits with banks:				
High standard grade	3,947,682	23,883	-	3,971,565
Standard grade	142,172	3,654	-	145,826
Loans and advances:				
High standard grade	13,026,377	596,906	-	13,623,283
Standard grade	6,562,685	2,296,880	-	8,859,565
Credit impaired	-	-	558,530	558,530
Non-trading investments:				
High standard grade	5,958,028	5,036	-	5,963,064
Standard grade	3,818,558	55,610	-	3,874,168
Credit related contingent items:				
High standard grade	5,617,671	247,727	-	5,865,398
Standard grade	2,651,423	218,105	-	2,869,528
Credit impaired*	-	-	46,692	46,692

32. CREDIT RISK (continued)

At 31 December 2020	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
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

* After application of credit conversion factors, credit impaired contingent items amounted to US$ 21,926 thousand (31 December 2020: US$ 25,364 thousand).

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

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 2021 and 2020 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:

	2021			2020		
	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	7,058,870	5,713,637	1,041,464	6,983,862	4,976,040	981,801
State of Kuwait	13,901,103	15,747,517	1,430,219	13,054,962	15,709,765	1,357,283
Other GCC countries	6,204,566	3,017,650	224,471	6,480,370	2,989,061	202,764
United Kingdom (UK)	3,668,618	1,856,804	14,617	3,909,726	2,237,987	4,893
Arab Republic of Egypt	4,750,979	3,800,919	715,212	3,917,520	3,362,846	503,850
Europe (excluding UK)	1,540,883	2,400,496	186,034	975,229	2,556,656	207,273
Asia (excluding GCC)	1,758,635	2,153,626	225,859	2,079,646	2,171,664	77,534
United States of America	1,693,036	429,294	10,985	1,459,780	71,978	6,683
Rest of the World	1,336,680	875,462	40,385	1,210,072	958,812	3,470
	41,913,370	35,995,405	3,889,246	40,071,167	35,034,809	3,345,551
Industry sector:						
Banks and other financial institutions	12,461,127	15,455,347	296,430	12,126,345	15,373,807	259,894
Consumer/personal	2,889,600	7,576,972	14,230	2,802,240	7,463,845	15,707
Residential mortgage	1,670,756	23,297	1,317	1,696,614	-	1,331
Trading and manufacturing	7,367,437	2,593,212	1,689,008	7,440,233	2,427,774	1,382,072
Real estate	6,619,159	694,297	63,526	5,942,534	601,415	1,131
Services	4,618,716	3,919,261	1,628,111	4,497,836	3,487,268	1,591,745
Government/public sector	5,899,306	4,619,126	2,669	5,215,266	4,382,811	50,276
Others	387,269	1,113,893	193,955	350,099	1,297,889	43,395
	41,913,370	35,995,405	3,889,246	40,071,167	35,034,809	3,345,551

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
At 31 December 2021	**648**	**4**	**0**	**652**
At 31 December 2020	1,504	3	(0)	1,507

34. MARKET RISK (continued)

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.

Progress in and risks arising from the transition to alternative benchmark interest rates

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates and to manage our transition to ABRs, the Group has implemented a comprehensive group-wide program and governance structure that addresses the key areas of impact including contract remediation, funding and liquidity planning, risk management, financial reporting and valuation, systems, processes and client education and communication.

The transition from IBORs to alternative benchmark interest rates will impact GBP and EUR denominated financial instruments referencing LIBOR rates for terms that extend beyond 31 December 2021. The corresponding date for majority of USD IBOR based contracts is 30 June 2023.

The announcement of changes in IBOR setting process has affected the Group's LIBOR linked products, including certain loans, bonds, and derivatives, and defined the dates of their transition to alternative benchmark rates. The fixed spreads to be used in the transition to the relevant alternative benchmark rate for each LIBOR setting were also defined by the respective regulatory bodies.

AUB Group LIBOR Transition Steering Committee is managing the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

Financial instruments that are yet to transit to alternative benchmark interest rates

The table below summarises the exposures to financial instruments referencing benchmark interest rates subject to the reform that are yet to transit to alternative benchmark interest rates as of 31 December 2021. No significant impact is expected as a result of IBOR change on the transition date.

	Assets US$ '000	Liabilities US$ '000	Derivative notional amounts US$ '000
Currency			
GBP LIBOR*	42,606	4,883	-
USD LIBOR**	4,569,236	2,547,512	8,834,178
	4,611,842	2,552,395	8,834,178

*Only deals maturing beyond 31 December 2021

**Only deals maturing beyond 30 June 2023

34. MARKET RISK (continued)

ii) Interest rate risk (continued)

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

	2021			
	Less than three months US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Cash and balances with central banks	425,228	-	425,228	850,456
Treasury bills and deposits with central banks	1,000,381	731,317	-	1,731,698
Deposits with banks	3,302,750	812,136	1,761	4,116,647
Loans and advances	17,480,187	3,132,223	1,462,738	22,075,148
Non-trading investments	176,889	877,350	8,756,730	9,810,969
	22,385,435	5,553,026	10,646,457	38,584,918
Deposits from banks	4,042,338	167,635	429,000	4,638,973
Borrowings under repurchase agreements	3,618,093	157,406	-	3,775,499
Customers' deposits	16,530,213	5,647,255	3,026,473	25,203,941
Term borrowings	525,000	-	563,822	1,088,822
Subordinated liabilities	9,983	-	-	9,983
	24,725,627	5,972,296	4,019,295	34,717,218
On balance sheet gap	(2,340,192)	(419,270)	6,627,162	3,867,700
Off balance sheet gap	5,063,353	124,677	(5,188,030)	
Total interest sensitivity gap	2,723,161	(294,593)	1,439,132	
Cumulative interest sensitivity gap	2,723,161	2,428,568	3,867,700	

	2020			
	Less than three months US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Cash and balances with central banks	417,368	-	417,367	834,735
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
	22,302,899	4,027,421	10,572,617	36,902,937
Deposits from banks	3,132,190	577,878	508,349	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 borrowings	175,000	-	-	175,000
Subordinated liabilities	10,032	-	-	10,032
	22,740,438	7,388,282	3,075,383	33,204,103
On balance sheet gap	(437,539)	(3,360,861)	7,497,234	3,698,834
Off balance sheet gap	5,451,804	1,028,993	(6,480,797)	
Total interest sensitivity gap	5,014,265	(2,331,868)	1,016,437	
Cumulative interest sensitivity gap	5,014,265	2,682,397	3,698,834	

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 2021 and 2020 including the effect of hedging instruments.

