AHLI UNITED BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

AHLI UNITED BANK B.S.C.

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2020

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

Meshal AbdulAziz Alothman
Chairman

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 2020

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

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

CONSOLIDATED BALANCE SHEET

At 31 December 2020

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

Meshal AbdulAziz Alothman	**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 2020

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

Additional cash flow information:

		2020	2019
Interest received		**1,483,350**	1,840,294
Interest paid		**771,577**	854,144

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to the owners of the Bank											
			Reserves									
	Ordinary share capital US$ '000	***Treasury shares US$ '000***	***Share premium US$ '000***	***Statutory reserve US$ '000***	***Retained earnings US$ '000***	***Proposed appro-priations US$ '000***	***Other reserves [Note 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 (note 2.3)	-	-	(13,187)	-	-	-	-	(13,187)	(13,187)	-	(44,971)	**(58,158)**
Transfer from OCI reserve	-	-	-	-	(1,527)	-	-	(1,527)	(1,527)	-	(9)	**(1,536)**
Movement in associates	-	-	-	-	(9,364)	-	-	(9,364)	(9,364)	-	-	**(9,364)**
Movement in subsidiaries	-	-	20	-	(2,907)	-	-	(2,887)	(2,887)	-	(286)	**(3,173)**
Total comprehensive income for the year	-	-	-	-	452,244	-	(117,327)	334,917	334,917	-	23,093	**358,010**
Transfer to statutory reserve [note 21(c)]	-	-	-	45,224	(45,224)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	-	(120,649)	120,649	-	-	-	-	-	-
Proposed donations	-	-	-	-	(2,000)	2,000	-	-	-	-	-	-
Balance at 31 December 2020	**2,412,972**	**-**	**753,063**	**704,755**	**530,302**	**122,649**	**(522,101)**	**1,588,668**	**4,001,640**	**600,000**	**434,718**	**5,036,358**

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

Ahli United Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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

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

1 CORPORATE INFORMATION

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

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

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.2 Framework and statement of compliance

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

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

(b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount recognized in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Framework and statement of compliance (continued)

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

The above framework forms the basis of preparation and presentation of the consolidated financial statements of the Group and is hereinafter referred to as 'IFRS as modified by CBB'.

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

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

2.3 Basis of consolidation

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

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

The following are the Bank's principal subsidiaries:

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

* Effective holding 74.9% (2019: 74.9%).

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

2 ACCOUNTING POLICIES (continued)

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 changes in framework as set out in note 2.2 and for the items below.

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

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

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

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

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

2.5 New standards and interpretations issued but not yet effective

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below.

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

2 ACCOUNTING POLICIES (continued)

2.5 New standards and interpretations issued but not yet effective (continued)

- Interest Rate Benchmark Reform (Phase 2) (continued)
  The impact of the replacement of inter-bank offered rates ('IBORs') with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBORs, such as LIBOR, extending past FY2021, when it is likely that publication of these IBORs will cease progressively. The Group is currently assessing the impact of the Group's transition to the new rate regimes after 2021 by considering changes in its products, services, systems and reporting and will continue to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

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

2.6 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

i) Business model

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

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

• Management's stated policies and objectives for the portfolio and the operation of those policies in practice;

• Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and

• Management's strategy in terms of earning contractual interest revenues or generating capital gains.

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

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

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

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the individual ratings;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

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

- Determination of associations between macroeconomic variables such as, gross domestic product, oil prices and unemployment levels on the one hand and default and loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weightings of forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

iii) Pension plans

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

iv) Going concern

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

v) Fair value of financial instruments

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

vi) Impairment of goodwill and intangible assets

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

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

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

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

vii) COVID-19 Impact

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies

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

(a) Investments in associates

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

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

(b) Foreign currency translation

(i) Transactions and balances

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

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

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

(ii) Group companies

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

(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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Date of recognition

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

(ii) Treasury bills and deposits with central banks

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

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

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

(iv) Debt instruments

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Debt instruments (continued)
The Group accounts for any changes in the fair value in the consolidated statement of income for assets classified as "FVTPL".

