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.