Sensitivity analysis - interest rate risk

		2021 US$ '000	2020 US$ '000
At 25 bps - increase (+) / decrease (-)	+/-	6,270	8,872

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	
	2021 US$ '000	2020 US$ '000	2021 US$ '000	2020 US$ '000
Great Britain Pound	(36)	(105)	(3,593)	(10,505)
Euro	(114)	(54)	(11,400)	(5,398)
Egyptian Pound	3,743	1,433	374,328	143,322
Iraqi Dinar	(1,056)	(1,373)	(105,582)	(137,276)
Kuwaiti Dinar	703	69	70,276	6,910

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. The Group is not exposed to any significant equity price risk.

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.

35. LIQUIDITY RISK (continued)

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 17.0%, Liquidity Coverage Ratio (LCR) of 177.0% and Net Stable Funding Ratio (NSFR) of 118.1% as at 31 December 2021.

The maturity profile of the assets and liabilities at 31 December 2021 and 2020 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 2021	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	1,819,841	-	-	-	1,819,841
Treasury bills and deposits with central banks	1,014,171	717,527	-	-	1,731,698
Deposits with banks	3,576,080	540,567	-	-	4,116,647
Loans and advances	9,319,193	3,539,510	9,216,445	-	22,075,148
Non-trading investments	4,740,883	3,524,268	1,658,143	-	9,923,294
Investment in associates	-	-	-	343,076	343,076
Investment properties	-	-	-	188,648	188,648
Interest receivable, derivative and other assets	387,126	465,066	64,008	-	916,200
Premises and equipment	3,589	7,827	31,310	269,203	311,929
Goodwill and other intangible assets	-	-	-	486,889	486,889
Total	20,860,883	8,794,765	10,969,906	1,287,816	41,913,370
Liabilities					
Deposits from banks	3,538,283	148,058	952,632	-	4,638,973
Borrowings under repurchase agreements	309,650	2,221,041	1,244,808	-	3,775,499
Customers' deposits	10,342,187	6,366,835	8,494,919	-	25,203,941
Term borrowings	-	200,000	888,822	-	1,088,822
Interest payable, derivative and other liabilities	765,555	283,984	228,648	-	1,278,187
Subordinated liabilities	-	-	9,983	-	9,983
Total	14,955,675	9,219,918	11,819,812	-	35,995,405
Net liquidity gap	5,905,208	(425,153)	(849,906)	1,287,816	5,917,965

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 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 borrowings	-	-	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.

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 2021						
Deposits from banks	2,788,911	751,638	148,644	970,767	-	4,659,960
Borrowings under repurchase agreements	309,794	-	2,228,843	1,265,801	-	3,804,438
Customers' deposits	13,147,923	5,599,979	5,467,309	1,114,979	22,257	25,352,447
Term borrowings	-	-	202,527	939,724	-	1,142,251
Subordinated liabilities	-	-	-	10,295	-	10,295
Interest payable	61,733	36,401	40,208	20,992	-	159,334
Total	16,308,361	6,388,018	8,087,531	4,322,558	22,257	35,128,725
Credit related commitments	28,283	26,804	175,036	40,534	21,465	292,122
Derivatives (net)	(333,356)	-	-	-	-	(333,356)

35. LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	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 borrowings	-	-	-	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)

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.

38. FAIR VALUE MEASUREMENT (continued)

	2021			
	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Equity instruments at fair value	340	72,834	39,151	112,325
Debt instruments (FVTOCI)	1,814,322	138,874	-	1,953,196
Derivative assets	-	120,307	-	120,307
Derivative liabilities	-	453,654	-	453,654

	2020			
	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	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

During the years ended 31 December 2021 and 2020, there have been no transfers between Levels 1, 2 and 3 and no significant movements were noted in Level 3 investments.

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 17.0% as of 31 December 2021 (31 December 2020: 16.1%).

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, OG/431/2020 dated 29 December 2020 and OG/417/2021 dated 23 December 2021, the limit is reduced to 80% until 30 June 2022, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2021 is 118.1% (31 December 2020: 117.0%).

39. CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR) (continued)

	2021 US$ '000	2020 US$ '000
Available Stable Funding:		
Regulatory capital	6,270,390	5,539,056
Stable deposits	6,958,945	6,381,437
Wholesale funding	13,039,788	12,707,451
Others	650,939	480,576
Total Available Stable Funding (A)	26,920,062	25,108,520
Required Stable Funding:		
High-Quality Liquid Assets (HQLA)	1,439,864	1,798,935
Performing loans	14,730,855	13,552,637
Securities (other than HQLA)	3,341,785	2,734,716
Derivative contracts	283,217	587,712
Others	2,562,446	2,405,618
Off-Balance sheet items	438,989	388,174
Total Required Stable Funding (B)	22,797,156	21,467,792
NSFR (%) (A/B)	118.1%	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.