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

(vi) Other financial instruments
A financial asset is classified as FVTPL, if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

(vii) Derivatives (other than hedging instruments)
Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

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

(viii) Deposits, term debt and subordinated liabilities
These financial liabilities are carried at amortised cost, less amounts repaid.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(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 - Financial Instruments (IFRS 9), for the following categories of financial instruments that are not measured at FVTPL:

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

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

Expected credit loss model

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

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

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

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

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

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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

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.

(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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(h) Hedge accounting (continued)

(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.

(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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

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

(ii) Fees and commissions

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

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

(iii) Dividend income

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

(k) Business combinations, goodwill and other intangible assets

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

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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(k) Business combinations, goodwill and other intangible assets (continued)

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

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

(l) Premises and equipment

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

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

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

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

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

(m) Investment properties

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

(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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(p) Employee benefits

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

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

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

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

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

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

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

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

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

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

(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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(x) Financial guarantees and loan commitments (continued)

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

(y) Repossessed assets

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

(z) Leases

Right-of-use assets (Group as lessee)

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

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

Lease liabilities (Group as lessee)

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

(aa) Islamic banking

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

Earnings prohibited by Sharia

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

Commingling of funds

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

(ab) Islamic products

Murabaha

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

2 ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(ab) Islamic products (continued)

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

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

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

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

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

Revenue recognition
Revenue is recognised on the above Islamic products as follows:

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

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

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

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

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

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

3 NET INTEREST INCOME

	2020	*2019*
	US$'000	*US$'000*
(a) INTEREST INCOME		
Treasury bills	**88,539**	98,442
Deposits with banks	**46,584**	122,510
Loans and advances	**947,543**	1,203,401
Non-trading investments	**370,146**	419,600
	1,452,812	1,843,953
(b) INTEREST EXPENSE		
Deposits from banks (including borrowings under repurchase agreements)	**127,459**	192,933
Customers' deposits	**525,663**	693,678
Subordinated liabilities	**207**	5,842
Term debt	**128**	-
	653,457	892,453
	799,355	951,500

4 FEES AND COMMISSIONS - NET

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

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

5 TRADING INCOME

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

6 (a) CASH AND BALANCES WITH CENTRAL BANKS

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

6 (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS

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

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

7 LOANS AND ADVANCES

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

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

7 LOANS AND ADVANCES (continued)

c) Credit quality of loans and advances

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

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

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

7 LOANS AND ADVANCES (continued)

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

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

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

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

e) Individually credit impaired loans and advances

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

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

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

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

7 LOANS AND ADVANCES (continued)

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

i) Loss allowances for loans and advances - Retail

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

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

ii) Loss allowances for loans and advances - Corporate

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

7 LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances (continued)

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

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

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

g) Provision for credit losses and others

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

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

8 NON-TRADING INVESTMENTS

a) By sector

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

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

8 NON-TRADING INVESTMENTS (continued)

a) By sector (continued)

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

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

b) Credit quality of non-trading investments

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

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

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

c) Movements in ECL allowances

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

8 NON-TRADING INVESTMENTS (continued)

c) Movements in ECL allowances (continued)

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

9 INVESTMENT IN ASSOCIATES

The associates of the Group are:

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

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

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

9 INVESTMENT IN ASSOCIATES (continued)

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

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

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

10 INVESTMENT PROPERTIES

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

Movements for the year are as follows:

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

11 INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

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

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

12 PREMISES AND EQUIPMENT

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

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

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

13 GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill:

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

13 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill (continued):

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

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

14 DEPOSITS FROM BANKS

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

15 BORROWINGS UNDER REPURCHASE AGREEMENTS

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

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

16 CUSTOMERS' DEPOSITS

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

17 TERM DEBTS

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

18 INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

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

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

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

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

19 SUBORDINATED LIABILITIES

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

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

20 EQUITY

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

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

(b) Issued and fully paid:

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

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

20 EQUITY (continued)

(c) Employee Share Purchase Plan and Mandatory Share Plan

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

ESPP

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

MSP

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

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

(d) Perpetual Tier 1 Capital Securities and Sukuk

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

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

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

21 RESERVES

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

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

c) Statutory reserve
As required under BCCL and the Bank's Articles of Association, 10% of the net profit is transferred to a statutory reserve on an annual basis. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

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

e) Foreign exchange translation reserve
It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

f) Other comprehensive income reserve (OCI Reserve)
This reserve represents changes in the fair values of equity and debt instruments that are classified as fair value through other comprehensive income.