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 AT 31 DECEMBER	Note	2021 US$ '000	2020 US$ '000
ASSETS			
Cash and balances with central banks		**537,842**	538,486
Deposits with central banks		**612,600**	905,115
Deposits with banks	(a)	**974,674**	726,540
Receivable balances from Islamic financing	(b)	**13,209,322**	12,503,119
Financial investments		**1,731,048**	2,040,424
Investment in associates		**26,678**	25,647
Investment properties		**65,847**	60,543
Profit receivable and other assets		**174,984**	115,315
Premises and equipment		**130,716**	132,924
TOTAL ASSETS		**17,463,711**	17,048,113
LIABILITIES			
Deposits from banks	(c)	**1,811,432**	1,479,484
Customers' deposits	(d)	**11,470,139**	12,349,420
Long term Sukuk payable		**563,822**	-
Repurchase agreements with banks		**-**	25,011
Profit payable and other liabilities		**320,548**	286,289
Restricted investment accounts		**17,842**	25,793
		14,183,783	14,165,997
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**672,253**	765,911
TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**14,856,036**	14,931,908
TOTAL EQUITY		**2,607,675**	2,116,205
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY		**17,463,711**	17,048,113

41. ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER	Note	2021 US$ '000	2020 US$ '000
Net income from Islamic financing	(e)	334,024	339,290
		334,024	339,290
Fees and commissions - net		30,879	31,170
Other operating income		25,418	21,189
Foreign exchange gains		12,008	11,792
OPERATING INCOME		402,329	403,441
Provision for financing receivables and others		81,176	102,187
NET OPERATING INCOME		321,153	301,254
Staff costs		67,560	62,942
Depreciation		14,643	13,553
Other operating expenses		45,435	40,341
OPERATING EXPENSES		127,638	116,836
PROFIT BEFORE TAX AND ZAKAT		193,515	184,418
Tax expense and zakat		4,342	5,366
PROFIT BEFORE THE SHARE OF PROFIT OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS		189,173	179,052
Less: Share of profit of equity of unrestricted investment account holders		5,325	7,403
NET PROFIT FOR THE YEAR		183,848	171,649
Attributable to:			
Owners of the Bank		157,829	146,836
Non-controlling interests		26,019	24,813
		183,848	171,649

Notes

(a) Deposits with banks	2021 US$ '000	2020 US$ '000
Murabaha finance with other banks	566,555	399,483
Wakala with banks	338,060	256,488
Current accounts and others	70,059	70,569
	974,674	726,540

(b) Receivable balances from Islamic financing	2021 US$ '000	2020 US$ '000
Tawarruq receivables	8,686,312	7,961,610
Murabaha receivables	3,124,656	3,090,890
Ijara receivables	1,794,459	1,904,929
Others	19,695	24,636
Less: Allowance for impairment	(415,800)	(478,946)
	13,209,322	12,503,119

41. ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

Notes (Continued)

(c) Deposits from banks	2021 US$ '000	2020 US$ '000
Murabaha	553,583	930,442
Wakala	1,246,034	541,399
Current accounts	11,815	7,643
	1,811,432	1,479,484

(d) Customers' deposits	2021 US$ '000	2020 US$ '000
Wakala	7,199,434	7,405,693
Murabaha	2,831,857	3,535,156
Current accounts	1,438,848	1,408,571
	11,470,139	12,349,420

(e) Net income from Islamic financing	2021 US$ '000	2020 US$ '000
Income from Tawarruq	234,441	248,152
Income from Murabaha	149,396	203,209
Income from Ijara	72,385	85,341
Income from financial investments and others	45,260	63,695
Income from Islamic financing	501,482	600,397
Profit expense on Wakala	103,427	131,346
Profit expense on Murabaha and others	64,031	129,761
Less: Distribution to depositors	167,458	261,107
Net income from Islamic financing	334,024	339,290

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	2021	2020
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%	4.3%

42. SUBSIDIARIES (continued)

	2021 US$ '000	2020 US$ '000
Accumulated material non-controlling interests as at 31 December:		
Ahli United Bank K.S.C.P.	381,191	359,929
Ahli United Bank (Egypt) S.A.E.	24,696	22,091
Profit allocated to material non-controlling interests:		
Ahli United Bank K.S.C.P.	26,019	24,813
Ahli United Bank (Egypt) S.A.E.	2,903	3,148

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.

	2021 US$ '000	2020 US$ '000
Ahli United Bank K.S.C.P. (AUBK)		
Balance sheet related information		
Loans and advances	11,048,423	10,267,715
Non-trading investments	1,258,976	1,294,285
Total assets	15,118,792	14,410,546
Customers' deposits	11,301,799	11,833,856
Total liabilities	12,977,785	12,751,179
Income statement related information		
Total operating income	303,058	295,681
Net profit attributable to shareholders	103,485	96,905
Total comprehensive income attributable to shareholders	104,126	97,565
Dividends paid to non-controlling interest	-	22,713
Cash flow related information		
Net cash (used in) / from operating activities	(587,767)	410,017
Net cash from / (used in) investing activities	11,028	(211,976)
Net cash from / (used in) financing activities	374,679	(101,878)
Ahli United Bank (Egypt) S.A.E. (AUBE)		
Balance sheet related information		
Loans and advances	2,336,101	1,887,793
Non-trading investments	829,812	599,999
Total assets	4,100,508	3,583,362
Customers' deposits	3,410,631	2,966,155
Total liabilities	3,517,782	3,061,726
Income statement related information		
Total operating income	168,674	162,933
Net profit attributable to shareholders	74,863	77,012
Total comprehensive income attributable to shareholders	70,821	71,033
Dividends paid to non-controlling interests	-	4,132
Cash flow related information		
Net cash from operating activities	333,139	66,483
Net cash used in investing activities	(253,840)	(8,618)
Net cash used in financing activities	(8,373)	(36,585)

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 years ended 31 December 2020 and 2021.

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.

- 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;
- 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 resultant 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 COVID-19, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic environment. 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 years ended 31 December 2020 and 2021 as compared to prior years.

Following a year of economic distress due to COVID-19 pandemic causing a global GDP growth contraction of 4.9% in 2020, global economic activity gained momentum in 2021 along with revival of crude oil prices resulting in expected global GDP growth rate of 5.6% in 2021. The outlook for the GCC region improved from Q1-2021, with economies benefiting from high level of vaccination and reopening of domestic and global economies. While GDP growth of GCC economies contracted by 4.8% in 2020, during 2021 GDP growth was 2.7%. GDP growth rate is forecast at 3.8% in 2022. Further, brent crude oil prices rebounded to average price of US$ 68 per barrel in 2021 from average US$ 41 per barrel in 2020. During 2022, average crude oil prices is expected to be US $ 70 per barrel on the back of increase in oil demand across the globe.