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

h) Movements in other reserves

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

21 RESERVES (continued)

h) Movements in other reserves (continued)

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

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

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

21 RESERVES (continued)

i) Dividends proposed and paid

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

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

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

22 TAXATION AND ZAKAT

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

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

23 EARNINGS PER SHARE

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

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

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

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

24 CASH AND CASH EQUIVALENTS

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

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

25 RELATED PARTY TRANSACTIONS

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

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

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

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

25 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

26 EMPLOYEE BENEFITS

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

Defined benefit plans

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

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

Defined contribution plans

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

27 MANAGED FUNDS

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

28 DERIVATIVES

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

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

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

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

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

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

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

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

28 DERIVATIVES (continued)

Fair value hedges

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

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

Cash flow hedges

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

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

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

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

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

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

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

The Group has the following credit related commitments:

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

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

30 SEGMENT INFORMATION

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

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

30 SEGMENT INFORMATION (continued)

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

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

30 SEGMENT INFORMATION (continued)

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

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

Geographic segmentation

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

30 SEGMENT INFORMATION (continued)

Geographic segmentation (continued)

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

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

31 RISK MANAGEMENT

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

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

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

32 CREDIT RISK

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

a) Concentration risk

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

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

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

The principal collateral types are as follows:

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

32 CREDIT RISK (continued)

a) Concentration risk (continued)
The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

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

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

b) Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The table below shows the gross maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

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

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

32 CREDIT RISK (continued)

c) Credit quality of financial assets

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

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

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

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

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

32 CREDIT RISK (continued)

c) Credit quality of financial assets (continued)

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

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

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

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

33 CONCENTRATION ANALYSIS

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

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

34 MARKET RISK

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

34 MARKET RISK (continued)

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

ii) Interest rate risk

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

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

34 MARKET RISK (continued)

ii) Interest rate risk (continued)

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

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

Sensitivity analysis - interest rate risk

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

iii) Currency risk

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

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

34 MARKET RISK (continued)

iii) Currency risk (continued)

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

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

Sensitivity analysis - currency risk

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

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

iv) Equity price risk

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

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

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

35 LIQUIDITY RISK

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

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

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

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

Treasury limits are set by the GALCO and allocated as required across the various group entities. Specifically GALCO and the Group Treasurer are responsible for:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within predetermined caps;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

During COVID-19, the Group further diversified its funding sources and enhanced its liquidity position. Governments, monetary authorities, regulators and financial institutions, including AUB, have taken and continue to take actions in support of the economy and financial system. These actions include fiscal, monetary and other financial measures to increase liquidity, and provide financial aid to individual, small business, commercial and corporate clients. The Group has maintained strong capital and liquidity positions well above the minimum ratio set by CBB with a Capital Adequacy Ratio (CAR) of 16.1%, Liquidity Coverage Ratio (LCR) of 103.2% and Net Stable Funding Ratio (NSFR) of 117.0% as at 31 December 2020.

The maturity profile of the assets and liabilities at 31 December 2020 and 2019 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

35 LIQUIDITY RISK (continued)

31 December 2020	*Upto three months*	*Over three months to one year*	*Above one year*	*Undated*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Assets					
Cash and balances with central banks	1,747,560	-	-	-	1,747,560
Treasury bills and deposits with central banks	1,444,084	889,768	-	-	2,333,852
Deposits with banks	3,431,367	101,322	-	-	3,532,689
Loans and advances	8,926,427	2,954,383	8,839,068	-	20,719,878
Non-trading investments	4,640,911	3,529,981	1,437,417	-	9,608,309
Investment in associates	-	-	-	303,127	303,127
Investment properties	-	-	-	185,715	185,715
Interest receivable, derivative and other assets	399,984	429,768	27,480	-	857,232
Premises and equipment	2,731	8,192	32,769	253,155	296,847
Goodwill and other intangible assets	-	-	-	485,958	485,958
Total	20,593,064	7,913,414	10,336,734	1,227,955	40,071,167
Liabilities					
Deposits from banks	2,869,495	309,620	1,039,302	-	4,218,417
Borrowings under repurchase agreements	170,591	2,382,389	1,065,089	-	3,618,069
Customers' deposits	9,661,697	4,760,665	10,760,223	-	25,182,585
Term debts	-	-	175,000	-	175,000
Interest payable, derivative and other liabilities	1,393,840	267,700	169,166	-	1,830,706
Subordinated liabilities	-	-	10,032	-	10,032
Total	14,095,623	7,720,374	13,218,812	-	35,034,809
Net liquidity gap	6,497,441	193,040	(2,882,078)	1,227,955	5,036,358

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

35 LIQUIDITY RISK (continued)

31 December 2019	*Upto three months*	*Over three months to one year*	*Above one year*	*Undated*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Assets					
Cash and balances with central banks	1,366,978	-	-	-	1,366,978
Treasury bills and deposits with central banks	1,414,922	787,418	-	-	2,202,340
Deposits with banks	4,064,195	619,065	-	-	4,683,260
Loans and advances	8,305,095	3,313,962	9,123,303	-	20,742,360
Non-trading investments	4,932,780	2,823,913	1,377,188	-	9,133,881
Investment in associates	-	-	-	315,011	315,011
Investment properties	-	-	-	229,803	229,803
Interest receivable, derivative and other assets	378,664	413,802	31,248	-	823,714
Premises and equipment	2,891	8,672	34,687	249,299	295,549
Goodwill and other intangible assets	-	-	-	487,155	487,155
Total	20,465,525	7,966,832	10,566,426	1,281,268	40,280,051
Liabilities					
Deposits from banks	3,551,657	549,433	922,825	-	5,023,915
Borrowings under repurchase agreements	319,993	1,690,464	881,075	-	2,891,532
Customers' deposits	8,790,513	4,981,680	11,745,930	-	25,518,123
Interest payable, derivative and other liabilities	923,568	336,516	197,006	-	1,457,090
Subordinated liabilities	17,997	-	9,865	-	27,862
Total	13,603,728	7,558,093	13,756,701	-	34,918,522
Net liquidity gap	6,861,797	408,739	(3,190,275)	1,281,268	5,361,529

35 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations. However, the Group's expected cash flows on these instruments vary significantly from this analysis. In particular, customer deposits are expected to maintain stable or increased balances.

	Up to One month	***One month to three months***	***Over three months to one year***	***Over one year to five years***	***Over five years***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
As at 31 December 2020						
Deposits from banks	**1,691,393**	**1,182,678**	**312,244**	**1,081,586**	**-**	**4,267,901**
Borrowings under repurchase agreements	**23,550**	**147,393**	**2,402,281**	**1,107,778**	**-**	**3,681,002**
Customers' deposits	**12,059,857**	**5,215,829**	**5,293,239**	**2,882,742**	**20,775**	**25,472,442**
Term debts	**-**	**-**	**-**	**182,436**	**-**	**182,436**
Subordinated liabilities	**-**	**-**	**-**	**10,349**	**-**	**10,349**
Interest payable	**59,703**	**44,525**	**33,237**	**11,908**	**-**	**149,373**
Total	**13,834,503**	**6,590,425**	**8,041,001**	**5,276,799**	**20,775**	**33,763,503**
Credit related commitments	**4,806**	**12,740**	**42,701**	**120,320**	**41,813**	**222,380**
Derivatives (net)	**(847,692)**	**-**	**-**	**-**	**-**	**(847,692)**