The Group has performed an assessment of relevant macro-economic information including key macro-economic factors noted above and has incorporated this into its forward-looking information to estimate PDs, LGDs and EADs. On the resultant ECL calculated using the estimated PDs, LGDs and EADs, scenario weights (i.e. base, upside and downside) are applied to arrive at an weighted average ECL. These scenario weights were revised during 2021, consequent to perceived improvement in economic operating conditions during 2021. The scenario weights applied during the year ended 2021 in the measurement of ECL are base case 35% (2020: 30%), upside 20% (2020: 10%) and downside 45% (2020: 60%).

The impact of change by 1% in GDP growth rate on the ECL will be +/- US$ 0.9 million (2020: US$ 1.1 million) and the impact of change in 5% of crude oil price per barrel on the ECL will be +/- US$ 0.7 million (2020: US$ 0.5 million).

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 Kuwait Finance House K.S.C.P ("KFH"), in its AGM / EGM held on 20 January 2020, approved the pursuit of the acquisition of Ahli United Bank B.S.C. ("AUB"/ "Bank"), 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 is 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, 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 the international advisor appointed by KFH in this respect.

During December 2021, the AUB Board of Directors, in coordination with KFH and regulatory authorities, agreed to the update of financial and legal due diligence studies, and the resumption of all connected procedures related to the acquisition, including the assessment of the impact of such studies on the final share exchange ratio. AUB has re-appointed the specialised professional advisors previously appointed to provide AUB with the necessary financial, tax (KPMG) and legal (Linklaters LLP) studies regarding the transaction. AUB has and will disclose on the Bahrain Bourse and Boursa Kuwait, any relevant developments on this matter, as required, on a prompt ongoing basis, to ensure transparency and to comply with governing laws and regulations.

SUPPLEMENTARY PUBLIC DISCLOSURE- FINANCIAL IMPACT OF COVID-19

For the Year Ended 31 December 2021

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, 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 2021.

The COVID-19 pandemic continues to severely impact the global economy, causing wide spread disruption to business and economic activities resulting in significant uncertainties in the operating environment. At the end of 2021, resurgence of Covid-19 virus variant Omicron and resultant health situation has again forced governments to take precautionary curbs impacting the business sentiment which is exasperated by shortages of raw materials and components affecting production in many key industries for e.g., vehicles, mobile phones and energy. On the other hand, inflationary pressures are forcing central banks to consider interest rate increases. As a result of these market dynamics, global financial markets are still subject to volatility given the evolving developments and uncertainty. Some governments and central banks have extended monetary and fiscal interventions to stabilize economic and market conditions.

In the GCC region, Governments have conducted successful vaccination programs which ensured that majority of the population have been vaccinated (including booster dosage in the Kingdom of Bahrain) and have taken proactive steps to ensure opening-up of local economies and return of customer confidence. Currently its projected that the impact of the recent surge in Covid variant Omicron may not be as severe as the earlier Delta variant while businesses expect curbs imposed will be retained for a shorter time frame than earlier. Further, recent recovery in oil prices is expected to assist in stimulating recovery of local economies and boost business confidence.

The Central Bank of Bahrain (CBB) issued a circular on 27 May 2021, directing banks to offer customers six months' installments deferment options up to 31 December 2021 with interest charge and also extending various regulatory support measures to financial institutions up to 31 December 2021. This was followed by CBB, per circular dated 23 December 2021 again extending these reliefs up to 30 June 2022.

These regulatory support measures included the following:

- 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 I 00% to 80%;
- SMEs risk weight reduced from 75% to 25%;
- Reduction of cooling off period for transferring exposures from stage 3 to stage 2, relaxation concerning the days past due for ECL staging criteria from stage 1 to stage 2 of 74 days, and relaxation requirement on LTV ratio for residential mortgages.

For regulatory capital adequacy ratio, CBB has deferred the amortization of modification loss and 2020 ECL charge up to 30 June 2022.

The table below summarizes the overall financial impact of the above for year 2021:

Overall Impact on Consolidated Financial Statements

	Net Impact (In US$ millions)		
	Consolidated Statement of Income	Consolidated Balance Sheet (Assets)	Group's Equity attributable to Owners
Reduction in Cash Reserve with CBB	-	62.1	-

Other COVID-19 Impacts:

AUB Group reported a net profit attributable to its equity shareholders of US$ 607.2 million for year 2021, representing an increase of 34.3%, as compared to US$ 452.2 million achieved in 2020.

In response to the ongoing COVID 19 pandemic related trajectory and projected market impact, regulators sustained the very low-key benchmark interest rates following the rate cuts by the US Federal Reserve beginning H2/2019 and in Q1 /2020. Net Interest Income increased by US$ 72.4 million (+9.1%) primarily due to asset growth, judicious asset mix and reduction in funding costs driven by lower liquidity premia.

The AUB Group assessed its Stage I and Stage 2 ECL gross provisions on performing loans and advances as a pre-cautionary measure in accordance with IFRS-9 taking into consideration the projected direction of macro-economic variables and level of 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. Accordingly, ECL provisions charge on loans and advances was of US$ 165.8 million during 2021.

The AUB Group continued to make donations in various jurisdictions in which the Group operates to support humanitarian and relief efforts in the wake of COVID-19 pandemic and made donations amounting to US$ 1.0 million in 2021.

The AUB Group continues to comply with respective governmental guidelines and regulations and adherence to precautionary measures to ensure health and safety of the AUB customers and staff during the COVID-19 pandemic period. 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, as applicable, 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 review by the external auditors and does not form part of the consolidated financial statements for the year ended 31 December 2021.

PILLAR III DISCLOSURES - BASEL III

31 December 2021

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 2021.