	Up to One month	*One month to three months*	*Over three months to one year*	*Over one year to five years*	*Over five years*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
As at 31 December 2019						
Deposits from banks	1,958,371	1,604,009	558,015	980,480	-	5,100,875
Borrowings under repurchase agreements	55,644	265,521	1,715,887	934,076	-	2,971,128
Customers' deposits	11,759,074	3,532,386	7,629,519	2,952,935	23,589	25,897,503
Subordinated liabilities	18,072	-	-	-	12,327	30,399
Interest payable	104,473	73,294	70,578	19,148	-	267,493
Total	13,895,634	5,475,210	9,973,999	4,886,639	35,916	34,267,398
Credit related commitments	3,955	69,295	189,823	231,462	81,167	575,702
Derivatives (net)	(391,884)	-	-	-	-	(391,884)

36 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

37 LEGAL RISK

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks. The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions. The Group Legal Policy is reviewed on a periodic basis.

38 FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values. Please refer note 8 for the fair value of non-trading investments carried at amortised cost.

The Group's primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2020			
	Level 1	***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**

	2019			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Equity instruments at fair value	113,760	75,830	39,453	229,043
Debt instruments (FVTOCI)	1,124,761	68,747	-	1,193,508
Derivative assets	-	105,489	-	105,489
Derivative liabilities	-	497,373	-	497,373

During the years ended 31 December 2020 and 2019, there have been no transfers between Levels 1, 2 and 3.

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

The significant inputs for valuation of equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds, it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated balance sheet or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There were no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

39 CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the Group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.1% as of 31 December 2020 (31 December 2019: 16.4%).

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. However, as per CBB circular OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit is reduced to 80% until 31 December 2021, to contain the financial repercussions of COVID-19. The Group's consolidated NSFR ratio as of 31 December 2020 is 117.0% (31 December 2019: 117.0%).

	2020	*2019*
	US$ '000	*US$ '000*
Available Stable Funding:		
Regulatory capital	**5,539,056**	5,579,449
Retail and SME deposits	**6,381,437**	5,745,209
Wholesale funding	**12,707,451**	13,085,627
Others	**480,576**	515,344
Total Available Stable Funding (A)	**25,108,520**	24,925,629
Required Stable Funding:		
High-Quality Liquid Assets (HQLA)	**1,798,935**	1,768,970
Performing loans	**13,552,637**	14,247,078
Securities (other than HQLA)	**2,734,716**	2,421,235
Derivative contracts and margins	**587,712**	309,961
Others	**2,405,618**	2,237,933
Off-Balance sheet items	**388,174**	326,416
Total Required Stable Funding (B)	**21,467,792**	21,311,593
NSFR (%) (A/B)	**117.0%**	117.0%

40 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB, the Financial Services Compensation Scheme, UK and Central Bank of Iraq.

Kingdom of Bahrain: Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits issued by the CBB in accordance with Resolution No. (34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of Bahraini Dinar 20,000 as set out by CBB requirements. A periodic contribution, as mandated by the CBB, is paid by the Bank under this scheme.

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.

40 DEPOSIT PROTECTION SCHEME (continued)

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 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		***2020***	*2019*
	Note	***US$ '000***	*US$ '000*
ASSETS			
Cash and balances with central banks		**538,486**	348,484
Deposits with central banks		**905,115**	1,137,879
Deposits with banks	(a)	**726,540**	1,317,839
Receivable balances from Islamic financing	(b)	**12,503,119**	12,255,286
Financial investments		**2,040,424**	1,558,585
Investment in associates		**25,647**	35,370
Investment properties		**60,543**	96,452
Profit receivable and other assets		**115,315**	116,645
Premises and equipment		**132,924**	135,533
TOTAL ASSETS		**17,048,113**	17,002,073
LIABILITIES			
Deposits from banks	(c)	**1,479,484**	2,715,320
Customers' deposits	(d)	**12,419,055**	11,186,926
Repurchase agreements with banks		**25,011**	-
Profit payable and other liabilities		**286,289**	382,189
Restricted investment		**25,793**	48,854
		14,235,632	14,333,289
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**696,276**	574,597
TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**14,931,908**	14,907,886
TOTAL EQUITY		**2,116,205**	2,094,187
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY		**17,048,113**	17,002,073

41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER	*Note*	***2020*** *US$ '000*	*2019* *US$ '000*
Net income from Islamic financing	(e)	**337,767**	407,469
		337,767	407,469
Fees and commissions - net		**31,170**	45,145
Other operating income		**21,189**	38,411
Foreign exchange gains		**11,792**	10,310
OPERATING INCOME		**401,918**	501,335
Provision for financing receivables and others		**102,187**	33,772
NET OPERATING INCOME		**299,731**	467,563
Staff costs		**62,942**	78,531
Depreciation		**13,553**	18,313
Other operating expenses		**40,341**	44,175
OPERATING EXPENSES		**116,836**	141,019
PROFIT BEFORE TAX AND ZAKAT		**182,895**	326,544
Tax expense and zakat		**5,366**	9,416
PROFIT BEFORE THE SHARE OF PROFIT OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS		**177,529**	317,128
Less: Share of profit of equity of unrestricted investment account holders		**5,880**	13,704
NET PROFIT FOR THE YEAR		**171,649**	303,424
Attributable to:			
Owners of the Bank		**146,836**	257,116
Non-controlling interests		**24,813**	46,308
		171,649	303,424

Notes	***2020*** *US$ '000*	*2019* *US$ '000*
(a) Deposits with banks		
Murabaha finance with other banks	**399,483**	719,735
Wakala with banks	**256,488**	503,339
Current accounts and others	**70,569**	94,765
	726,540	1,317,839

41 ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

Notes (continued)

	2020	*2019*
	US$ '000	*US$ '000*
(b) Receivable balances from Islamic financing		
Tawarruq receivables	**7,961,610**	7,628,157
Murabaha receivables	**3,090,890**	3,194,888
Ijara receivables	**1,904,929**	1,768,191
Others	**24,636**	28,588
Less: Allowance for impairment	**(478,946)**	(364,538)
	12,503,119	12,255,286

	2020	*2019*
	US$ '000	*US$ '000*
(c) Deposits from banks		
Murabaha	**930,442**	1,430,159
Wakala	**541,399**	1,277,834
Current accounts	**7,643**	7,327
	1,479,484	2,715,320

	2020	*2019*
	US$ '000	*US$ '000*
(d) Customers' deposits		
Wakala	**7,405,693**	7,369,709
Murabaha	**3,604,791**	2,608,485
Current accounts	**1,408,571**	1,208,732
	12,419,055	11,186,926

	2020	*2019*
	US$ '000	*US$ '000*
(e) Net income from Islamic financing		
Income from Tawarruq	**248,152**	325,972
Income from Murabaha	**203,209**	260,526
Income from Ijara	**85,341**	89,807
Income from financial investments	**63,695**	58,166
Income from Islamic financing	**600,397**	734,471
Profit expense on Wakala	**131,346**	194,558
Profit expense on Murabaha and others	**131,284**	132,444
Less: Distribution to depositors	**262,630**	327,002
Net income from Islamic financing	**337,767**	407,469

42 SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests are provided below:

Name	***Incorporated in***	***2020***	*2019*
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	**25.1%**	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	**4.3%**	14.5%

42 SUBSIDIARIES (continued)

	2020	2019
	US$ '000	US$ '000
Accumulated material non-controlling interests as at 31 December:		
Ahli United Bank K.S.C.P.	**359,929**	370,806
Ahli United Bank (Egypt) S.A.E.	**22,091**	68,004
Profit allocated to material non-controlling interests:		
Ahli United Bank K.S.C.P.	**24,813**	46,308
Ahli United Bank (Egypt) S.A.E.	**3,148**	10,636

Summarised financial information of AUBK and AUBE is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