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) and modified by CBB, as explained in note 2.2 to the audited consolidated financial statements for the year ended 31 December 2021. 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". These 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), net of new ECL for year 2020, which is added to CET1 of the capital as part of CBB's COVID relief measures, 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 CAPITAL STRUCTURE

	US$ '000		
A. NET AVAILABLE CAPITAL	*CET 1*	*AT 1*	*Tier 2*
NET AVAILABLE CAPITAL	**4,497,101**	**748,844**	**522,482**
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + AT 1 + Tier 2)			**5,768,427**
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			31,209,473
Market Risk Weighted Exposures			668,332
Operational Risk Weighted Exposures			2,010,283
TOTAL RISK WEIGHTED EXPOSURES			**33,888,088**
CET 1 and Capital Conservation Buffer (CCB)			13.3%
Tier 1 - Capital Adequacy Ratio (CET 1, AT 1 and CCB)			15.5%
Total - Capital Adequacy Ratio			**17.0%**

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 2021 and 2020 to the Common Equity Tier (CET1) Capital. Refer to appendix I for details.

Refer note 20 of the consolidated financial statements of the Group for the year ended 31 December 2021 for further details on capital structure. The change in capital is not expected to have any significant impact on the present or future earnings of the Group. Further, there are no restrictions on the transfer of funds or regulatory capital within the Group.

B. CAPITAL ADEQUACY RATIO

As at 31 December 2021, the capital adequacy ratio of banking subsidiaries under Basel III, unless mandated otherwise were:

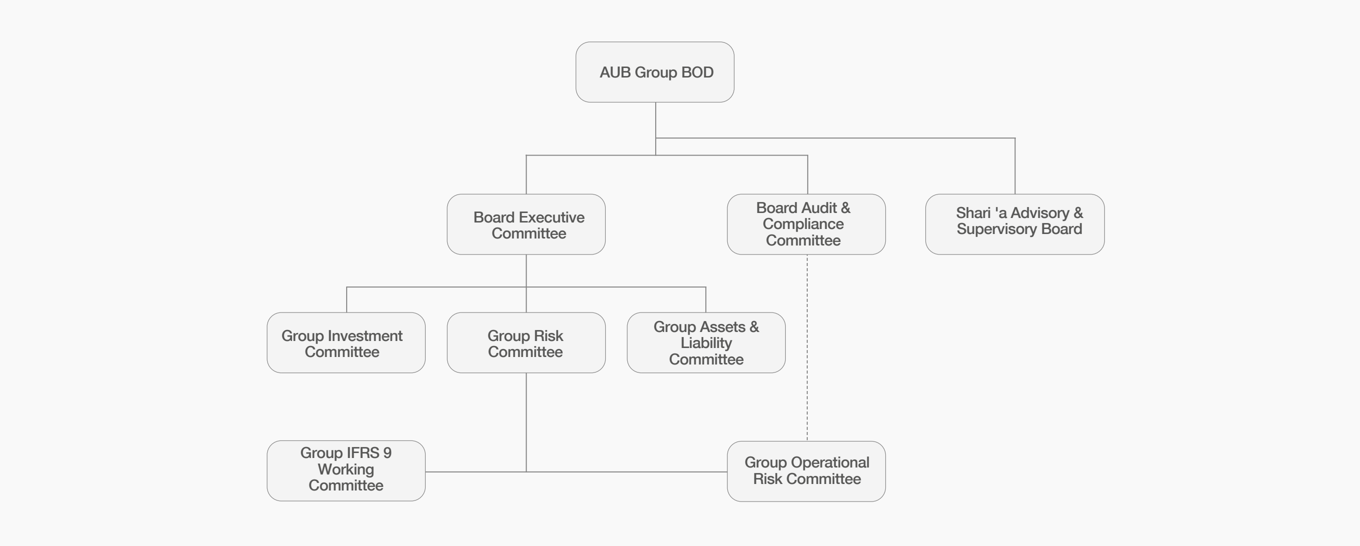
	Subsidiaries			
	Ahli United Bank K.S.C.P. (AUBK)	**Ahli United Bank (U.K.) PLC (AUBUK)**	**Ahli United Bank (Egypt) S.A.E. (AUBE)**	**Commercial Bank of Iraq P.S.C. (CBIQ)**
Tier 1 - Capital Adequacy Ratio	17.0%	22.4%	17.5%	98.9%
Total - Capital Adequacy Ratio	18.2%	22.5%	17.8%	98.9%

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 and Group Credit Risk Appetite 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.

Risk Management Framework

The overall authority for risk management in the Group 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 Group 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 team of the Group 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 Department 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%, except for SMEs which are risk weighted at 25% as per CBB's COVID-19 relief measures.
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.

TABLE - 2 GROSS CREDIT RISK EXPOSURES

	US$ '000	
	As at 31 December 2021	**Average monthly balance**
Balances with central banks	1,698,694	1,572,882
Treasury bills and deposits with central banks	1,731,698	2,393,714
Deposits with banks	4,116,647	3,617,986
Loans and advances	22,075,148	21,400,958
Non-trading investments	9,810,969	9,473,794
Interest receivable, derivative and other assets	553,747	497,250
TOTAL FUNDED EXPOSURES	**39,986,903**	**38,956,584**
Contingent liabilities	3,889,246	3,633,635
Undrawn loan commitments	292,122	242,400
TOTAL UNFUNDED EXPOSURES	**4,181,368**	**3,876,035**
TOTAL GROSS CREDIT RISK EXPOSURES	**44,168,271**	**42,832,619**

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 exposures	Secured by eligible CRM	Risk weighted exposures after CRM	Capital requirement
Claims on sovereigns	7,871,179	-	864,769	108,096
Claims on public sector entities	2,593,317	-	1,182,340	147,792
Claims on banks	7,091,265	146,801	2,914,919	364,365
Claims on corporates	22,098,264	745,195	21,202,800	2,650,349
Regulatory retail exposures	2,327,041	32,497	1,700,182	212,523
Residential mortgage exposures	1,567,095	-	633,665	79,208
Equity	445,638	-	997,929	124,742
Other exposures	1,307,626	-	1,712,869	214,109
TOTAL	**45,301,425**	**924,493**	**31,209,473**	**3,901,184**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**31,209,473**	**3,901,184**
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**668,332**	**83,541**
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)*			**2,010,283**	**251,285**
TOTAL			**33,888,088**	**4,236,010**

* 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$ 1,072,151 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 credit 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.