	2020	2019
	US$ '000	US$ '000
Ahli United Bank K.S.C.P. (AUBK)		
Balance sheet related information		
Loans and advances	**10,267,715**	9,954,936
Non-trading investments	**1,294,285**	1,000,622
Total assets	**14,410,546**	14,352,392
Customers' deposits	**11,833,856**	11,251,727
Total liabilities	**12,751,179**	12,649,176
Income statement related information		
Total operating income	**295,681**	352,915
Net profit attributable to shareholders	**96,905**	181,107
Total comprehensive income attributable to shareholders	**97,565**	179,880
Dividends paid to non-controlling interest	**22,713**	21,913
Cash flow related information		
Net cash from operating activities	**410,017**	572,479
Net cash used in investing activities	**(211,976)**	(50,862)
Net cash used in financing activities	**(101,878)**	(98,387)
Ahli United Bank (Egypt) S.A.E. (AUBE)		
Balance sheet related information		
Loans and advances	**1,887,793**	1,637,102
Non-trading investments	**599,999**	567,191
Total assets	**3,583,362**	2,947,865
Customers' deposits	**2,966,155**	2,327,950
Total liabilities	**3,061,726**	2,470,232
Income statement related information		
Total operating income	**162,933**	128,749
Net profit attributable to shareholders	**77,012**	78,484
Total comprehensive income attributable to shareholders	**71,033**	93,679
Dividends paid to non-controlling interests	**4,132**	5,952
Cash flow related information		
Net cash from (used in) operating activities	**131,186**	(504,353)
Net cash used in investing activities	**(8,618)**	(5,483)
Net cash used in financing activities	**(36,585)**	(49,318)

43 IMPACT OF COVID-19 OUTBREAK

The Group considered the potential impact of the uncertainties caused by the COVID-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the year ended 31 December 2020.

Significant increase in credit risk
The Group considered the following aspects to assess if there was a significant increase in credit risk or objective evidence of impairment in the light of COVID-19 situation.

- Temporary financial difficulties of the customers are distinguished from longer-term or permanent impact;
- Customers operating in certain sectors or industries are likely to be more severely impacted;
- Deferral of instalments or profit payments on financing facilities will not automatically trigger significant increase in credit risk;
- Retail facilities to certain customer segment are more likely to have significant increase in credit risk arising from job losses and pay cuts; and
- Significant corporate exposures are individually assessed to identify significant increase in credit risk as and when reliable data is available.

The above assessment has resulted in staging downgrade of certain exposures and increase in ECL.

Macro-economic factors
The Group considered of volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL. In particular, given the continuing uncertainty stemming from fast evolving COVID-19, the Group revised certain assumptions reflected through constructing a plausible forward-looking view of the macroeconomic environment. The Group applied a high probability weightage to the severe scenario combined with the revised forecasts of macro-economic factors. The uncertainties in the current market caused by the pandemic, may not be fully captured in the modelled results, and therefore a higher level of expert credit judgement has been applied on the ECL estimates. These adjustments resulted in significant increase in the amount of ECL charge for the year ended 31 December 2020.

Other impacts
The Group considered the potential impact of the current economic volatility on the reported amounts in the Group’s consolidated financial statement. The reported amounts best represent management's assessment based on observable information. The impact of the highly uncertain economic environment remains judgemental and the Group will accordingly continue to reassess its position and the related impact on a regular basis.

44 TRANSACTION WITH KUWAIT FINANCE HOUSE K.S.C.P. (KFH)

The shareholders of KFH in its AGM/EGM held on 20 January 2020 approved the pursuit of the acquisition of AUB through a firm voluntary conditional offer to acquire 100% of the issued and paid up shares of the Bank by way of a share swap at the exchange ratio of 2.325581 AUB shares for each KFH share following approval by the Bank’s Board of Directors on 12 September 2019. The KFH approval was conditional on securing a minimum 85% acceptance rate for its tender offer and the proposed acquisition remains subject to conditions precedent and all relevant regulatory and shareholder approvals.

However, subsequently the proposed acquisition procedures were suspended until December 2020 due to the prevailing unprecedented circumstances relating to the Covid-19 pandemic. During December 2020, the AUB Board of Directors, in consultation with KFH Board of Directors, and subject to necessary regulatory approvals, has agreed to extend the suspension period for the resumption of the acquisition of AUB by KFH until completion of KFH's updated assessment to be conducted by the international advisor appointed by KFH in this respect.