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 2021, 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.

3. CREDIT RISK MANAGEMENT (continued)

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 2021.

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	94,478	487,341	-	674,464	-	369,080	73,331	-	**1,698,694**
Treasury bills and deposits with central banks	559,306	609,157	-	-	-	563,235	-	-	**1,731,698**
Deposits with banks	123,598	775,259	270,037	834,883	437,356	23,521	128,951	1,523,042	**4,116,647**
Loans and advances	3,791,929	10,941,348	2,337,666	1,827,039	136,322	2,720,932	69,611	250,301	**22,075,148**
Non-trading investments	1,711,437	364,183	3,185,010	152,061	930,472	790,649	1,440,196	1,236,961	**9,810,969**
Interest receivable, derivative and other assets	142,886	105,849	48,232	104,448	36,686	76,316	19,920	19,410	**553,747**
Total funded exposures	**6,423,634**	**13,283,137**	**5,840,945**	**3,592,895**	**1,540,836**	**4,543,733**	**1,732,009**	**3,029,714**	**39,986,903**
Contingent liabilities	1,041,464	1,430,219	224,471	14,617	186,034	715,212	225,859	51,370	**3,889,246**
Undrawn loan commitments	77,686	56,440	34,536	99,074	10,765	13,621	-	-	**292,122**
Total unfunded exposures	**1,119,150**	**1,486,659**	**259,007**	**113,691**	**196,799**	**728,833**	**225,859**	**51,370**	**4,181,368**
TOTAL	**7,542,784**	**14,769,796**	**6,099,952**	**3,706,586**	**1,737,635**	**5,272,566**	**1,957,868**	**3,081,084**	**44,168,271**
	17.2%	**33.4%**	**13.8%**	**8.4%**	**3.9%**	**11.9%**	**4.4%**	**7.0%**	**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.

TABLE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	US$ '000			
	Funded	Unfunded	Total	%
Central banks	3,430,392	-	**3,430,392**	**7.8**
Banks and other financial institutions	7,304,476	367,191	**7,671,667**	**17.4**
Consumer/personal	2,889,600	21,223	**2,910,823**	**6.6**
Residential mortgage	1,670,756	76,242	**1,746,998**	**4.0**
Trading and manufacturing	7,367,437	1,728,044	**9,095,481**	**20.5**
Real estate	6,420,748	77,383	**6,498,131**	**14.7**
Services	4,618,716	1,659,164	**6,277,880**	**14.2**
Government/public sector	5,899,306	58,166	**5,957,472**	**13.5**
Others	385,472	193,955	**579,427**	**1.3**
TOTAL	**39,986,903**	**4,181,368**	**44,168,271**	**100.0**
	90.5%	**9.5%**	**100.0%**	

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	US$ '000							
	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Total
Balances with central banks	1,653,230	45,464	-	-	-	-	-	**1,698,694**
Treasury bills and deposits with central banks	541,621	472,550	717,527	-	-	-	-	**1,731,698**
Deposits with banks	3,326,740	249,340	540,567	-	-	-	-	**4,116,647**
Loans and advances	4,453,632	4,865,561	3,539,510	6,250,906	2,355,211	538,429	71,899	**22,075,148**
Non-trading investments	2,665	104,779	844,357	3,737,032	5,036,548	13,990	71,598	**9,810,969**
Interest receivable, derivative and other assets	245,447	114,961	137,994	55,345	-	-	-	**553,747**
Total funded exposures	**10,223,335**	**5,852,655**	**5,779,955**	**10,043,283**	**7,391,759**	**552,419**	**143,497**	**39,986,903**
Contingent liabilities	585,532	962,944	1,601,489	676,347	62,934	-	-	**3,889,246**
Undrawn loan commitments	28,283	26,804	175,036	40,534	21,465	-	-	**292,122**
Total unfunded exposures	**613,815**	**989,748**	**1,776,525**	**716,881**	**84,399**	**-**	**-**	**4,181,368**
TOTAL	**10,837,150**	**6,842,403**	**7,556,480**	**10,760,164**	**7,476,158**	**552,419**	**143,497**	**44,168,271**

Allowances for expected credit loss

Refer note 2.7 (g) of the consolidated financial statements of the Group for the year ended 31 December 2021 for further details on ECL model.

The Group Risk Committee regularly evaluates the adequacy of the established allowances for impaired loans.

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 2021	Write-offs during the year ended 31 December 2021	ECL allowances (Stage 1 & Stage 2)
Consumer/personal	56,471	32,974	1,561	12,018	79,026
Trading and manufacturing	269,957	263,488	106,482	168,063	104,382
Real estate	157,826	126,107	(6,265)	-	166,326
Residential mortgage	48,830	24,205	(1,786)	-	2,029
Banks and other financial institutions	2,119	2,000	-	-	6,777
Services	21,887	13,967	6,024	14,394	131,085
Government/public sector	-	-	-	-	185
Others	1,440	1,293	-	-	12,386
TOTAL	**558,530**	**464,034**	**106,016**	**194,475**	**502,196**

* Net specific charge (ECL allowance: Stage 3) for the year excludes recoveries from fully provided loans written-off in prior years.

3. CREDIT RISK MANAGEMENT (continued)

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)	147,207	189,257	16,586	145	13,049	132,697	159	3,096	**502,196**
ECL allowances (Stage 3)	172,595	184,142	16,287	3,332	-	81,588	6,090	-	**464,034**
TOTAL	**319,802**	**373,399**	**32,873**	**3,477**	**13,049**	**214,285**	**6,249**	**3,096**	**966,230**

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 2021 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 2021 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.

TABLE - 10 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	US$ '000			
	Three months to one year	Over one to three years	Over three years	Total
Kingdom of Bahrain	6,972	120,294	73,817	**201,083**
State of Kuwait	42,949	100,739	71,573	**215,261**
Other GCC Countries	-	16,287	-	**16,287**
United Kingdom	728	23,728	-	**24,456**
Arab Republic of Egypt	12,548	69,417	13,202	**95,167**
Asia (excluding GCC countries)	-	-	6,276	**6,276**
TOTAL	**63,197**	**330,465**	**164,868**	**558,530**
	11.3%	**59.2%**	**29.5%**	**100.0%**

ii) By Industry sector

Consumer/personal	25,514	13,815	17,142	**56,471**
Trading and manufacturing	12,655	239,519	17,783	**269,957**
Real estate	14,888	45,661	97,277	**157,826**
Residential mortgage	853	26,264	21,713	**48,830**
Banks and other financial institutions	-	-	2,119	**2,119**
Services	9,287	5,206	7,394	**21,887**
Others	-	-	1,440	**1,440**
TOTAL	**63,197**	**330,465**	**164,868**	**558,530**
	11.3%	**59.2%**	**29.5%**	**100.0%**

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 11 RESTRUCTURED CREDIT FACILITIES

	US$ '000
Balance of any restructured credit facilities as at year end	478,164
Loans restructured during the year	184,215

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the loan tenor.

TABLE - 12 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

The Group uses the Current Exposure Method to calculate the exposure for counterparty credit risk for derivative instruments as per CBB Basel III guidelines. The table below represent net credit equivalent exposure after giving effect to master netting agreements.

i) Breakdown of the credit exposure

	US$ '000	
	Notional amount	**Credit Equivalent Exposure**
a) Trading		
Foreign exchange related	7,750,120	74,964
Interest rate related	3,003,150	76,760
Others	17,913	9
	10,771,183	**151,733**
b) Hedging		
Foreign exchange related	8,056	136
Interest rate related	8,099,005	57,732
	8,107,061	**57,868**
	18,878,244	**209,601**

	US$ '000
ii) Amounts of cash collateral	**15,801**

TABLE - 13 RELATED PARTY TRANSACTIONS

Refer note 25 to the audited consolidated financial statements of the Group for the year ended 31 December 2021.

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.

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.

4. MARKET RISK (continued)

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 2021	1,403	652	2,927

TABLE - 14 CAPITAL REQUIREMENTS FOR COMPONENTS OF MARKET RISK

	US$ '000			
	Risk-weighted exposures after CRM	Capital requirement	Maximum value	Minimum value
Interest rate risk	206,704	25,838	25,838	17,969
Equity position risk	1,856	232	232	115
Foreign exchange risk	458,052	57,256	62,928	50,229
Options and others	1,720	215	1,069	215
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**668,332**	**83,541**		

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.

4. MARKET RISK (continued)

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 5 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 2021 for the re-pricing profiles of the Group's assets and liabilities.

Interest rate risk sensitivity analysis

The Group's interest rate risk sensitivity is analyzed in note 34(ii) to the consolidated financial statements of the Group for the year ended 31 December 2021.

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 2021 is as per the following table.

	US$ '000		
	Assets	Liabilities	Equity
at 200 bps - increase (+)	**(179,204)**	**178,582**	**(622)**
at 200 bps - decrease (-)	**179,204**	**(178,582)**	**622**

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 consolidated financial statements.

4. MARKET RISK (continued)

TABLE - 15 GAIN / (LOSS) ON EQUITY INSTRUMENTS

	US$ '000
Gains / (loss) recognized in Tier1 Capital (CET1)	
Unrealized gain recognized in the balance sheet	**(10,876)**
Realized gains recognized in the equity	**1,412**

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 2021.

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 2021.

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.

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 several 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, SWIFT Customer Security Program (CSP) and PCI DSS certifications were relevant 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.

There are no material litigations / claims against the Group as at 31 December 2021.

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 Control. Also, the Compliance Department, has the responsibility through its monitoring programs, to 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 responsible business areas and personnel for carrying out appropriate regulated activities.

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 Group'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 reviewed by independent external auditors every year and their agreed-upon procedures reports are submitted to the CBB. The CBB 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 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 United Nations (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 2021	Reference
Common Equity Tier 1 capital: instruments and Reserves		
Directly issued qualifying common share capital plus related stock surplus	2,533,621	A1-A2-A3
Retained earnings	596,129	B1+B2+B3
Accumulated other comprehensive income (and other reserves)	1,539,873	C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	329,440	D
Common Equity Tier 1 capital before regulatory adjustments	**4,999,063**	
Common Equity Tier 1 capital: regulatory adjustments		
Goodwill (net of related tax liability)	431,018	E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	97,658	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	(41,387)	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	**501,962**	
Common Equity Tier 1 capital (CET1)	**4,497,101**	
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)	348,844	J
Additional Tier 1 capital before regulatory adjustments	**748,844**	
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**748,844**	
Tier 1 capital (T1 = CET1 + AT1)	**5,245,945**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	998	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)	99,003	L
Expected Credit Losses & Reserves	422,481	M1+M2
Tier 2 capital before regulatory adjustments	**522,482**	
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**522,482**	
Total capital (TC = T1 + T2)	**5,768,427**	
Total risk weighted assets	**33,888,088**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Capital Composition Disclosure Template (continued)

Basel III Common disclosure template	US$ '000 PIR as on 31 December 2021	Reference
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.3%	
Tier 1 (as a percentage of risk weighted assets)	15.5%	
Total capital (as a percentage of risk weighted assets)	**17.0%**	
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	274,024	
Significant investments in the common stock of financial entities	343,310	
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)	530,952	N
Cap on inclusion of Expected Credit Losses in Tier 2 under standardized approach	385,907	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	**41,913,370**
ECL - Stages 1 and 2	530,952
Balance sheet as in Regulatory Return	**42,444,322**

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

	US$ '000		
Assets	**Balance as per published financial statements**	**Consolidated PIR data**	**Reference**
Cash and balances with central banks	1,819,841	1,819,841	
Financial assets at fair value through Profit & Loss		3,838	
Treasury bills and deposits with central banks	1,731,698	1,731,698	
Deposits with banks	4,116,647	4,119,058	
Loans and advances	22,075,148	22,577,344	
of which employee stock incentive program		-	A2
Non-trading investments	9,923,294	9,945,721	
Investment properties	188,648	188,648	
Interest receivable and other assets	916,200	916,280	
of which deferred tax assets		-	G1
of which MSP		-	A3
Investments in associates	343,076	343,076	
Goodwill and intangible assets	486,889	486,889	
of which Goodwill		431,018	E
of which other intangibles (excluding MSRs)		55,871	F1
Premises and equipment	311,929	311,929	
of which software		41,787	F2
TOTAL ASSETS	**41,913,370**	**42,444,322**	
Liabilities			
Deposits from banks	4,638,973	4,638,973	
Customers' deposits	25,203,941	25,203,941	
Borrowings under repurchase agreements	3,775,499	3,775,499	
Term Borrowings	1,088,822	525,000	
Sukuk payable	-	563,822	
Interest payable and other liabilities	1,278,187	1,278,187	
of which deferred tax liabilities		14,661	G2
Subordinated liabilities	9,983	9,983	
of which amount eligible for Tier 2		998	K
of which amount ineligible		8,985	
TOTAL LIABILITIES	**35,995,405**	**35,995,405**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation (continued)

	US$ '000		
Equity	**Balance as per published financial statements**	**Consolidated PIR data**	**Reference**
Paid-in share capital	2,533,621	2,533,621	
of which form part of Common Equity Tier 1		2,533,621	
Ordinary Share Capital		2,533,621	A1
Treasury Shares		-	
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	1,936,083	1,936,083	
of which form part of Common Equity Tier 1			
Retained earnings/(losses) brought forward		359,636	B1
Net profit for the current period		607,244	C1
Share premium		752,538	C2
Legal reserve		704,755	C3
Others		(119)	C4
FX translation adjustment		(476,737)	C5
Cumulative fair value changes on FVOCI investments		(6,421)	C6
Fair value changes of cash flow hedges		(41,387)	C7
of which form part of Tier 2			
Fixed assets revaluation reserves		36,574	M1
CBB modification loss (part of CET1)		*91,448*	B2
Perpetual Tier 1 Capital Securities - AUB Kuwait	600,000	1,048,261	
Non - controlling interest	448,261		
of which amount eligible for Common Equity Tier 1		329,440	D
of which amount eligible for Additional Tier 1		348,844	J
of which amount eligible for Tier 2		99,003	L
of which amount ineligible		270,974	
Impairment Allowance for Expected Credit Losses - Stages 1 and 2		530,952	N
of which amount eligible for Tier 2 (maximum 1.25% of RWA)		385,907	M2
of which amount included in CET1 as per CBB		145,045	B3
of which amount ineligible		-	
TOTAL EQUITY	**5,917,965**	**6,448,917**	

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 (U.K.) PLC	Ahli United Bank (U.K.) PLC	Ahli United Bank K.S.C.P.
2	**Unique identifier**	AUBB.BH - Bahrain Bourses AUB/818 - Kuwait Stock Exchange	ISIN: XS1133289832 / Perpetual Tier 1 Capital Securities	Private Placement	Private Placement	ISIN: XS2342243875 / Perpetual Tier 1 Capital Securities
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	English Law	English Law, except for the provisions of subordination which will be governed by the Laws of Kuwait
4	**Transitional CBB rules**	Not applicable	Not applicable	Tier 2	Tier 2	Not applicable
5	**Post-transitional CBB rules**	Common Equity Tier 1	Additional Tier 1	NA	NA	Additional Tier 1
6	**Eligible at solo/group/ group & solo**	Solo and Group	Solo and Group	Group	Group	Group
7	**Instrument type**	Common Equity Shares	Capital Securities	Subordinated Debt	Subordinated Debt	Capital Securities
8	**Amount recognized in regulatory capital**	$2533.6 mn	$400.0 mn	$0.5 mn	$0.5 mn	$332.7 mn
9	**Par value of instrument (USD)**	$0.25	$1000 subject to minimum of $200,000	$4.9 mn	$5.1 mn	$1000 subject to minimum of $200,000
10	**Accounting classification**	Shareholders' equity	Shareholders' equity	Liability – amortised cost	Liability – amortised cost	Shareholders' equity
11	**Original date of issuance**	31-May-2000	29-Apr-2015	01-Jul-1996	31-Jan-1985, 30-Apr-1985	17-Jun-2021
12	**Perpetual or dated**	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	**Original maturity date**	No Maturity	No Maturity	24-Jul-2025	24-Jul-2025	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)	NA	NA	First Call Option: 17-Jun-2026 at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 100% (Full or partial)
16	**Subsequent call dates, if applicable**	NA	Every Distribution Payment Date	NA	NA	Any day falling in the period commencing on (and including) the First Call Date and ending on (and including) the First Reset Date (17-Dec-2026) or on any profit payment date thereafter
17	**Fixed or floating dividend/coupon**	NA	Fixed	Floating	Floating	Fixed
18	**Coupon rate and any related index**	NA	5.839%	6m USD LIBOR + 75 bps	6m USD LIBOR + 75 bps	3.875%
19	**Existence of a dividend stopper**	NA	Yes	No	No	Yes
20	**Fully discretionary, partially discretionary or mandatory**	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Fully discretionary
21	**Existence of step up or other incentive to redeem**	No	No	No	No	No
22	**Noncumulative or cumulative**	NA	Noncumulative	Noncumulative	Noncumulative	Noncumulative

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 (U.K.) PLC	Ahli United Bank (U.K.) PLC	Ahli United Bank K.S.C.P.
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	No	No	Yes
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)	NA	NA	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)
32	**If write-down, full or partial**	NA	Fully / Partially	NA	NA	Fully / Partially
33	**If write-down, permanent or temporary**	NA	Permanent	NA	NA	Permanent
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	All depositors and creditors	All depositors and creditors	Subordinated Debts
36	**Non-compliant transitioned features**	NA	No	Yes	Yes	No
37	**If yes, specify non-compliant features**	NA	NA	Non Viability Loss Absorption	Non Viability Loss Absorption	NA

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]	5,245,945
Total Exposure [B]	45,089,281
Leverage Ratio ([A] / [B])	**11.6%**